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REPORT OF THE INDEPENDENT EXPERT ON THE
PROPOSED TRANSFER OF CERTAIN LONG-TERM BUSINESS
OF FIL LIFE INSURANCE LIMITED TO SCOTTISH FRIENDLY
ASSURANCE SOCIETY LIMITED

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Report qualifications, assumptions and limiting conditions

This report sets forth the information required by the terms of FTI Consulting LLP's engagement by FIL Life Insurance Limited and Scottish Friendly Assurance Society Limited and the requirements of the role of Independent Expert, as set out in Chapter 18 of the Supervision Manual of the Financial Conduct Authority Regulatory Handbook, the Prudential Regulation Authority's Policy Statement "PS1/22: The PRA's approach to Insurance Business Transfers" dated January 2022 and the Financial Conduct Authority's Finalised Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated February 2022 and is prepared in the form expressly required thereby. This report may be used by FIL Life Insurance Limited and Scottish Friendly Assurance Society Limited, as well as the Regulators and Courts of England and Wales and the Channel Islands and the policyholders of FIL Life Insurance Limited and Scottish Friendly Assurance Society Limited, solely for the purpose of supporting the determination of whether the Transfer (as defined in section 1.1.1 below) should be permitted. This report is intended to be read and used as a whole and not in parts. Separation or alteration of any section or page from the main body of this report is expressly forbidden and invalidates this report.

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Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information and have accepted the information without further verification.

The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. In particular, actual results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, the outcome of contingencies, changes in management and changes in law or regulations. FTI Consulting LLP accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

1. Introduction

1.1. Context

- 1.1.1. A transfer of long-term insurance business between insurance companies in the UK must be carried out in accordance with Part VII of the Financial Services and Markets Act 2000 ("**FSMA**")¹ and an application must be made to the High Court of Justice, Business and Property Courts of England and Wales, the Companies List or, in Scotland, to the Court of Session (collectively, the "**Court**") for approval under Section 111 of the FSMA. Such transfers of insurance business are typically referred to as **Part VII Transfers**.
- 1.1.2. This report (the "**Report**") has been produced in connection with the Part VII Transfer of certain long-term insurance business from FIL Life Insurance Limited ("**FIL Life**") to Scottish Friendly Assurance Society Limited ("**SF**") (together, the "**Companies**"). This transfer is hereafter referred to as the **Transfer**.

1.2. My appointment as Independent Expert

- 1.2.1. I have been jointly appointed by the Companies to report, pursuant to Section 109 of the FSMA, in the capacity of Independent Expert, on the terms of the proposed scheme providing for the Transfer (the "**Scheme**"). The purpose of this Report is to set out the results of my review of the **terms of the Transfer**.
- 1.2.2. I am a Fellow of the Institute of Actuaries since 2004 and a Senior Director in FTI Consulting LLP ("**FTI**")'s Europe, Middle East and Africa ("**EMEA**") Global Insurance Services practice based in London. I have accumulated a wide spectrum of actuarial and wider consulting experience in the UK and worldwide, advising insurers, pension schemes, banks and private equity firms. I have built a solid foundation in life actuarial techniques and knowledge through performing a range of regulatory and technical roles for insurers, including as **Actuarial Function Holder** and **With-Profits Actuary** ("**WPA**"). I also have extensive experience working on risk management and capital management related projects for UK insurers, as well as carrying out product design and pricing assignments.
- 1.2.3. I do not hold any insurance policies or have any other financial interest in FIL Life, SF or OneFamily (or any of their group companies). I have a child who is currently under the age of 18 years and holds a unit-linked Child Trust Fund policy with OneFamily. However, I do not consider this to have any effect on my independence with respect to the Proposed Scheme and I have informed the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**") of the existence of this policy. No other members of my immediate family hold any policies or products with FIL Life, SF or OneFamily. In addition, I have not previously provided advice to either FIL Life, SF or OneFamily (or any of their subsidiaries) in any capacity over the past five years. Furthermore, I have consulted my colleagues and believe that FTI has not previously advised FIL Life, SF or OneFamily (or any of their subsidiaries) over the past five years.
- 1.2.4. The PRA, having consulted the FCA, has considered the skills and experience needed to make a proper Report and approved my appointment as Independent Expert in a letter dated 16 December 2025.

¹ A notable exception to this is in the case of a Transfer of liabilities from a Friendly Society. Friendly Societies can write long-term business in the UK, however, any transfers of such business will be carried out in accordance with the Friendly Societies Act 1982.

1.3. The costs of the Scheme

- 1.3.1. Unless otherwise agreed in writing, both FIL Life and SF will cover their own costs and expenses in relation to the Scheme preparation and implementation. Certain costs, including the fee for my work as Independent Expert, will be shared equally between FIL Life and SF, where appropriate.

1.4. Regulatory and professional guidance

- 1.4.1. I have produced this Report in accordance with the approach and expectations of the PRA and the FCA, as set out in Chapter 18 of the Supervision Manual ("**SUP 18**") of the FCA Regulatory Handbook, the PRA's Policy Statement "PS1/22: The PRA's approach to insurance business transfers" dated January 2022 (the "**PRA Statement of Policy**"), as well as the FCA's Finalised Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated February 2022 (the "**FCA Finalised Guidance**"). Appendix A summarises how the Report complies with this guidance.
- 1.4.2. I have produced the Report in accordance with the Financial Reporting Council ("**FRC**")'s Technical Actuarial Standards ("**TAS**") – TAS 100 (General Actuarial Standards v2.0) and TAS 200 (Insurance v2.0). The Report also complies with the Actuarial Profession Standards ("**APS**") of the Institute and Faculty of Actuaries ("**IFoA**") – APS X1 (Applying Standards to Actuarial Work v1.1), APS X2 (Review of Actuarial Work v1.0), and APS L1 (Duties and Responsibilities of Life Assurance Actuaries v4.0). Finally, as a Fellow of the Institute of Actuaries, I have complied with the requirements of the Actuaries' Code (v3.2) in writing the Report.
- 1.4.3. In producing the Report as Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise in accordance with Part 35 of the **Civil Procedure Rules**. This duty overrides any obligation to the Companies from whom I have received instructions. In my opinion, I have complied with this duty, and I confirm that I will continue to comply with this duty. A statement of my compliance with Part 35 of the Civil Procedure Rules is given in Appendix B.

1.5. Terms of reference

- 1.5.1. Full details of my terms of reference, which have been discussed and agreed with FIL Life and SF, are set out in Appendix C. The terms have been reviewed and approved by both the PRA and FCA.
- 1.5.2. In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. In the context of the Report, where I refer to a "material" issue in relation to the security of policyholder benefits, I define an issue as immaterial where the Transfer results in a remote likelihood of an event occurring which has a perceptible, but not significant, effect on policyholders, or where the Transfer results in an event which is likely to occur but has a small impact on policyholders. In addition, I have described some changes in financial positions and policyholder benefits as not being materially adverse. The reader should interpret this to mean that this change does not lead me to conclude that the Transfer should not take place.

- 1.5.3. Given the subject matter of the Report is, in parts, technical in nature, where possible the Report has been written in non-technical language to assist the reader not familiar with the material. In addition, to further help the reader in understanding the Report, a glossary has been produced which can be found in Appendix G. Glossary terms appear in bold and italics the first time they are used in sections 1 and 2, and again the first time they are used in the body of the Report.
- 1.5.4. I have considered the impact of the Transfer against the likely position of FIL Life and SF if the Transfer is not completed. With respect to FIL Life, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the pro-forma balance sheet position of FIL Life under the various solvency bases as set out in FIL Life's Own Risk and Solvency Assessment ("**ORSA**") and the **UK Solvency II Pillar 1** basis. I have not considered any other possible alternative arrangements to the Transfer, and I have only considered the terms of the Scheme presented to me. I note, however, that alternative arrangements were considered by FIL Life. In particular, FIL Life implemented a competitive auction process where SF was selected ahead of alternative bidders as an appropriate long-term provider for the transferring policyholders.
- 1.5.5. The Report assesses the likely impact of the Transfer on the existing policyholders of FIL Life and SF. It does not consider the impact of the Transfer on any new policies written into FIL Life or SF following the Transfer as this is outside of my scope as the Independent Expert.
- 1.5.6. In addition to the areas of investigation listed in Appendix C, I have also considered the Transfer from the point of view of the **FCA Consumer Duty Rules** with respect to FIL Life and SF policyholders. This is set out in sections 4 and 9 of the Report.
- 1.5.7. In December 2025, SF agreed Heads of Terms to enter into a merger with Family Assurance Friendly Society Limited ("**OneFamily**"), subject to regulatory confirmation. Upon the completion of the proposed merger (which is expected to be completed in 2027), all of SF's policies will be transferred via Part VIII of the Friendly Societies Act 1992 to OneFamily and SF will cease to exist as a standalone entity. This will include all the policies acquired from FIL Life as part of the Transfer. In this Report, I have also considered the potential impact of the proposed Part VIII Merger, insofar as it is relevant to the Transfer.
- 1.5.8. As far as I am aware, there are no other matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing the Report, that nonetheless should be drawn to the attention of policyholders in their considerations of the terms of the Scheme.

1.6. Peer Review

- 1.6.1. This Report has been reviewed by Simon Grout who is a Senior Advisor, and former Senior Managing Director, in FTI's actuarial practice in the UK with similar experience and standing to myself. The peer review was carried out in accordance with relevant regulatory and professional guidance (refer to section 1.4). The **Peer Reviewer** has confirmed that he agrees with my conclusions as set out in this Report.

1.7. Sources of reliance and information used

- 1.7.1. I have relied on information provided by FIL Life, SF and their respective professional advisors without independent verification of the accuracy or completeness of information provided. However, wherever possible, I have reviewed the information for reasonableness and consistency and against my understanding of generally accepted market practice. Furthermore, where appropriate, I have asked FIL Life and SF to provide more evidence to support their assertions to allow me to draw conclusions whilst being satisfied that I have taken all relevant matters into account.
- 1.7.2. I have also relied on the judgement and conclusions reached by both FIL Life and SF *Chief Actuaries*, as well as the SF WPA, for the respective funds in FIL Life and SF, as documented in the relevant Chief Actuary and WPA reports produced in connection with the Transfer.
- 1.7.3. The financial information provided by FIL Life and SF and presented in the Report as at 30 June 2025 has not been audited. Whilst I have not validated the processes involved in their production, I consider it appropriate to rely on the financial information provided because:
- They were produced using methodologies and assumptions which are consistent with the audited information produced as at 31 December 2024
 - Both SF and FIL have robust internal validation and governance processes for the production of the information, including review and approval by the Chief Actuaries and relevant Committees
 - The information that was produced is subject to professional actuarial standards as described in section 1.4.2
- 1.7.4. I consider that it is reasonable for me to rely on the information and judgements described in this section as they are provided by parties acting in the interest of their respective members and policyholders and in accordance with the regulations and guidelines set out by:
- The PRA and FCA
 - The IFoA
 - The FRC
- 1.7.5. I have taken comfort from FIL Life and SF having obtained legal advice on relevant matters with respect to the Transfer from CMS Cameron McKenna Nabarro Olswang LLP ("*CMS*") and Pinsent Masons ("*PM*"), respectively. As I am not a legal expert, I have also considered whether it was appropriate to seek separate legal advice and made the conclusion that I am comfortable in not seeking separate legal advice because CMS and PM are large and reputable firms with extensive expertise and experience in UK insurance law.
- 1.7.6. In addition, I have had sight of the legal advice provided to FIL Life confirming that the Transfer is not subject to applicable local transfer legislation in Jersey, Guernsey and the Isle of Man, and consequently no Local Schemes are required in any of these jurisdictions, as noted in FIL Life's First Witness Statement.
- 1.7.7. Finally, I have relied on tax advice given to SF by Ernst and Young LLP ("*EY*") and am comfortable doing so because EY is a global and reputable accounting firm with extensive expertise and experience in UK tax law.

1.7.8. All information requested has been provided, and no material issues have been identified with such information. My conclusions as set out in the Report depend on the accuracy of this information and I have relied on this information without full independent verification. However, I am satisfied with the reasonableness of this information based upon my own experience across the UK life insurance industry. Further, the information presented in the Report has been checked by the Companies for accuracy. The Report is based on information available to me as at the date it was finalised. Details of the information that I have been provided with are set out in Appendix D.

2. Executive summary and conclusions

2.1. Context

- 2.1.1. I have been jointly appointed by FIL Life and SF to act as the Independent Expert in relation to the proposed Transfer of certain long-term business of FIL Life to SF under a Scheme made pursuant to Part VII of the FSMA.
- 2.1.2. I am a Fellow of the Institute of Actuaries since 2004 and a Senior Director in FTI's EMEA Global Insurance Services practice based in London. I confirm that I do not have any direct or indirect interest in FIL Life, SF or any other related firms that could compromise my independence.
- 2.1.3. Before the final Court hearing I shall prepare a **Supplementary Report** to address any relevant developments after the Report has been published and provide an update on my conclusions regarding the effect of the proposed Transfer on the different groups of policyholders in light of any significant events arising after the Report has been published. The Supplementary Report will also address any policyholder objections to the Transfer.
- 2.1.4. In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. I have considered the following factors:
- Financial position of FIL Life and SF pre- and post-Transfer
 - Financial effect of the Transfer on both transferring and non-transferring FIL Life policyholders and SF policyholders in relation to:
 - Security of benefits
 - Investment strategy
 - Expense and charges
 - Benefit expectations
 - Risk profile and capital management policy
 - Administration and governance
 - Membership rights and policyholder communications
 - Tax
- 2.1.5. I have considered the impact of the Transfer against the likely position of FIL Life and SF if the Transfer is not completed. With respect to FIL Life, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the pro-forma balance sheet position of FIL Life under the various solvency bases as set out in FIL Life's ORSA, and the UK Solvency II Pillar 1 basis. I have not considered any other possible alternative arrangements to the Transfer, and I have only considered the terms of the Scheme presented to me. I note, however, that alternative arrangements were considered by FIL Life. In particular, FIL Life implemented a competitive auction process where SF was selected ahead of alternative bidders as an appropriate long-term provider for the transferring policyholders

- 2.1.6. The Report assesses the likely impact of the Transfer on the existing policyholders of FIL Life and SF. It does not consider the impact of the Transfer on any new policies written into FIL Life or SF following the Transfer as this is outside of my scope as the Independent Expert.
- 2.1.7. I have produced this Report in accordance with the approach and expectations of the PRA, as set out in the PRA Statement of Policy, as well as SUP 18 contained in the FCA Handbook, and the FCA Finalised Guidance.

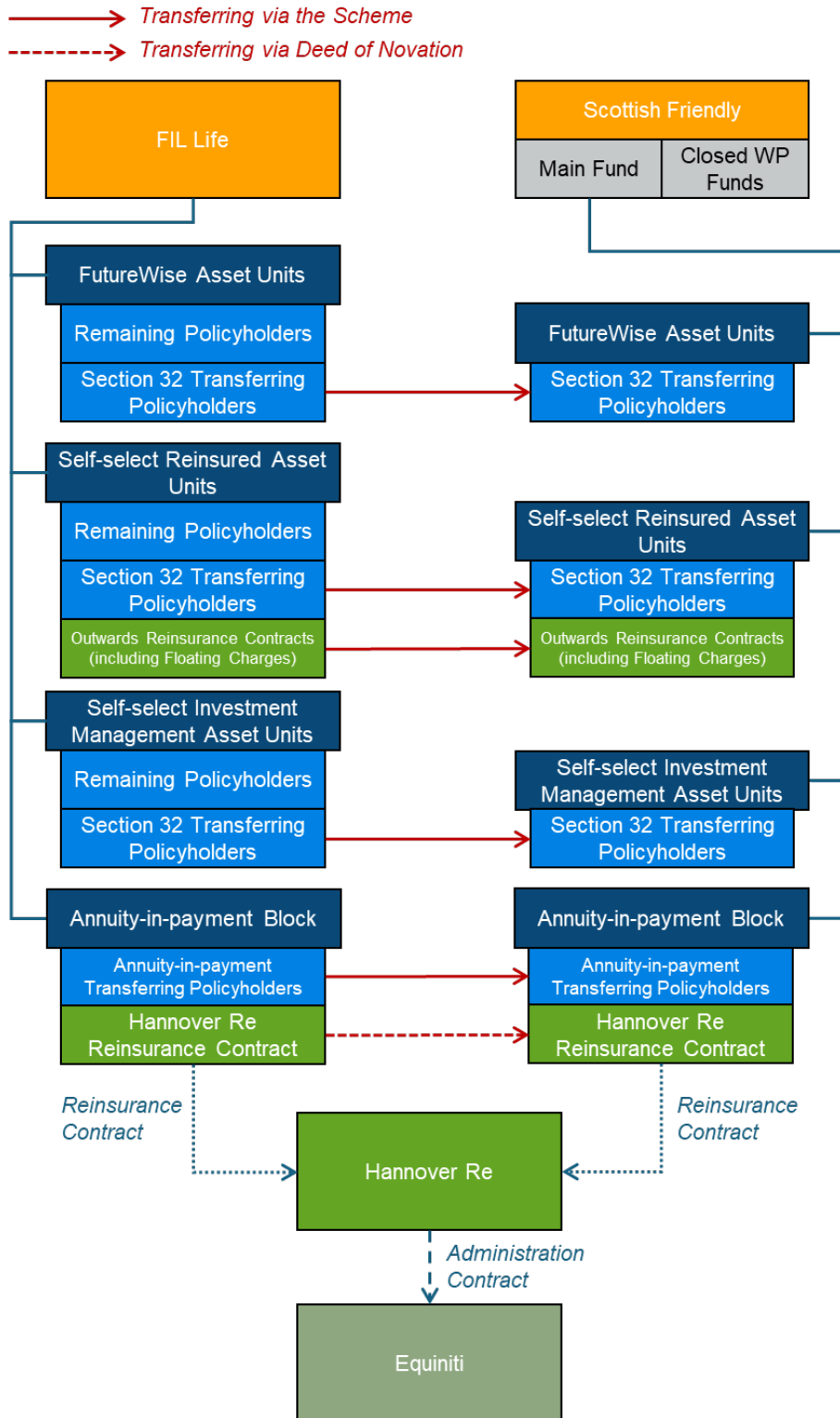
2.2. Terms of Transfer

- 2.2.1. In March 2025, FIL Life and SF signed an agreement (the “**Framework Agreement**”) setting out the proposed terms on which the transfer of business from FIL Life to SF would be undertaken under Part VII of the FSMA. It is proposed that the Transfer will become effective on 30 September 2026 (the “**Effective Date**”), unless delayed in accordance with the terms of the Scheme.
- 2.2.2. The Transfer aligns with the strategic objectives of both FIL Life and SF. FIL Life is disposing of the Section 32 and annuity-in-payment business (the “**Transferring Business**”), as these closed books of business are no longer aligned with its strategic focus on workplace-based pension propositions. For SF, the Transferring Business supports its strategic objective of achieving sustainable growth in member value and expanding its own-brand pensions business. SF was selected by FIL Life as the preferred bidder following a competitive auction process where it was determined, among other factors, that SF would be an appropriate long-term provider for the transferring policyholders.
- 2.2.3. The Transferring Business comprises 38,853 policies as at 30 June 2025, and is made up of:
- £2.1bn of Section 32 **unit-linked** pensions Funds Under Management (“**FUM**”), closed to new business
 - £6.4m of fully-reinsured annuities-in-payment **Best Estimate Liabilities** (“**BEL**”) (on a **UK Solvency II Pillar 1** basis), closed to new business
- 2.2.4. I outline the key elements of the Transfer in paragraphs 2.2.5 to 2.2.13 below.
- 2.2.5. SF will assume the responsibility of meeting all insurance and financial obligations associated with the transferring policies.
- 2.2.6. SF will assume the responsibility of administering the transferring policies.
- 2.2.7. The consideration for the purchase of the Transferring Business (the “**Purchase Price**”) comprises:
- The upfront consideration (the “**Initial Consideration**”), which was paid by SF to FIL Life in March 2025
 - The additional amount (the “**Deferred Consideration**”) payable by SF to FIL Life on the Effective Date, subject to the deduction of the **Estimated Net Income Amount**, calculated as the income earned by the Transferring Business from 1 March 2025 until the Effective Date, less expenses incurred over the same period
- 2.2.8. As at 30 June 2025, 92.5% of the assets supporting the Section 32 policies are invested in the FIL Life default investment strategy, **FutureWise**, with the remainder invested in self-select funds. In particular:
- FutureWise consists of a range of Target Date Funds (“**TDFs**”), which group policies together into five-year blocks based on policyholders’ target retirement date. To access the investment component of these policies, FIL Life invests directly in a number of underlying Authorised Contractual Schemes (“**ACSs**”), managed by BlackRock Fund Managers Limited (“**BlackRock**”).

- The underlying funds in FutureWise are a mixture of Fidelity and BlackRock funds and cover different asset types. Two TDFs, namely, the Early Days TDF and the 2045 TDF, both of which relate to policyholders with a longer-term target retirement date than the other TDFs, have an allocation to a Fidelity-managed Long-Term Asset Fund (“**LTAf**”). The LTAf invests in more illiquid-type assets, which are expected to earn a higher long-term return, and is subject to limits and controls to manage the illiquidity aspect. The long-term allocation to the LTAf began in 2024 and will be fully phased in by 2028.
 - SF will replace FIL Life on a ‘like-for-like’ basis post-Transfer, and will maintain the same FutureWise approach. Each FutureWise policy will be allocated units of equivalent value in the same underlying unit-linked funds, with the same asset manager, applied immediately prior to the Transfer. In effect, SF will replicate FIL Life’s policyholder investment choices, maintaining the same unit value for each fund at the point of Transfer. Policyholders also have the option to invest in any of the 24 available self-select funds, apart from the FutureWise TDFs. FIL Life currently accesses six of these self-select funds through reinsurance agreements, which cover transferring Section 32 policies as well as policies outside of the scope of the Transfer. FIL Life is currently in the process of splitting the existing reinsurance and floating charge agreements such that separate agreements will be created for the Section 32 book of business only. SF will assume these associated reinsurance and floating charge agreements on the Effective Date as part of the Transfer.
 - Should FIL Life be unable to complete the split of the existing agreements prior to the **Court sanction hearing**, FIL Life and SF intend to implement a duplication of the existing reinsurance and floating charge agreements to ensure that SF is placed in an equivalent economic and legal position as if separate agreements had been executed. In the event that the Court does not approve this approach, FIL Life and SF would not be required to proceed with the Scheme but would continue to cooperate in good faith and, where appropriate, consider alternative implementation options.
 - The remaining 18 self-select funds are accessed via direct investment in the underlying Open-Ended Investment Companies (“**OEICs**”) and ACSs. SF will enter into investment management agreements with the respective asset managers such that units held in such OEICs and ACSs are registered in the name of SF on the Effective Date.
 - With respect to the impact of the Transfer on unit values and unit-pricing, all Section 32 transferring policyholders will have their units and unit prices recalibrated to ensure that the total policyholder unit value remains unchanged. In other words, while the number of units held and unit prices may change, the overall unit value will remain unchanged.
 - Under the terms of the Transfer, SF will maintain the current FutureWise approach and investment management arrangements for at least 10 years from the Effective Date and will maintain the current self-select funds for at least one year from the Effective Date.
- 2.2.9. With respect to the annuity-in-payment business, the liabilities are fully reinsured to, and serviced by, the UK branch of the German reinsurer Hannover Rück SE (“**Hannover Re**”). The administration of the annuity business is outsourced to Hannover Re, which has in turn sub-contracted this activity to Paymaster 1836 Limited (“**Equiniti**”), subject to review from time to time. The reinsurance and outsourcing arrangements with Hannover Re will transfer to SF in accordance with a **Deed of Novation** effective on the Effective Date.

- 2.2.10. The Transferring Business will form part of the **SF Main Fund** as opposed to any of SF's closed and ring-fenced funds.
- 2.2.11. As part of the Transfer, all transferring FIL Life policyholders will become members of SF, gaining the right to vote and be elected as a Delegate in accordance with the Memorandum and Rules of SF. The transferring policyholders will rank equally with existing SF members.
- 2.2.12. SF and FIL Life have agreed to a data migration plan which includes a plan and timetable for the migration. The plan will be in place prior to the Effective Date and migration will complete following a **Non-Trading Period** which will take place around the time of the Effective Date, as discussed further in section 2.5.3.
- 2.2.13. FIL Life will indemnify SF against the cost of any compensation due to mis-selling or administrative errors relating to the transferring FIL Life policies (subject to certain time caps and monetary limits).

2.2.14. In essence, the overall effect for the transferring policyholders is that, to all intents and purposes, the administration and benefits will look unchanged but will be the responsibility of SF. An illustrative diagram of the Transfer is shown below:



Source: FIL Life Chief Actuary Report on the Transfer

2.2.15. Both management teams and the **Boards** of FIL Life and SF are supportive of the Transfer. Both recognise that the Transfer has a strong commercial and strategic rationale, while delivering an outcome that is consistent with the requirement to ensure the fair treatment of customers.

2.3. FIL Life's financial position pre- and post-Transfer

2.3.1. I have considered the financial impact of the Transfer on FIL Life's financial position under the UK Solvency II Pillar 1 basis, the regulatory regime under which the PRA looks at the financial strength of an insurer, as at 30 June 2025 and concluded that:

- The Transfer results in a £1.0m reduction in FIL Life's **Own Funds** (or 0.5% in proportional terms), indicating that the Transfer has a limited impact on FIL Life's financial resources
- The Transfer results in a £0.3m reduction in FIL Life's **SCR** (or 0.3% in proportional terms), which indicates that the Transfer has a limited impact on FIL Life's risk profile
- The Transfer has a minimal impact on FIL Life's **Surplus** and **SCR Coverage Ratio**. In particular, the Transfer results in a fall in FIL Life's SCR Coverage Ratio from 191.1% to 190.8%, on a **Pre-Funding Basis**. Refer to section 5.2 for further explanation of the Pre-Funding Basis.
- Furthermore, 190.8% remains comfortably above FIL Life's amber trigger level of 135% of the SCR, below which Management and the Board would be required to be notified and a plan for rectification produced, and also above the red trigger level of 122% of the SCR, below which escalation would be required prior to reporting to the regulator.

2.3.2. Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on FIL Life's UK Solvency II Pillar 1 financial position.

2.4. SF's financial position pre- and post-Transfer

2.4.1. I have considered the financial impact of the Transfer on SF's financial position under the UK Solvency II Pillar 1 basis as at 30 June 2025 and concluded that:

- The Transfer results in a significant increase in SF's total assets, financial resources and capital requirements
- The Transfer results in a £15.2m increase in SF's Own Funds (or 10.7% in proportional terms)
- The Transfer results in a £24.9m increase in SF's SCR (or 39.7% in proportional terms)
- The Transfer results in a fall in SF's SCR Coverage Ratio from 226.0% to 179.1%. I do not consider such a change in SCR Coverage Ratio in this range to be materially adverse. The post-Transfer SCR Coverage Ratio of 179.1% remains above the Pillar 1 trigger level of 150% set out in SF's capital management policy.
- Furthermore, 179.1% is significantly in excess of SF's Pillar 1 tolerance level of 130%, as defined in the Risk Appetite Framework as the point at which management is required to take action in order to bring the risk exposure back into appetite.

2.4.2. Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on SF's UK Solvency II Pillar 1 financial strength.

2.5. Financial effect of the Transfer on transferring FIL Life policyholders

- 2.5.1. I have assessed the impact of the Transfer on all groups of transferring FIL Life policyholders in terms of security of benefits. Based on the relevant factors as described in the Report, in my opinion the security of benefits for all transferring FIL Life policyholders will not be materially adversely affected by the Transfer compared with the status quo.
- 2.5.2. There will be no change to the investment strategy as a result of the Transfer. Under the terms of the Transfer, SF will maintain the current FutureWise approach and investment management arrangements for at least 10 years from the Effective Date and will maintain the current self-select funds for at least one year from the Effective Date. I understand that SF does not currently have plans to make any changes to the investment strategy for the fund in short term, and a 10-year period is considered a sufficiently long horizon with respect to FutureWise (in which the majority of the Section 32 policyholders are invested) before any such changes might reasonably arise under SF. Further, in relation to the self-select funds, I note that SF does not currently have plans to close the self-select funds following the initial one year period; however, these funds fall within the scope of SF's ongoing assessment of its overall fund offering. Any future changes to the approach and investment management arrangements will be subject to appropriate governance, as would have been the case within FIL Life in the absence of the Transfer.
- 2.5.3. It is further anticipated that, in order to facilitate the settlement of certain self-select funds accessed via reinsurance agreements prior to the Effective Date, and to enable the subsequent migration and establishment of the corresponding self-select and FutureWise structure by SF following the Effective Date, a Non-Trading Period of seven working days will need to be implemented. During this period the Section 32 policyholders will not be able to instruct trades in self-select funds and FutureWise. For the avoidance of doubt, Section 32 Policies will continue to remain fully invested throughout the Non-Trading period and will continue to participate in the investment performance of the relevant units during this time. I further note that the FIL Life Chief Actuary is satisfied that the Non-Trading Period is necessary to ensure that the policyholder records are transferred reliably and correctly. The communications to Section 32 policyholders will highlight the Non-Trading period so that any policyholders contemplating making a change to their investment choices can do so either before the start or after the end of the Non-Trading period. As the main communications will be distributed a few months prior to the Effective Date, Section 32 policyholders will receive a reminder notification closer to the Effective Date to remind them of the Non-Trading period.
- 2.5.4. There will be no change to the charging structure of Section 32 policies as a result of the Transfer. Section 32 policies invested in FutureWise are currently subject to an ongoing charge that remains constant as a percentage of policy value, while those invested in self-select funds are subject to fund-specific charges. However, the total Annual Management Charge ("**AMC**") applicable to Section 32 unit-linked policyholders is not formally guaranteed and may be increased in the future. I understand from SF that any future reviews of charges on Section 32 unit-linked policies post-Transfer will be subject to the same governance arrangements that apply to other policies within the SF Main Fund.
- 2.5.5. I note that additional investment management charges apply to the FutureWise TDFs that include an allocation to the LTAF. These costs will rise as the allocation to the LTAF is phased in over the period to 2028, and this increase would occur irrespective of the Transfer. TDFs without an LTAF allocation will not incur these additional costs.

- 2.5.6. Additionally, I understand from SF that any reviews of charges on unit-linked policies after the Transfer are subject to the same governance arrangements that are applicable to other policies within the SF Main Fund. I am therefore satisfied that transferring Section 32 unit-linked policyholders will not be materially adversely affected by the Transfer in relation to expenses and charges.
- 2.5.7. There will be no change to the policy terms and conditions for transferring Section 32 policyholders and the choice of self-select funds will remain the same post-Transfer. The terms and conditions of the transferring annuities-in-payment will be unaffected by the Transfer, and the annuity benefits are either fixed or determined mechanically by the application of published inflation indices, meaning that no elements of discretion apply, and the benefits will thus be unchanged as a result of the Transfer. Therefore, in my opinion, the Transfer will not give rise to materially adverse effects on the benefit expectations of transferring FIL Life policyholders.
- 2.5.8. Finally, I have evaluated the effect of the Transfer on the risk profile and capital management of the transferring FIL Life business. On balance, taking into account the analysis set out in the Report, I am satisfied that while the profile of risks to which the transferring FIL Life policyholders will be exposed will change in several aspects, the Transfer will not have a materially adverse effect in relation to risk profile. I am satisfied that the Transfer will not have an adverse effect on the capital management policy in relation to transferring FIL Life policyholders.

2.6. Financial effect of the Transfer on non-transferring FIL Life policyholders

- 2.6.1. I have assessed the impact of the Transfer on all groups of non-transferring FIL Life policyholders in terms of security of benefits. As the Transfer will not have a material adverse effect on the UK Solvency II Pillar 1 financial position of FIL Life, the security of benefits for all non-transferring FIL Life policyholders will not be materially adversely affected by the Transfer compared with the status quo.
- 2.6.2. The Transfer will not have a materially adverse impact on non-transferring FIL Life unit-linked policyholders in relation to investment strategy or expenses and charges nor will it have a materially adverse impact on such policyholders in relation to benefit expectations.
- 2.6.3. Finally, I have evaluated the effect of the Transfer on the risk profile and capital management of the non-transferring FIL Life business. Taking into account the considerations set out in the Report, and the fact that the Transfer does not have a significant impact on FIL Life's SCR Coverage Ratio, in my opinion the Transfer will not have an adverse effect on the capital management policy in relation to non-transferring FIL Life policyholders.

2.7. Financial effect of the Transfer on SF policyholders

- 2.7.1. I have assessed the impact of the Transfer on all groups of SF policyholders in terms of security of benefits. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have a materially adverse effect on the security of benefits of current SF policyholders in the SF Main Fund or any of the notional sub-funds, including with-profits, non-profit and unit-linked policyholders.

- 2.7.2. I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to current SF with-profits, unit-linked and non-profit policyholders. The Transfer will not result in any changes to the investment strategy of assets invested on behalf of the current SF with-profits, unit-linked and non-profit policyholders.
- 2.7.3. The terms and conditions of existing SF policies, the level of premiums payable on existing SF policies, and the range of unit-linked funds available to existing SF policyholders will be unaffected by the Transfer. Furthermore, SF maintains a With-Profits Committee (“**WPC**”) and a With-Profits Approval Committee (“**WPAC**”) to oversee its with-profits business. In my experience of with-profits governance and based on the information that I have reviewed in relation to these committees, I am satisfied that they provide an appropriate level of oversight. Taking into account these considerations, in my opinion, the Transfer will not have a materially adverse effect on the benefit expectations of existing SF Main Fund and sub-fund policyholders, including with-profits, non-profit and unit-linked policyholders.
- 2.7.4. Lastly, I have considered the effect of the Transfer on SF’s risk profile and capital management. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have an adverse effect on the risk profile or capital management policy in the SF Main Fund or any of the notional sub-funds.

2.8. Administration and governance

- 2.8.1. In the Report, I consider the administrative and governance arrangements that will be in place following the Transfer, with respect to transferring FIL Life and existing SF policies, as well as non-transferring FIL Life policies. I present my findings with respect to the impact of the Transfer on service levels in paragraphs 2.8.2 to 2.8.8 below.
- 2.8.2. SF has conducted extensive operational due diligence on FIL Life’s product suite, having collaborated closely with FIL Life to understand the different products and verify the completeness of data.
- 2.8.3. Following the Transfer, the administration of transferring Section 32 policies will be migrated onto SF’s insurance administration platform, Sonata, which is currently adopted by SF for the vast majority of its existing business and a well-respected IT system which is currently used by several significant insurers in the UK, with a reputation for strong scalability and adaptability. Further, SF is building a new system and associated processes for the transferring section 32 book, with a ring-fenced team dedicated to work on the transferring policyholders. I have further reviewed SF’s target service levels, its performance relative to the target service levels and its recent experience of customer complaint statistics. My analysis indicates that SF has developed a coherent and robust plan to servicing the transferring Section 32 policyholders. Therefore, I am satisfied that the Transfer will not have a material impact on the service level standards applicable to transferring Section 32 policyholders. I shall comment further on progress in my Supplementary Report.
- 2.8.4. In anticipation of potential risks and skills gaps associated with offering the drawdown functionality to certain transferring policyholders, SF has recently hired individuals with specific drawdown knowledge, in particular, from an IT systems perspective, whilst the company also has plans to provide training and conduct further recruitment over the next 12 months to ensure that there are appropriate skillsets for such policies.

- 2.8.5. Following discussions with SF’s senior management, I am satisfied that adequate plans are in place to mitigate any potential risks associated with the administration and management of the transferring drawdown policies. I have also, in reaching this conclusion, taken into account that both FIL Life and SF have recognised and highlighted this area as one of high priority during the knowledge transfer process in the run up to the Transfer. I shall comment further on progress in my Supplementary Report.
- 2.8.6. The administration of the annuities-in-payment is currently outsourced by FIL Life to Hannover Re, who has in turn sub-contracted administration services to Equiniti. The annuities will continue to be outsourced to Hannover Re post-Transfer, with both the existing reinsurance and outsourcing arrangements with Hannover Re transferring to SF. Therefore, I am satisfied that the Transfer will not have a material impact on the service level standards applicable to transferring annuitants.
- 2.8.7. With respect to existing SF policyholders, SF anticipates a likely spike in the level of customer interactions for a period in the run up to and after the Transfer due to “woken up” customers prompted by communications relating to the Transfer. To address this, SF is finalising plans to ensure sufficient additional resources are in place post-Transfer to support the ongoing administration of the enlarged business. At the time of writing the Report, SF expects that approximately 10 to 15 additional full-time equivalent employees will be required post-Transfer, who will be onboarded and fully-trained prior to the Effective Date. Existing internal resourcing capacity will cover some of these roles, and further recruitment to cover the remainder will begin in early 2026. These employees will be dedicated to servicing the Transferring Business, ensuring no impact to existing SF policyholders. I shall comment further on resourcing requirements in my Supplementary Report.
- 2.8.8. With respect to non-transferring FIL Life policyholders, the Transfer will not have any direct impact on the administration and service level of such policies. I consider the level of resourcing within FIL Life to deal with additional work in the nearer term in implementing the Transfer and in staffing customer helplines to be sufficient, such that there will be no material adverse effect on non-transferring FIL Life policyholders in terms of service levels.
- 2.8.9. Overall, in my opinion, adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in service standards being experienced by transferring FIL Life and existing SF policyholders, as well as by non-transferring FIL Life policyholders, following the Transfer.
- 2.8.10. I present my findings with respect to the impact of the Transfer on the governance of policies in paragraphs 2.8.11 to 2.8.13 below.
- 2.8.11. The transferring and non-transferring FIL Life policies are currently subject to oversight by an Independent Governance Committee (“**IGC**”) at FIL Life. Following the Transfer, non-transferring FIL Life policies will continue to be overseen by the IGC.
- 2.8.12. Transferring FIL Life policies, however, will be overseen by SF’s Governance Advisory Arrangement (“**GAA**”), which will also continue to oversee existing SF policies. While the governance structure will change, the scope of oversight, degree of responsibility and level of independence are very similar between the FIL Life IGC and the SF GAA (which is provided by a specialist provider of independent governance services to UK pension arrangements).

- 2.8.13. I have further compared the respective Terms of Reference between the FIL Life IGC and the SF GAA and found them to be very alike. In particular, the areas covered within the Value for Money assessment requirements were found to be equally comprehensive and granular. Therefore, I am satisfied that there will be no material difference to the level of independent oversight provided to transferring FIL Life policies and existing SF policies.
- 2.8.14. Further, SF's foundation of membership is a Delegate-based system of governance, which is common amongst friendly societies. Therefore, SF is structured such that its members elect Delegates who are responsible for representing the interests of all of the members to the Board. Delegates are members that are elected in accordance with rules outlined in the Memorandum and Rules of SF, which also details the powers and responsibilities of Delegates to represent the interests of the membership. In my opinion, the Delegate-based system of governance will adequately protect the interests of transferring FIL Life policyholders and existing SF policyholders.
- 2.8.15. Overall, in my opinion, the Transfer will not have any material adverse impact on the governance of transferring FIL Life policies, existing SF policies, or non-transferring FIL Life policies. In particular, I am satisfied that SF maintains an effective governance structure, and that the existence of Board committees such as the WPC and the WPAC will ensure that the interests of existing SF with-profits policyholders will be protected post-Transfer.
- 2.8.16. Lastly, I have received and reviewed the agreed migration plan for the Transfer. I consider the data migration plan to be comprehensive and robust, with a sufficient time and resources buffer built in to accommodate any unanticipated problems. I also consider the progress made to date to be in line with the plan.

2.9. Membership rights and policyholder communications

- 2.9.1. I have considered:
- The impact of the Transfer on the membership rights of transferring FIL Life policyholders
 - The impact of the Transfer on the membership rights of non-transferring FIL Life policyholders
 - The impact of the Transfer on the membership rights of existing SF policyholders
 - The approach to policyholder communications and the communication materials with respect to the Transfer
- 2.9.2. I present my findings with respect to these areas in paragraphs 2.9.3 to 2.9.9.
- 2.9.3. As FIL Life does not confer any membership rights on its policyholders, the Transfer would not result in any loss of membership rights for transferring or non-transferring FIL Life policyholders.
- 2.9.4. As part of the Transfer, all transferring FIL Life policyholders will become members of SF, gaining the right to vote and be elected as a Delegate in accordance with the Memorandum and Rules of SF.
- 2.9.5. The financial interests of existing SF members are not diluted by the Transfer.

- 2.9.6. I have reviewed the draft communications plan to transferring FIL Life policyholders with respect to the Transfer and consider that it is reasonable and appropriate. At the time of writing this Report, I have reviewed the draft communications which will be issued to transferring FIL Life policyholders, however, these communications have not yet been finalised. The SF Chief Actuary has stated in his report on the Transfer that these policyholder communications will be reviewed in due course by appropriately trained specialists within FIL Life and SF to ensure they are clear and understandable for policyholders.
- 2.9.7. FIL Life intends to submit an application to the Court for a waiver from writing to all non-transferring policyholders and transferring policyholders classed as “goneaways” (i.e. addresses from which mailings have been returned as “not known at this address” or “unable to deliver”). In my view, additional efforts to trace these policyholders are unlikely to yield significant success. Furthermore, I understand that FIL Life intends to dedicate a section of its website to the Transfer, and to set up a dedicated telephone helpline which all FIL Life policyholders can use. This would provide accessible channels of information which are available to interested non-transferring FIL Life policyholders or “goneaways” to obtain further details regarding the Transfer. Notice of the application for the Transfer will also be published in appropriate newspapers. It is therefore my view that FIL Life’s rationale for the waiver application is sound and appropriate.
- 2.9.8. I further note that FIL Life also intends to submit applications for waivers in respect of other categories of policyholders, as discussed in section 10.2 of this Report.
- 2.9.9. SF also intends to submit an application to the Court for a waiver from writing to all existing SF policyholders. The application for the waiver will be sought in accordance with legal advice on relevant court precedent. The Delegates will be required to vote in support of the Transfer in accordance with the Friendly Societies Act 1992 and the Memorandum and Rules of SF. This provides an additional layer of protection for existing SF policyholders, despite not being notified of the Transfer. Further, I understand that SF intends to dedicate a section of its website to the Transfer. This would provide an accessible channel of information which is available to interested SF policyholders to obtain further details regarding the Transfer. It is therefore my view that SF’s rationale for the waiver application is sound and appropriate.

2.10. Proposed merger between SF and OneFamily

- 2.10.1. In December 2025, SF agreed Heads of Terms to enter into a merger with Family Assurance Friendly Society Limited (“**OneFamily**”), subject to legal and regulatory processes. Upon the completion of the proposed merger (which is expected to be completed in 2027), all of SF’s policies will be transferred via Part VIII of the Friendly Societies Act 1992 to OneFamily and SF will cease to exist as a standalone entity. This will include all the policies acquired from FIL Life as part of the Transfer. I have referred to this proposed merger as the **Part VIII Merger**.
- 2.10.2. I note that the proposed Part VIII Merger will be a separate and distinct legislative process which will be subject to its own regulatory confirmation processes with relevant associated protections provided to policyholders. I further note that under Part VIII of the Friendly Societies Act 1992, a separate **Independent Actuary** is expected in due course to be appointed to produce a report to provide details of and comment on the terms of the proposed merger and set out their opinion on the likely effects of the merger on the affected members and policyholders.

- 2.10.3. The key steps of the process that will apply to the Part VIII Merger, and the relevant associated protections for policyholders (in addition to the expected appointment of a separate Independent Actuary) are set out below:
- SF must produce a statement setting out the terms of the proposed merger (also known as a Schedule 15 statement). The statement would normally contain, inter alia, comparative statements of balance sheets of SF and OneFamily at the same date.
 - The Schedule 15 statement must contain a summary of the Independent Actuary's report, which needs to be clear and concise while containing sufficient detail to enable a recipient to understand in broad terms the likely effect of the proposed merger.
 - SF, as the transferor friendly society, must obtain approval through a special resolution, as voted on by its Delegates
 - OneFamily, as the transferee friendly society, must obtain approval through a special resolution, as voted on by its members (unless it obtains consent from the PRA, in consultation with the FCA, to dispense with this requirement)
 - The PRA (as the appropriate authority), in consultation with the FCA, is required to formally confirm the proposed Part VIII Merger, unless it is precluded from doing so by any of the conditions set out in Schedule 15 of the Friendly Societies Act 1992. The preclusion grounds include a requirement that the PRA is satisfied that the transfer is in the interests of the members of each friendly society participating in the merger
 - Any interested party (including policyholders) has the right to make representations or objections about proposed Part VIII Merger to the PRA prior to any confirmation. This includes any person who believes that they would be adversely affected by the proposed merger. Such representations or objections can be made in written form or orally at a hearing on a date set in advance, and can be made either by individuals or collectively by groups.
 - In addition, any SF policyholder (including the transferring policyholders) will be provided with means to contact SF with their views (for example, through a dedicated email inbox) on the proposed Part VIII Merger prior to any Delegate vote on the proposed merger.
- 2.10.4. Taking into account the steps as outlined above, I am satisfied that the Part VIII Merger process provides transferring policyholders with appropriate opportunity to participate in the process and benefit from the protections afforded by the process.
- 2.10.5. Whilst my appointment and responsibilities as Independent Expert relate specifically to the Transfer, given the proximity in timing and the overlap of the two processes, I have considered whether the Part VIII Merger gives rise to any issues that would affect my conclusions on the Transfer, based on information currently available which has been shared with me by SF.
- 2.10.6. I have reviewed the potential impact of the proposed merger insofar as it is relevant to the Transfer. For avoidance of doubt, my consideration of the Part VIII Merger is necessarily limited and at a high level at this stage, and is not intended as a replacement or substitute for the report that will be produced by the Independent Actuary to be appointed in respect of the Part VIII Merger.

- 2.10.7. I have also noted in particular that it is envisaged that the formal communications with respect to the proposed Part VIII Merger would not commence before the Effective Date of the Transfer. It is therefore expected that the transferring policyholders will have an opportunity to fully participate in the communications process with respect to the merger in due course.
- 2.10.8. Having considered all matters that I view to be relevant and material in assessing the impact of the Transfer in section 11, I currently have no reason to believe that the proposed Part VIII Merger would give rise to any material adverse effect on transferring policyholders and am therefore satisfied that it does not affect my conclusions in relation to the Transfer as described in this Report.

2.11. Other considerations

- 2.11.1. I have reviewed the potential impact of the Transfer on reinsurance arrangements, taxation, competition, emerging risk and volatility, operational readiness, and other regulatory matters, as well as the impact of the Transfer not proceeding. I present my findings with respect to these considerations in paragraphs 2.11.2 to 2.11.10 below.
- 2.11.2. The Transfer will not have any effect on SF's current reinsurance counterparties.
- 2.11.3. The Transfer is not expected to have any materially adverse tax impact on the policyholders of FIL Life or SF, and no changes to the tax status of transferring FIL Life policies are expected as a result of the Transfer.
- 2.11.4. I am not aware of any issues that would be a cause of concern in relation to the impact of the Transfer on competition.
- 2.11.5. Based on current conditions, in my view, it remains appropriate for FIL Life and SF to continue to pursue the Scheme in light of emerging risks such as climate change and data security.
- 2.11.6. At the time of writing, no transferring policyholders have been identified as either sanctions' targets or Politically Exposed Persons ("**PEPs**").
- 2.11.7. FIL Life does, however, hold units in certain unitised mutual funds which in turn hold certain **subject assets** (assets subject to Ukraine-Russia sanctions). The subject assets are held for and on behalf of certain unitised mutual funds managed by FIL Investment Services (UK) Limited ("**FISL**"), which has issued units in such funds to FIL Life (the "**FISL Funds**"). FIL Life then allocated units in unitised life funds to Section 32 policyholders ("**FIL Life Funds**"), while holding units in the FISL Funds to match its liability to policyholders under the policy, effectively allowing them to access the economics of the FISL Funds without buying units in the FISL Funds. I understand that, following the application of sanctions, the Net Asset Value ("**NAV**") of the subject assets was reduced from roughly £70,000 to £0 (reflecting the loss of value resulting from the application of sanctions), which reduced the value of Section 32 policyholders' claims under their policies while preserving their economic exposure so that any future recovery in value would continue to flow through to them. The intention of the parties is to transfer:
- FIL Life's holdings in the units of the mutual funds to SF (meaning SF will become the registered unit holder instead of FIL Life in the FISL Funds)
 - FIL Life's obligation to Section 32 policyholders to SF (meaning SF will step into FIL Life's position with regard to the FIL Life Funds)

- 2.11.8. When that transfer happens, neither the legal nor beneficial title to the subject assets will transfer. I further note that FIL Life has received legal advice which supports the determination and this approach is similar to a process previously undertaken by SF. I am therefore satisfied based on the facts presented to me that there will be no transaction or dealing in any sanctioned asset as a result of the Transfer. This is discussed in detail in section 12.4.
- 2.11.9. As a transfer between UK-based insurers, I have no reason to believe that the Transfer will affect the rights of FIL Life's or SF's policyholders to access the Financial Services Compensation Scheme ("FSCS"), the UK's statutory fund of last resort for customers of authorised financial services firms, or the Financial Ombudsman Service ("FOS"), an independent and impartial public body established by the UK Parliament to resolve disputes between individuals and UK financial services firms, including insurers. Therefore, it is not expected that there will be any change to FSCS or FOS cover to policyholders as a result of the Transfer.
- 2.11.10. I am not aware of any other regulatory matters which may have a bearing on the Transfer.
- 2.11.11. If the Transfer were not to proceed, transferring policies would remain policies of FIL Life, and the reinsurance and outsourcing arrangements for the transferring annuity-in-payment business currently in place between FIL Life and Hannover Re would also remain with FIL Life and would not transfer to SF. The units held in the OEICs and the ACS units would continue to be registered in the name of FIL Life, and FIL Life would retain those investment management agreements. However, potential benefits of the Transfer, for example the expected increase in profit share distributions to SF with-profits policyholders from the profits arising from the Transferring Business, would not materialise.
- 2.11.12. Based on the above, I am satisfied that the Transfer will not have any material adverse impact on the governance of transferring FIL Life policies, existing SF policies, or non-transferring FIL Life policies.

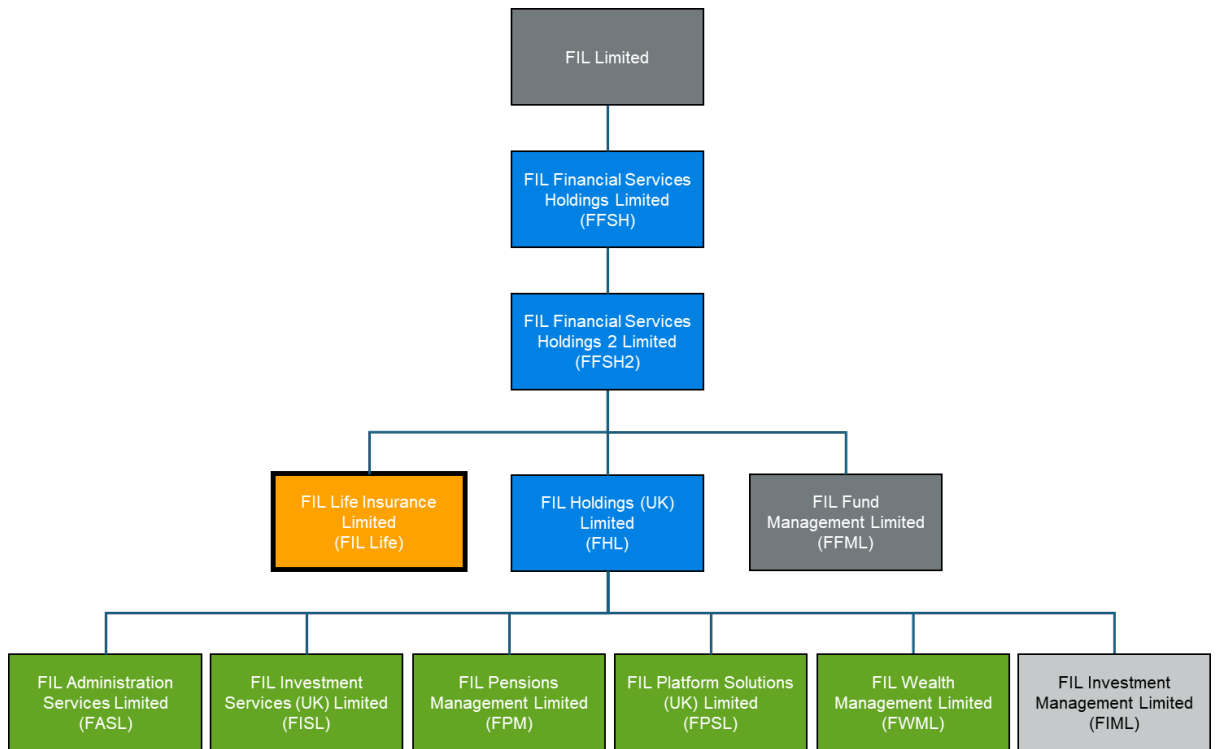
2.12. Main conclusions

- 2.12.1. Based on the analysis as summarised above and described in detail in the Report, I have concluded that the Transfer will not have a material adverse effect on transferring FIL Life policyholders, non-transferring FIL Life policyholders or existing SF policyholders in relation to:
- Security of benefits
 - Investment strategy
 - Expenses and charges
 - Benefit expectations (and bonus prospects)
- 2.12.2. I have also concluded that the Transfer will not have a materially adverse impact on the following:
- Risk profile and capital management policy
 - Administration and governance
 - Membership rights and policyholder communications
 - Tax
- 2.12.3. I am satisfied that the Transfer is equitable to all classes and generations of FIL Life and SF policyholders.

3. The proposed Transfer

3.1. Background to FIL Life

- 3.1.1. FIL Life Insurance Limited ("**FIL Life**") is an authorised UK insurance company incorporated in England and Wales in 1997, and regulated by the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). FIL Life is a wholly-owned subsidiary of FIL Financial Services Holdings 2 Limited, which itself is a subsidiary of FIL Financial Services Holdings Limited and FIL Limited.
- 3.1.2. FIL Life was initially established to provide defined contribution pension products to members of UK company pension schemes to save for their retirement, and currently provides both **unit-linked** pensions investment business and a small number of fully-reinsured annuities-in-payment.
- 3.1.3. Below is a simplified organisation chart illustrating where FIL Life is situated within the Fidelity Group:



Source: FIL Life Chief Actuary Report on the Transfer

- 3.1.4. In the above chart, FIL Life is shown in orange with a bold outline. Bermudian 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.
- 3.1.5. The ultimate parent company of Fidelity Group is FIL Limited, which is domiciled in Bermuda and regulated by the Bermuda Monetary Authority ("**BMA**").
- 3.1.6. FIL Life is the sole UK insurance entity of the Fidelity Group. The Fidelity Group also has a separate insurance entity registered in the Republic of Ireland, FIL Life Insurance (Ireland) DAC. FIL Life Ireland is not affected by the **Scheme**.
- 3.1.7. The functions of the other companies shown in the above chart are summarised below:
- FIL Holdings (UK) Limited, FIL Financial Services Holdings Limited and FIL Financial Services Holdings 2 Limited are the holding companies within the Fidelity Group structure
 - FIL Administration Services Limited acts as the settlement agent for FIL Life when buying and selling third-party funds
 - FIL Investment Services (UK) Limited ("**FISL**") is the investment manager for Fidelity's UK fund range. FIL Life offers these funds on its platform.
 - FIL Pensions Management provides operational services to other companies within the Fidelity Group. This includes the administration and other services related to the unit-linked business of FIL Life that are outsourced to FIL Pensions Management. This arrangement is covered by the Insurance Agency and Services Agreement ("**IASA**") between FIL Pensions Management and FIL Life.
 - FIL Platform Solutions (UK) Limited offers pensions investment via non-insurance based approaches
 - FIL Wealth Management Limited provides pre-retirement and retirement advice and guidance for FIL Life's policyholders
 - FIL Investment Management Limited acts as paymaster for expenses and as company secretary for FIL Life
- 3.1.8. Fidelity Group has a large number of subsidiaries in addition to FIL Life, however, as no such subsidiaries will be directly involved in the **Transfer**, I do not consider them to be relevant or material in assessing the impact of the Transfer and therefore have not included them in my analysis.
- 3.1.9. The business of FIL Life consists of two main classes of insurance business:
- Unit-linked pensions investment business of various types, making up the vast majority of FIL Life's business
 - A small number of fully-reinsured annuities-in-payment
- 3.1.10. Whilst FIL Life is open to most types of new unit-linked business (with the exception of Section 32 policies), it is closed to new annuity business.
- 3.1.11. The unit-linked business of FIL Life can be further broken down into a number of products, namely:
- Section 32
 - Additional Voluntary Contribution ("**AVC**")
 - Contracted in Money Purchase ("**CIMP**")
 - Group Appropriate Personal Pensions ("**GAPP**")

- Group Personal Pensions (“**GPP**”)
- Investment Only (“**INVE**”)
- Stakeholder Pensions (“**SHP**”)

3.1.12. FIL Life’s current strategy focuses on workplace-based pensions business. The company therefore aims to continue providing unit-linked pensions products using the same operating model going forward. Annuities, however, are not part of the ongoing strategy.

3.1.13. To allow FIL Life to continue focusing on workplace-based pensions, it has identified business which is no longer core to its strategy, the **Transferring Business**, comprising the Section 32 policies and the fully-reinsured annuities-in-payment, both of which are closed to new business. The Transferring Business, which has not previously been subject to Part VII Transfer, is discussed further in section 3.3.

3.1.14. The following table shows the breakdown of FIL Life’s in-force business as at 30 June 2025, into the transferring fully-reinsured annuity-in-payment business and Section 32 policies, as well as the remaining non-transferring unit-linked business:

Type of Business	Number of Policies	Total FUM ² £m
Annuities	927	6.4
Section 32	37,926	2,097.3
Other unit-linked business	707,553	48,961.6
Total	746,406	51,065.3

Source: FIL Life Chief Actuary Report on the Transfer

Note: For annuities, the amount shown represents the gross **Best Estimate Liabilities** (“**BEL**”)

3.1.15. 94.8% of FIL Life’s policies are concentrated in non-transferring unit-linked business, whereas the Transferring Business accounts for 5.2% of total policies as at 30 June 2025 (38,853 policies).

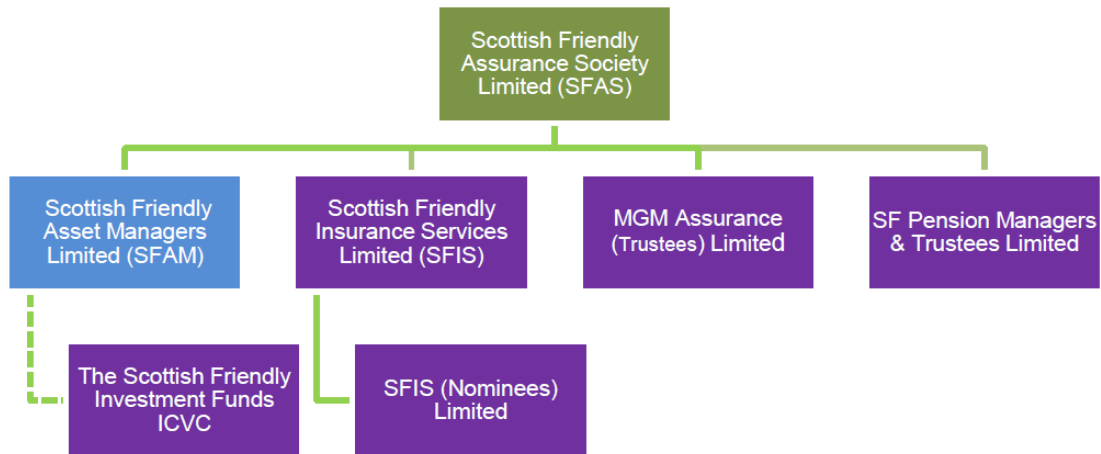
3.1.16. FIL Life has confirmed that, other than the Transfer, there are no other material planned transactions that I should be aware of when performing my review of the Transfer.

² Funds Under Management (“**FUM**”)

3.2. Background to SF

3.2.1. Scottish Friendly Assurance Company Limited (“**SF**”) was established in 1862 as the City of Glasgow Friendly Society. In 1992, the City of Glasgow Friendly Society acquired Scottish Friendly and rebranded itself as the Scottish Friendly Assurance Society. As a friendly society, it is owned by its members, and all SF policyholders are members. Today, SF operates as a financial services group dedicated to the efficient provision of a wide range of financial products and services and continues to be based in Glasgow. It is governed by the Friendly Societies Act 1992.

3.2.2. The corporate structure of SF is illustrated below:



Source: SF Chief Actuary Report on the Transfer

3.2.3. In the above figure, SF is shown in green, denoting that it is an insurance company subject to full Senior Managers and Certification Regime (“**SM&CR**”) rules. **IFPRU firms** (subject to Investment Firms Prudential Regime) not in scope for SM&CR rules are shown in blue. Unregulated entities not in scope for SM&CR rules are shown in purple.

3.2.4. The functions of each of the wholly-owned subsidiaries are summarised below:

- Scottish Friendly Asset Managers Limited: manager for transactions in SF Individual Savings Accounts (“**ISAs**”), Junior ISAs and Child Trust Funds. As at 31 December 2024, it had a net asset value of £4.2m.
- Scottish Friendly Insurance Services Limited: provider of third-party administration and other services and was de-regulated in October 2022. As at 31 December 2024, it had a net asset value of £0.7m.
- MGM Assurance (Trustees) Limited and SF Pension Managers & Trustees Limited: currently dormant
- The Scottish Friendly Investment Funds ICVC: an FCA-authorized, Open-Ended Investment Company (“**OEIC**”), which is a fund providing the stocks and shares component of certain SF ISA/Junior ISA and Child Trust Funds.
- SFIS (Nominees) Limited: currently dormant

- 3.2.5. Taking into account the limited or dormant activity levels associated with the subsidiaries, I do not consider the subsidiaries listed above to be relevant or material in assessing the impact of the Transfer and therefore have not included them in my analysis.
- 3.2.6. SF aims to grow its savings and investment business by:
- Progressing key initiatives that will benefit customers, including investing in systems and infrastructure to deliver continuous improvement in service delivery and customer experience
 - Identifying merger and consolidation partners in the life sector that align with or support its strategic objective to grow its own-brand business. The proposed Transfer supports this objective and is the latest of a series of successful mergers and acquisitions:
 - On 31 December 2005, the long-term business of Rational Shelley Friendly Society Limited ("**Rational Shelley**")
 - On 31 May 2006, the long-term business of Preston Operative Assurance Collecting Society ("**Preston Operative**")
 - On 1 July 2007, the long-term business of Pioneer Friendly Society Limited ("**Pioneer**")
 - On 30 September 2007, the long-term business of Scottish Legal Life Assurance Society Limited ("**Scottish Legal**")
 - On 31 December 2007, the long-term business of London Aberdeen & Northern Mutual Assurance Society Limited ("**LANMAS**")
 - On 30 November 2012, the long-term business of Royal Standard Friendly Society ("**Royal Standard**")
 - On 31 May 2015, the long-term business of Marine and General Mutual Life Assurance Society ("**M&GM**")
 - On 9 November 2018, certain long-term unit-linked business of Mobius Life Limited ("**MLL**")
 - On 1 November 2019, certain long-term business including the Manulife Fund, of Canada Life Limited ("**Canada Life**")
- 3.2.7. SF currently maintains one long-term business fund, the **SF Main Fund**. Within this structure, the following separate notional sub-funds are maintained:³
- The **Scottish Legal Sub-Fund**
 - The **M&GM Sub-Fund**
 - The **Manulife Sub-Fund**

³ The LANMAS and Rational Shelley sub-funds were wound up on 1 October 2025. Prior to this date, these sub-funds were also maintained within the SF Main Fund.

- 3.2.8. Where the Report refers to business in the SF Main Fund, it is specifically referring to the business in the long-term fund excluding any policies in the separate notional sub-funds (unless otherwise stated).
- 3.2.9. All notional sub-funds are closed to new business, and contain policies written prior to acquisition by SF. The notional sub-funds each have separate investment strategies, **bonus** rates and **Principles and Practices of Financial Management (“PPFM”)**. The assets of each sub-fund are ring-fenced for the benefit of only the policyholders within that sub-fund. The SF Main Fund levies charges against each of the notional sub-funds in line with the relevant court schemes that effected the transfers of the policies. Any profits emerging from administering the business within the notional sub-funds accrue to the SF Main Fund.
- 3.2.10. I note that profits emerging in the SF Main Fund are attributed to the working capital of the SF Main Fund and each year an assessment is made of such profits. Currently, a share of these profits is distributed to eligible policyholders by means of enhancing the investment returns applied to asset shares. Such distribution of profits are discretionary in nature, and SF has the right to vary or stop the distributions in future.
- 3.2.11. The following tables summarise the in-force business as at 30 June 2025, separately for the SF Main Fund and the notional sub-funds.
- 3.2.12. SF Main Fund:

Type of Business	Number of Policies	UK Solvency II BEL (after reinsurance) £m ⁴
Conventional with-profits	63,747	76.8
Unitised with-profits	68,407	167.7
Unit-linked life	108,254	576.0
Unit-linked pensions	65,487	1,455.3
Whole of life	427,301	80.0
Term assurance	392,445	(34.5) ⁵
Other	8,236	71.2
Total	1,133,877	2,392.4

Source: SF Chief Actuary Report on the Transfer

⁴ Due to rounding differences, numbers and percentages presented in the Report may not add up precisely to the totals provided

⁵ A negative BEL can arise for term assurance business where the value of expected future premium income exceeds the value of expected future claims and expenses

3.2.13. Notional sub-funds:

Sub-Fund	Number of Policies	UK Solvency II BEL (after reinsurance) £m
LANMAS (wound up on 1 October 2025)	542	8.8
Rational Shelley (wound up on 1 October 2025)	2,973	5.0
Scottish Legal	114,674	53.0
M&GM	23,704	148.3
Manulife	7,155	78.3
Total	149,048	293.3

Source: SF Chief Actuary Report on the Transfer

- 3.2.14. As illustrated in the tables above, the SF Main Fund was significantly larger than all five notional sub-funds combined in terms of both policy number and **UK Solvency II** BEL net of reinsurance, as at 30 June 2025.
- 3.2.15. The **Rational Shelley** and **LANMAS notional sub-funds** were wound up on 1 October 2025. This was anticipated in both schemes of transfer 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 SF Main Fund.
- 3.2.16. SF has confirmed that other than the Transfer and the Part VIII Merger, there are no material planned transactions that I should be aware of when performing my review.

3.3. Overview of the Transfer

- 3.3.1. In March 2025, FIL Life and SF signed an agreement (the “**Framework Agreement**”) setting out the proposed terms on which the transfer of business from FIL Life to SF would be undertaken under Part VII of the Financial Services and Markets Act 2000 (“**FSMA**”). It is proposed that the Transfer will become effective on 30 September 2026 (the “**Effective Date**”).
- 3.3.2. The Transfer aligns with the strategic objectives of both FIL Life and SF. FIL Life is disposing of the Section 32 and annuity-in-payment business as these closed books of business are no longer aligned with its strategic focus on workplace-based pension propositions. For SF, the Transferring Business supports its strategic objective of achieving sustainable growth in member value and expanding its own-brand pension business.
- 3.3.3. The Transferring Business comprises 38,853 policies as at 30 June 2025, and is made up of:
- £2.1bn of Section 32 unit-linked pensions FUM, closed to new business
 - £6.4m of fully-reinsured annuities-in-payment BEL (on a UK Solvency II **Pillar 1** basis), closed to new business

- 3.3.4. I outline the key elements of the Transfer in paragraphs 3.3.5 to 3.3.13 below.
- 3.3.5. SF will assume the responsibility of meeting all insurance and financial obligations associated with the Transferring Business.
- 3.3.6. SF will assume the responsibility of administering and servicing the Transferring Business.
- 3.3.7. The consideration for the purchase of the Transferring Business (the “**Purchase Price**”), which comprises:
- The upfront consideration (the “**Initial Consideration**”), which was paid by SF to FIL Life in March 2025
 - The additional amount (the “**Deferred Consideration**”) payable by SF to FIL Life on the Effective Date, subject to the deduction of the **Estimated Net Income Amount**, calculated as the income earned by the Transferring Business from 1 March 2025 until the Effective Date, less expenses incurred over the same period
- 3.3.8. As at 30 June 2025, 92.5% of the assets supporting the Section 32 policies are invested in the FIL Life default investment strategy, **FutureWise**, with the remainder invested in self-select funds. In particular:
- FutureWise consists of a range of Target Date Funds (“**TDFs**”), which group policies together into five-year blocks based on policyholders’ target retirement date. To access the investment component of these policies, FIL Life invests directly in a number of underlying Authorised Contractual Schemes (“**ACSS**”), managed by BlackRock Fund Managers Limited (“**BlackRock**”).
 - The underlying funds in FutureWise are a mixture of Fidelity and BlackRock funds and cover different asset types. Two TDFs, namely, the Early Days TDF and the 2045 TDF, both of which relate to policyholders with a longer-term target retirement date than the other TDFs, have an allocation to a Fidelity-managed Long-Term Asset Fund (“**LTAF**”). The LTAF invests in more illiquid-type assets, which are expected to earn a higher long-term return, and is subject to limits and controls to manage the illiquidity aspect. The long-term allocation to the LTAF began in 2024 and is being phased in over the period to 2028.
 - SF will replace FIL Life on a ‘like-for-like’ basis post-Transfer, and will maintain the same FutureWise approach. Each FutureWise policy will be allocated units of equivalent value in the same underlying unit-linked funds, with the same asset manager, as applied immediately prior to the Transfer. In effect, SF will replicate FIL Life’s policyholder investment choices, maintaining the same unit value for each fund at the point of Transfer.
 - Policyholders also have the option to invest in 24 available self-select funds, apart from the FutureWise TDFs. FIL Life currently accesses six of these self-select funds through reinsurance agreements, which cover transferring Section 32 policies as well as policies outside of the scope of the Transfer. FIL Life is currently in the process of splitting the existing reinsurance and floating charge agreements such that separate agreements will be created for the Section 32 book of business only. SF will assume these associated reinsurance and floating charge agreements on the Effective Date as part of the Transfer.
 - Should FIL Life be unable to complete the split of the existing agreements prior to the **Court sanction hearing**, FIL Life and SF intend to seek, as part of sanctioning the Scheme, an order of the court to duplicate the existing reinsurance and floating charge agreements to ensure that SF is placed in an equivalent economic and legal position as if separate agreements had been executed. In the event that the **Court** does not approve the Scheme, FIL Life and SF would not be required to proceed with the

Scheme but would continue to cooperate in good faith and, where appropriate, consider alternative implementation options.

- The remaining 18 self-select funds are accessed via direct investment in the underlying OEICs and ACSs. SF will enter into investment management agreements with the respective asset managers such that units held in such OEICs and ACSs are registered in the name of SF on the Effective Date.
- With respect to the impact of the Transfer on unit values and unit-pricing, all Section 32 transferring policyholders will have their units and unit prices recalibrated to ensure that the total policyholder unit value remains unchanged. This recalibration reflects system differences between FIL Life and SF, and does not affect the overall value of policyholder benefits. As noted in FIL Life’s Chief Actuary report, this adjustment can be illustrated simply as follows: a policy allocated 1,000 units at £1.50 per unit under FIL Life (total value £1,500) would, after the Transfer, be allocated 1,500 units at £1.00 per unit, maintaining the same total value of £1,500. The example is illustrated below:

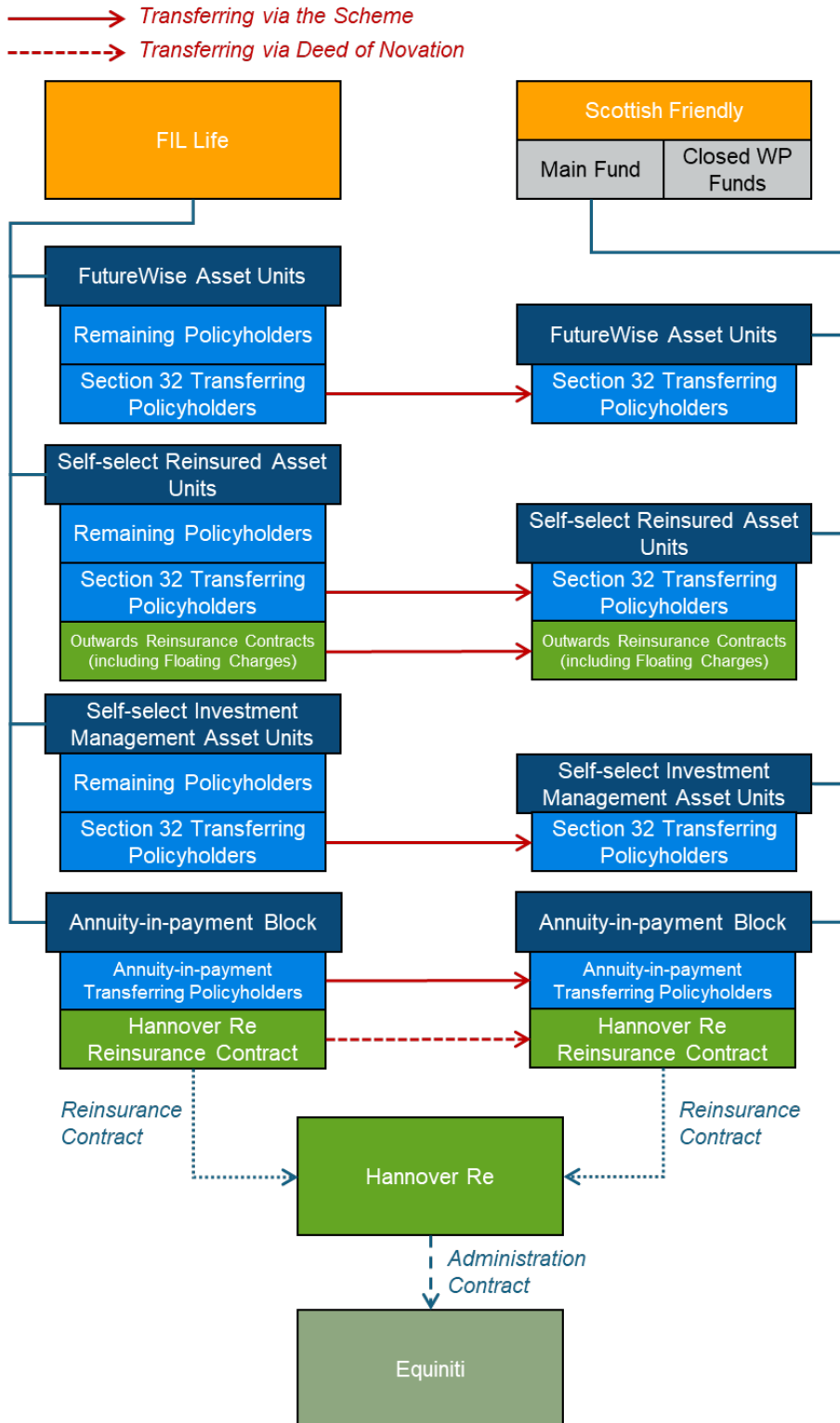
Pre-Transfer		Post-Transfer	
Total policyholder units:	Policyholder unit price:	Total policyholder units:	Policyholder unit price:
1,000	£1.50 per unit	1,500	£1.00 per unit
Policyholder unit value: £1,500		Policyholder unit value: £1,500	

Source: FIL Life Chief Actuary Report on the Transfer

- Under the terms of the Transfer, SF will maintain the current FutureWise approach and investment management arrangements for at least 10 years from the Effective Date and will maintain the current self-select funds for at least one year from the Effective Date. This is discussed further in Section 6.3.
- 3.3.9. With respect to the annuity-in-payment business, the liabilities are fully reinsured to, and serviced by, the UK branch of the German reinsurer Hannover Rück SE (“**Hannover Re**”). The administration of the annuity business is outsourced to Hannover Re, which has in turn sub-contracted this activity to Paymaster 1836 Limited (“**Equiniti**”), subject to review from time to time. The reinsurance and outsourcing arrangements with Hannover Re will transfer to SF in accordance with a **Deed of Novation** effective on the Effective Date.
- 3.3.10. The Transferring Business will form part of SF’s Main Fund as opposed to any of its closed and ring-fenced funds.
- 3.3.11. As part of the Transfer, all transferring FIL Life policyholders will become members of SF, gaining the right to vote and be elected as a Delegate in accordance with the Memorandum and Rules of SF. The transferring policyholders will rank equally with existing SF members.
- 3.3.12. SF and FIL Life have agreed to a data migration plan which includes a plan and timetable for the migration. The plan will be in place prior to the Effective Date and migration will complete following a **Non-Trading Period** which will take place around the time of the Effective Date, as discussed further in section 6.3.4.

3.3.13. FIL Life will indemnify SF against the cost of any compensation due to mis-selling or administrative errors relating to the transferring FIL Life policies (subject to certain time caps and monetary limits).

3.3.14. An illustrative diagram of the Transfer is shown below:



Source: FIL Life Chief Actuary Report on the Transfer

- 3.3.15. Both management teams and the **Boards** of FIL Life and SF are supportive of the Transfer. Both recognise that the Transfer has a strong commercial and strategic rationale, while delivering an outcome that is consistent with the requirement to ensure the fair treatment of customers.
- 3.3.16. I have reviewed the reports of the Chief Actuaries of both FIL Life and SF, and the report of the **With-Profits Actuary** ("**WPA**") of SF, and taken into account their conclusions as set out in the respective reports. Furthermore, I have discussed the Transfer with the Chief Actuaries of both FIL Life and SF, and with the WPA of SF, and performed my own analysis and reasoning on the security and reasonable benefit expectations of all relevant groups of policyholders and the service standards for those policyholders. My considerations and own conclusions are summarised in sections 6 to 10.

3.4. Existing Reinsurance Arrangements

- 3.4.1. As referenced in section 3.3.4, FIL Life currently accesses six of the 24 self-select funds through reinsurance agreements, which cover transferring Section 32 unit-linked policies as well as policies outside the scope of the Transfer. Three of the six reinsured funds are with BlackRock Life Limited and BlackRock Investment Management (UK) Limited, and there is one with each of Legal & General Assurance (Pensions Management) Limited ("**L&G**"), Prudential Pensions Limited ("**M&G Prudential**") and Schroder Pension Management Limited ("**Schroders**").
- 3.4.2. SF also has several existing reinsurance agreements in place. SF has confirmed that no existing reinsurance treaty (or collateral arrangement) will be affected by the Transfer. I have reviewed materials provided by SF related to its reinsurance arrangements and am satisfied that this is the case. A list of SF's material reinsurance arrangements is provided in Appendix F.

4. The UK insurance regulatory environment

4.1. Regulatory bodies

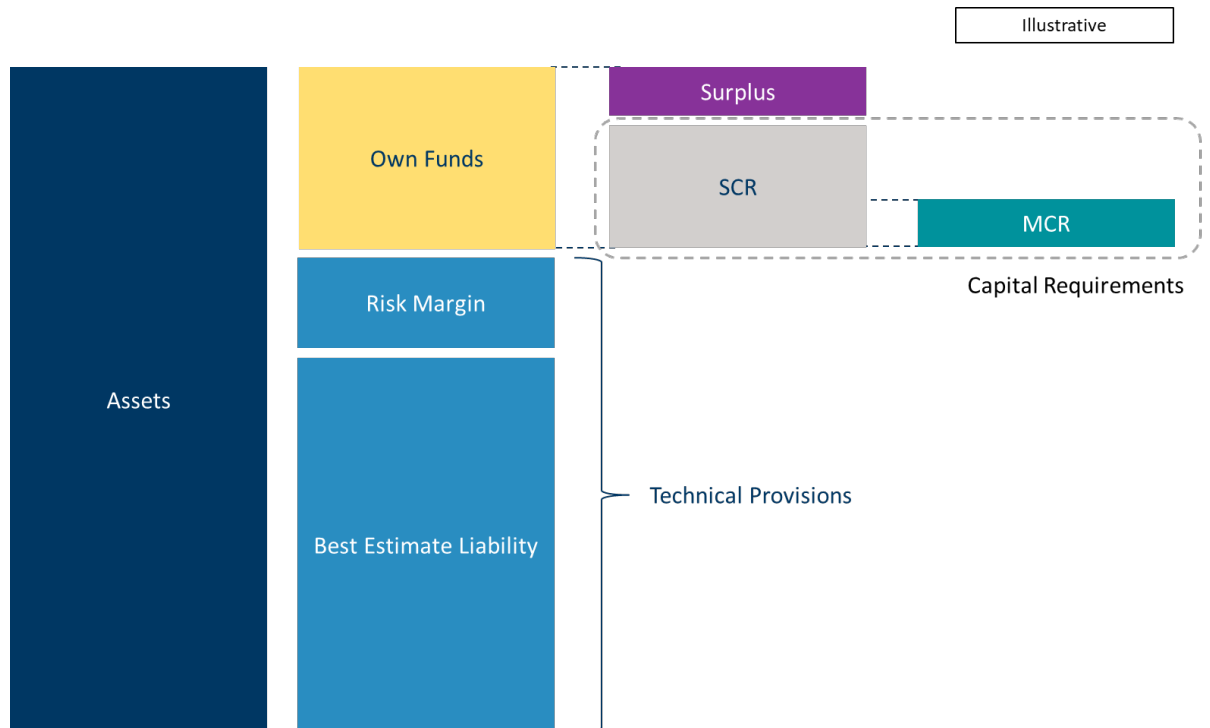
- 4.1.1. UK insurance companies are currently regulated by the PRA and the FCA. The PRA is responsible for promoting the safety and soundness of financial services firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The FCA's aim is to protect consumers, ensure the industry remains stable and promote healthy competition between providers.
- 4.1.2. The PRA's regulatory regime aims to protect policyholders and ensure that insurance companies are adequately capitalised. The risk of insurers failing to meet their obligations is minimised as far as possible, while recognising that it is not practicable to operate a "zero failure" regime.

4.2. UK Solvency II

- 4.2.1. UK insurance companies (above a certain size threshold) including FIL Life and SF are required by law to comply with a solvency capital regime known as UK Solvency II which is enforced by the PRA.
- 4.2.2. The UK Solvency II regulatory framework has three main "pillars":
- **Pillar 1: Quantitative Requirements.** This sets out the minimum amount of capital that insurers must hold, primarily by specifying the qualitative and quantitative requirements for the calculation of *Technical Provisions* and *Solvency Capital Requirement ("SCR")*
 - **Pillar 2: Governance and risk management.** As part of Pillar 2 requirements, insurers are required to have in place an effective system of governance with documented policies related to, inter alia, risk management systems, internal controls, governance and key functions. Pillar 2 also requires insurers to develop an Own Risk and Solvency Assessment ("*ORSA*"), which takes into account the insurer's own view of the risks faced.
 - **Pillar 3: Disclosure and transparency.** This sets out the disclosure requirements and the quantitative and qualitative information that insurers must report to the regulators and the public
- 4.2.3. Further details of Pillar 1 and Pillar 2 requirements are set out in the following sections.

4.3. Pillar 1 requirements

4.3.1. The following diagram shows a simplified illustration of the UK Solvency II balance sheet. At all times, an insurer is required to have assets that exceed its Technical Provisions and SCR:



4.3.2. Technical Provisions are the reserves held by insurers to meet their insurance obligations to policyholders and represent the amount that would have to be paid to another insurer to take on the same liabilities, which are made up of:

- **BEL** – the present value of future liability cash flows on a realistic basis (i.e. with no prudence margins)
- **Risk Margin** – an additional amount which broadly reflects the cost of holding capital for “unhedgable risks” (such as **operational**, **counterparty default** and **longevity risks**) which an external buyer of the business would theoretically require

4.3.3. The SCR is the minimum level of capital that a firm must hold in addition to the Technical Provisions, and its calculations are underpinned by the principle that an insurer’s assets should exceed its Technical Provisions with a probability of at least 99.5% (i.e. 1-in-200) over a one year timeframe. It effectively represents the formal regulatory intervention point for an insurer. There is a further measure of capital requirement under UK Solvency II called the Minimum Capital Requirement (“**MCR**”). The MCR is normally lower than the SCR and represents the point at which regulatory intervention would be increased further.

4.3.4. An insurer’s assets in excess of its Technical Provisions and non-insurance liabilities is known under UK Solvency II as its **Own Funds**, or in other words the available capital that the insurer has to meet its regulatory capital requirements. A commonly used yardstick for comparing financial strength between companies in the UK life insurance market is the **SCR Coverage Ratio**, which I have defined as the ratio of Own Funds over SCR.

- 4.3.5. Own Funds are classified by their quality and ability to absorb losses. These classifications are Tier 1, Tier 2 and Tier 3. Tier 1 is the highest quality, with Tier 2 and Tier 3 being lower quality, but still having some loss absorbency ability.
- 4.3.6. For the purpose of the UK Solvency II balance sheet, insurers with one or more **with-profits** funds generally treat each individual with-profits fund as “ring-fenced”, although there are some exceptions. There are restrictions around the use of capital in a ring-fenced fund to cover the losses arising from liabilities outside of the fund.
- 4.3.7. For the purpose of calculating the SCR, most insurers adopt a **Standard Formula** methodology as prescribed under the UK Solvency II regulations. However, insurers are also permitted to develop their own **Internal Model** or **Partial Internal Model** (subject to gaining regulatory permission) to calculate their SCR. The primary benefit of an Internal Model to the insurer would be that it enables the calculation of capital requirements which accurately reflect its internal view of the risks. It could also potentially, but not necessarily, reduce capital requirements. However, the process for gaining permission from the PRA for the use of an Internal Model or Partial Internal Model is a highly complex and expensive exercise. Both FIL Life and SF currently adopt the Standard Formula methodology for calculation of the SCR.
- 4.3.8. Under the Standard Formula, the SCR is calculated allowing for diversification between risks, recognising that risks may not be fully correlated. This includes both the offsetting of risks and the fact that multiple risks occurring at the same time may do so at different levels of severity, typically resulting in a lower SCR. For clarity, the Report refers to this as the **diversified SCR**. For the purposes of the Report, the **undiversified SCR** is defined as the aggregation of standalone risk capital requirements without allowing for diversification.

4.4. Transitional Measures, Matching Adjustment and Volatility Adjustment under UK Solvency II

- 4.4.1. There are transitioning provisions under UK Solvency II to allow insurers the option of “phasing-in” the impact of UK Solvency II over a period of up to 16 years from the inception of UK Solvency II in 2016 (**Transitional Measures for Technical Provisions**, or “**TMTTP**”). Neither FIL Life nor SF currently applies TMTTP to liability calculations but each has the option to do so in the future, subject to gaining regulatory permission.
- 4.4.2. The UK Solvency II rules also include a clause which permits the potential use of a Matching Adjustment (“**MA**”) for certain types of insurance liabilities (such as annuities) which would allow an insurer to reduce its Technical Provisions. Neither FIL Life nor SF currently applies MA to its liability calculations but each has the option to do so in the future, subject to gaining regulatory permission.
- 4.4.3. For liabilities that are not eligible for a MA, an insurer may apply for the use of a Volatility Adjustment (“**VA**”), which would allow the insurer to reduce its Technical Provisions. Neither FIL Life nor SF currently applies a VA to its liability calculations but each has the option to do so in the future, subject to gaining regulatory permission.

4.5. Pillar 2 requirements

- 4.5.1. A critical part of the Pillar 2 requirements is the requirement for each insurer to develop an ORSA, which is intended to continuously assess an insurer's solvency needs and act as a tool for decision making and strategic assessment. As part of developing an ORSA, an insurer is required to, inter alia, project its expected future solvency position, consider its risk profile and assess how the business is likely to change based on its business strategy.
- 4.5.2. As the Pillar 2 solvency requirements take into account the insurer's own view of the risks faced, there often can be significant differences between an insurer's Pillar 1 and Pillar 2 solvency positions. An insurer's Pillar 2 capital position is not publicly disclosed and contains commercially sensitive information.
- 4.5.3. Another critical part of the Pillar 2 requirements is the need for the Board of each insurer to set and regularly review its:
- Risk appetite, which defines the level and type of risks that an insurer is prepared to take on or be exposed to
 - Capital management policy, which defines the target ranges of capital that the insurer needs to hold, which is aligned to its risk appetite. Insurers typically hold a significant capital buffer in excess of the minimum amount of regulatory capital (SCR).

4.6. Governance requirements

- 4.6.1. The governing body of an insurer, typically its Board, is responsible for setting its strategy and business culture, having oversight of its day-to-day management and approving its financial statements.
- 4.6.2. The applicable governance regime for insurers in the UK is set out in the SM&CR which came into force for UK insurers on 10 December 2018 as part of a regulatory drive to improve culture, governance and accountability. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across firms, and consists of three parts:
- The Senior Managers Regime ("**SMR**"), which focuses on individuals who hold key roles or have overall responsibilities for whole areas of relevant firms
 - The Certification Regime, which applies to other staff who could pose a risk of significant harm to the firm or any of its customers
 - The Conduct Rules, which are high level requirements that hold individuals to account
- 4.6.3. The SMR also defines the minimum set of senior management functions including:
- Chief Executive Officer ("**CEO**"), responsible for carrying out the management of the conduct of the whole of the business
 - Chief Financial Officer ("**CFO**"), responsible for the management of the financial resources and reporting to the Board in relation to its financial affairs
 - Chief Risk Officer ("**CRO**"), responsible for overall management of the risk management system
 - Chief Actuary, responsible for the operation of the insurer's actuarial function
 - WPA, responsible for advising the Board on the exercise of discretion affecting the with-profits business

- 4.6.4. Each individual performing a senior management function must be approved by the regulators and must demonstrate the requisite skills and experience to act in that particular capacity.

4.7. FCA Consumer Duty Rules

- 4.7.1. In July 2022, the FCA published its Policy Statement and Finalised Guidance for Consumer Duty which sets higher and clearer standards for consumer protection across services in the UK and requires firms to put their customers' needs first (the "**FCA Consumer Duty Rules**").
- 4.7.2. The FCA Consumer Duty Rules comprise three parts, which I set out below.
- 4.7.3. A Consumer Principle (Principle 12 of the FCA Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers.
- 4.7.4. The "cross-cutting rules" which develop expectations for firms' behaviour and how they should act to deliver good outcomes.
- 4.7.5. The four outcomes, 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 as 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.

5. Financial position pre- and post-Transfer

5.1.1. In this section, I consider the impact of the Transfer on the UK Solvency II Pillar 1 and Pillar 2 financial positions of FIL Life and SF.

5.2. Financial impact of the Transfer on FIL Life

5.2.1. The following table shows the **Reported basis** UK Solvency II Pillar 1 balance sheet of FIL Life as at 30 June 2025, both pre-Transfer and post-Transfer:

£m	Pre-Transfer (Reported Basis)	Pro-Forma Post-Transfer (Reported Basis)
A. Own Funds	210.9	209.8
B. SCR	76.4	76.2
C. Surplus [A-B]	134.4	133.6
SCR Coverage Ratio [A / B]	275.8%	275.3%

Source: FIL Life Chief Actuary Report on the Transfer

5.2.2. Before considering the financial effects of the Scheme on the UK Solvency II balance sheet of FIL Life, I note that FIL Life has in recent years been injected with additional capital such that it is capable of undertaking large scale fund transitions and new business onboarding from time to time. During such transition or onboarding activity (which normally lasts just a few days and could involve funds up to £500m), a temporary counterparty default charge arises under the UK Solvency II capital rules which results in an increase in the SCR (for example, in the case of a £500m transition, the SCR would increase by £75m). As at 30 June 2025, a transition of £281.6m was in progress, which has been reflected in the above calculations.

5.2.3. However, the Reported Basis position set out above is not fully reflective of FIL Life's underlying solvency coverage. For the purpose of my analysis, I have considered a solvency position that is more aligned with FIL Life's normal capital position, that is, the position that would be expected (referred to as the **Pre-Funding basis** in the FIL Life Chief Actuary report on the Transfer), assuming a full £500m transition was taking place as at 30 June 2025.

5.2.4. The following table shows the Pre-Funding basis UK Solvency II Pillar 1 balance sheet of FIL Life as at 30 June 2025 with a full £500m transition taking place, both pre-Transfer and post-Transfer:

£m	Pre-Transfer (Pre-Funding Basis)	Pro-Forma Post-Transfer (Pre-Funding Basis)
Own Funds	208.5	207.5
SCR	109.1	108.8
Surplus	99.4	98.7
SCR Coverage Ratio	191.1%	190.8%

Source: FIL Life Chief Actuary Report on the Transfer

- 5.2.5. Further, FIL Life’s liabilities have not been adjusted for TMPT, MA or VA, as they are not currently used by FIL Life and are not expected to be used following the transfer.
- 5.2.6. The analysis above does not take into account the Purchase Price which FIL Life receives from SF. If allowance for this were to be made there would be a beneficial effect on FIL Life’s SCR Coverage Ratio. In my opinion, this is not an unreasonable basis on which to draw my conclusions concerning the relative financial position of FIL Life pre- and post-Transfer.
- 5.2.7. The following observations and comments are relevant in relation to the impact of the Transfer on the Pre-Funding basis UK Solvency II Pillar 1 financial position of FIL Life:
- The Transfer results in a £1.0m reduction in FIL Life’s Own Funds (or 0.5% in proportional terms), indicating that the Transfer has a limited impact on FIL Life’s financial resources
 - The Transfer results in a £0.3m reduction in FIL Life’s SCR (or 0.3% in proportional terms), which indicates that the Transfer has a limited impact on FIL Life’s risk profile. This is discussed further in section 7.
 - The Transfer also has a minimal impact on FIL Life’s Surplus and SCR Coverage Ratio
- 5.2.8. Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on FIL Life’s UK Solvency II Pillar 1 financial position.

5.3. Financial impact of the Transfer on SF

- 5.3.1. The following table compares the UK Solvency II Pillar 1 balance sheet position of SF as at 30 June 2025 pre- and post-Transfer:

£m	Pre-Transfer	Pro-Forma Post-Transfer
Own Funds	141.7	156.9
SCR	62.7	87.6
Surplus	79.0	69.3
SCR Coverage Ratio	226.0%	179.1%

Source: SF Chief Actuary Report on the Transfer

- 5.3.2. The analysis above takes into account the Purchase Price which SF pays FIL Life. In my opinion, this is not an unreasonable basis on which to draw my conclusions concerning the relative financial position of SF pre- and post-Transfer. If no allowance for the Purchase Price were to be made, SF’s SCR Coverage Ratio would have been higher.
- 5.3.3. I present my observations and comments with respect to the impact of the Transfer on the UK Solvency II Pillar 1 financial position of SF in paragraphs 5.3.4 to 5.3.7 below.

- 5.3.4. The Transfer results in a £15.2m increase in SF's Own Funds (or 10.7% in proportional terms). The increase in SF's Own Funds as a result of the Transfer is relatively large compared with the decrease in FIL Life's Own Funds as a result of the Transfer (£1.0m, as noted in section 5.2.7). This is due to differences in assumptions adopted by SF and FIL Life for the purpose of calculating BEL. In particular, as noted in the FIL Life Chief Actuary report, under the IASA currently in place between FIL Life and FIL Pensions Management, an operational services company within the Fidelity Group (refer to section 3.1.7), FIL Life's expenses are set at 95% of net income earned on the unit-linked FUM. As a result, the value of Own Funds directly related to this book is limited for FIL Life.
- 5.3.5. The Transfer results in a £24.9m increase in SF's SCR (or 39.7% in proportional terms). The increase in SF's SCR as a result of the Transfer is relatively large compared with the decrease in FIL Life's SCR as a result of the Transfer (£0.3m, as noted in section 5.2.7). This is due to the existence of the IASA, which removes the exposure to expense risk and therefore helps to reduce the impact on the FIL Life balance sheet. In contrast, SF has no such arrangement.
- 5.3.6. The Transfer results in a fall in SF's SCR Coverage Ratio from 226.0% to 179.1%. I do not consider such a change in SCR Coverage Ratio in this range to be materially adverse. The post-Transfer SCR Coverage Ratio of 179.1% remains above the Pillar 1 trigger level of 150% as set out in SF's capital management policy, which is discussed further in section 8.7. Furthermore, 179.1% is significantly in excess of SF's Pillar 1 tolerance level of 130%, as defined in the Risk Appetite Framework as the point at which management is required to take action in order to bring the risk exposure back into appetite.
- 5.3.7. I have also noted that while SF does not currently use permitted adjustments to UK Solvency II calculations (including the TMTP, MA or VA) to increase its reported Pillar 1 financial position, it has the option to do so in the future (subject to gaining regulatory permission).
- 5.3.8. Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on SF's UK Solvency II Pillar 1 financial position.

5.4. Financial impact of the Transfer on Pillar 2 basis

- 5.4.1. An insurer's Pillar 2 capital position is not publicly disclosed and contains commercially sensitive information. Due to this commercial sensitivity, I have avoided quoting the full detailed Pillar 2 analysis in my Report. However, the following observations and comments are relevant in relation to the impact of the Transfer on the UK Solvency II Pillar 2 financial position of FIL Life and SF.
- 5.4.2. FIL Life has confirmed to me that the Transfer will have a minimal impact on its Pillar 2 available capital and capital requirements (similar to the Pillar 1 impact as shown in section 5.2). I have not requested further detailed analysis of the impact of the Transfer on FIL Life's Pillar 2 solvency position because, on the basis of my experience of other UK insurance companies, there is no reason to doubt this confirmation.
- 5.4.3. The SF Chief Actuary has stated in his report on the Transfer that SF's Pillar 2 solvency 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 SF's assessment of those risks". He has also noted that SF's absolute solvency ratio on a Pillar 2 basis is higher than the equivalent Pillar 1 result pre-Transfer.

5.4.4. The SF Chief Actuary has indicated that the impact of the Transfer on SF's Pillar 2 solvency position is consistent with that shown for Pillar 1, with consistent underlying drivers of results (see section 5.3).

5.5. Conclusions

5.5.1. In relation to the UK Solvency II Pillar 1 financial impact, I have concluded that:

- The Transfer will not have a material adverse effect on FIL Life's financial position
- The Transfer results in a fall in SF's SCR Coverage Ratio from 226.0% to 179.1%. I note further that the post-Transfer SCR Coverage Ratio of 179.1% remains above the trigger level of 150% as set out in SF's capital management policy and does not involve a significant decrease in the probability of SF remaining solvent over a one-year time frame. Furthermore, 179.1% is significantly in excess of SF's risk tolerance level of 130%, as defined in the Risk Appetite Framework as the point at which management is required to take action in order to bring the risk exposure back into appetite.
- The financial position of SF's existing notional sub-funds post-Transfer is unchanged due to the ring-fenced nature of the notional sub-funds

6. Financial effect of the Transfer on transferring FIL Life policyholders

6.1. Overview

- 6.1.1. In this section, I have considered the financial effect of the Transfer on the following groups of transferring FIL Life policyholders:
- Transferring Section 32 unit-linked policyholders
 - Transferring annuity-in payment policyholders
- 6.1.2. I have assessed the impact of the Transfer on all such policyholders in terms of:
- Security of benefits
 - Investment strategy
 - Expenses and charges
 - Benefit expectations and levels of premiums payable (if applicable)
- 6.1.3. Section 32 unit-linked policies do not have any investment guarantees nor any Guaranteed Minimum Pension (“GMP”) benefit entitlements. Therefore, no further consideration of such guarantees is required in this section.
- 6.1.4. A small proportion of transferring Section 32 unit-linked policies have a Protected Tax-Free Cash (“PTFC”) benefit and/or a Protected Pension Age (“PPA”) which will remain in place and unchanged. It should be noted that all existing options will not be affected by the Transfer.

6.2. Security of benefits

- 6.2.1. Following the Transfer, the assets and liabilities of the transferring policies will be transferred to the SF Main Fund.
- 6.2.2. To assess the impact of the Transfer on the benefit security of transferring policies, I have compared the Pre-Funding basis UK Solvency II Pillar 1 financial position of FIL Life pre-Transfer with the financial position of SF post-Transfer, as at 30 June 2025, as summarised in the following table:

£m	FIL Life Pre-Transfer (Pre-Funding Basis)	SF Pro-Forma Post-Transfer
Own Funds	208.5	156.9
SCR	109.1	87.6
Surplus	99.4	69.3
SCR Coverage Ratio	191.1%	179.1%

Source: FIL Life Chief Actuary Report on the Transfer, SF Chief Actuary Report on the Transfer

- 6.2.3. I present my observations with respect to the above table in paragraphs 6.2.4 to 6.2.7 below.
- 6.2.4. SF's SCR Coverage Ratio post-Transfer is lower than FIL Life's SCR Coverage Ratio pre-Transfer.
- 6.2.5. Further, SF's post-Transfer Surplus in absolute terms is significantly lower than FIL Life's pre-Transfer Surplus. Whilst this may appear at first sight to be a weakening of financial position, I have taken into account that FIL Life's Surplus pre-Transfer was intended to support all of FIL Life's business and not just the transferring policies. In addition, FIL Life has a significantly larger book of liabilities than SF, and adverse movements of an equal probability would result in a larger reduction in FIL Life's Surplus.
- 6.2.6. Further, I have taken into consideration that while there are differences in the risk profile of FIL Life pre-Transfer and SF post-Transfer (as discussed in section 6.6), the Transfer will not have a materially adverse effect in relation to the profile of risks that transferring policyholders will be exposed to.
- 6.2.7. Finally, I have reviewed stress testing carried out by SF as part of its most recent ORSA which includes the FIL Life business. In my opinion, the methodologies and assumptions used appear reasonable, and the results provide additional reassurance that SF would remain adequately capitalised following the Transfer.
- 6.2.8. 100% of FIL Life and 99.8% of SF's Own Funds as at 31 December 2024 are classified as Tier 1. I am satisfied that the quality of Own Funds for both FIL Life and SF is sufficiently high.
- 6.2.9. In extremis, in the event where SF's solvency is threatened, the Main Fund may be supported by any of the notional sub-funds, either on a temporary or permanent basis. Similarly, should the notional sub-funds be unable to support the relevant transferred business, the Main Fund would be required to support the solvency of the notional sub-funds. However, I consider this to be a very remote possibility.
- 6.2.10. In the event that Hannover Re defaulted on its reinsurance of the annuity-in-payment business prior to the Transfer, the liability for such business would be borne by FIL Life. If, however, Hannover Re were to default on its obligations post-Transfer, the liability would be borne by SF. However, given that the Transfer is not expected to have a materially adverse effect on either FIL Life or SF's solvency position, in my opinion, transferring annuitants would not be materially adversely affected by such a default event. Further, given that Hannover Re is regulated by the German equivalent of the PRA using similar **Solvency II** standards to UK Solvency II and must hold sufficient capital to ensure the company's resilience against a 1-in-200 year adverse event, I consider the likelihood of such a default to be remote.
- 6.2.11. When considering the financial security of benefits, I have also taken into account FIL Life's and SF's respective capital management policies, which are discussed further in sections 6.7, 7.7 and 8.7 below.
- 6.2.12. Based on the relevant factors as described in this section, the security of benefits for transferring FIL Life policyholders will not, in my opinion, be affected by the Transfer compared with the status quo.

6.3. Investment strategy

Section 32 unit-linked policies

- 6.3.1. Under the *terms of the Transfer*, SF will maintain the current FutureWise approach and investment management arrangements for at least 10 years from the Effective Date and will maintain the current self-select funds for at least one year from the Effective Date. I understand that SF does not currently have plans to make any changes to the investment strategy for the fund in the short term, and a 10-year period is considered a sufficiently long horizon with respect to FutureWise (in which the majority of the Section 32 policyholders are invested) before any such changes might reasonably arise under SF. Further, in relation to the self-select funds, I note that SF does not currently have plans to close the self-select funds following the initial one year period; however, these funds fall within the scope of SF's ongoing assessment of its overall fund offering. Any future changes to the approach and investment management arrangements will be subject to appropriate governance. This would have been the case within FIL Life in the absence of the Transfer.
- 6.3.2. I further note that a range of practical implementation approaches (involving both investment management agreements and reinsurance agreements) will be adopted by SF to achieve the replication of the current investment choice for each policy. In particular, SF's existing investment management contract with BlackRock will be amended to include access to the FutureWise ACSs and SF will invest in the ACSs that correspond to the FutureWise TDFs.
- 6.3.3. As for the self-select funds, FIL Life is currently in the process of splitting the existing reinsurance agreements and floating charge agreements so that separate agreements will be created for the Section 32 book of business only. SF will assume these associated reinsurance and floating charge agreements on the Effective Date as part of the Transfer. The remaining self-select funds are accessed through direct investment in the underlying OEICs and ACSs, and SF will enter into investment management agreements with the respective asset managers to ensure that units in these OEICs and ACSs are registered in the name of SF on the Effective Date.
- 6.3.4. It is further anticipated that, in order to facilitate the settlement of certain self-select funds accessed via reinsurance agreements prior to the Effective Date and to enable the subsequent migration and establishment of the corresponding self-select and FutureWise structure by SF following the Effective Date, a Non-Trading Period of seven working days will need to be implemented. This Non-Trading period is expected to commence on Wednesday, 23 September 2026 and conclude on Monday, 5 October 2026, during which Section 32 policyholders will be unable to instruct trades in self-select funds and FutureWise.
- 6.3.5. As noted in FIL Life's First Witness Statement, it is only possible to reliably effect the transfer of the self-select units during this Non-Trading period, and that it is not possible for this to be undertaken in a shorter timeframe, on the basis that the following must occur sequentially:
- FIL Life will require a period of five working days prior to the Effective Date to close out any movements in the self-select units. This is on the basis that certain self-select funds settle on a T (date of trade instruction) +4 basis; and
 - Once the closing position above is established, SF will then require a two working day period following the Effective Date to complete the migration and set up of access to the self-select funds and FutureWise on its own infrastructure

- 6.3.6. For the avoidance of doubt, Section 32 Policies will continue to remain fully invested throughout the Non-Trading period and will continue to participate in the investment performance of the relevant units during this time.
- 6.3.7. I further note that the FIL Life Chief Actuary is satisfied that the Non-Trading Period is necessary to ensure that the policyholder records are transferred reliably and correctly. The communications to Section 32 policyholders will highlight the Non-Trading period so that any policyholders contemplating making a change to their investment choices can do so either before the start or after the end of the Non-Trading period. As the main communications will be distributed a few months prior to the Effective Date, Section 32 policyholders will receive a reminder notification closer to the Effective Date to remind them of the Non-Trading period.
- 6.3.8. Therefore, in my opinion, transferring Section 32 unit-linked policyholders will not be materially adversely affected by the Transfer in relation to investment strategy.

Annuity-in-payment policies

- 6.3.9. As the annuity benefits payable are guaranteed, investment strategy has no bearing on benefits due under the policies. Therefore, the Transfer will not have an impact on transferring annuity-in-payment policyholders in relation to investment strategy.

6.4. Expenses and charges

Section 32 unit-linked policies

- 6.4.1. Section 32 policies invested in FutureWise are currently subject to an ongoing charge which remains constant as a percentage of policyholders' policy values. The total Annual Management Charge ("**AMC**") currently applied to Section 32 policyholders invested in FutureWise is 0.27% of policy value per annum ("**p.a.**"), which is reflected in unit pricing.
- 6.4.2. Section 32 policies invested in self-select funds are subject to charges which are specific to each fund.
- 6.4.3. I have been informed by FIL Life and SF that the charges on the relevant transferring FIL Life Section 32 unit-linked policies will remain unchanged as a result of the Transfer.
- 6.4.4. However, the total AMC is not formally guaranteed and may be increased in the future. I understand from SF that any future reviews of charges on Section 32 unit-linked policies post-Transfer will be subject to the same governance arrangements that apply to other policies within the SF Main Fund. As further discussed in section 9 below, I am satisfied that SF's governance arrangements, although different from FIL Life's, will not involve any material adverse change for transferring policyholders.

- 6.4.5. However, it should be noted that additional investment management charges apply to the FutureWise TDFs that include an allocation to the LTAF, reflecting the higher expected long-term return compared with those FutureWise TDFs with no such allocation. These costs will rise as the allocation to the LTAF is phased in over the period to 2028, and this increase would occur irrespective of the Transfer. For example, the total AMC for the Early Days TDF will increase from 0.27% of policy value p.a. to 0.428% of policy value p.a. once the allocation to the LTAF has been fully phased-in. The 0.158% p.a. overall increase comprises an increase in investment management charge plus additional incidental expenses. FIL Life has stated that the increase in expected investment returns to the policyholder would more than offset the increase in charges. Further, I note that SF will review charges in line with its standard policies and processes and will take action in accordance with its regulatory responsibilities.
- 6.4.6. Charges on these TDFs that include an allocation to the LTAF may increase in the future, including before the Effective Date. SF will increase charges consistent with the approach currently taken by FIL Life and will continue to do so post-Transfer. By contrast, TDFs with no LTAF allocation, and which therefore do not benefit from the associated higher expected long-term returns, will not bear related costs. It is worth noting that any such charge increases would arise irrespective of the Transfer.
- 6.4.7. Therefore, in my opinion, transferring Section 32 unit-linked policyholders will not be materially adversely affected by the Transfer in relation to expenses and charges.

Annuity-in-payment policies

- 6.4.8. There will be no change to any expenses or charges that apply to transferring annuities-in-payment.
- 6.4.9. Therefore, in my opinion, transferring annuities-in-payment will not be materially adversely affected by the Transfer in relation to expenses and charges.

6.5. Benefit expectations

Section 32 unit-linked policies

- 6.5.1. There will be no change to the policy terms and conditions for transferring Section 32 unit-linked policyholders. This includes PTFC and PPA protections which apply to some transferring Section 32 unit-linked policies.
- 6.5.2. Further, the choice of self-select funds and operations of FutureWise will remain the same post-Transfer.
- 6.5.3. Lastly, Section 32 unit-linked policies are single premium policies, and therefore no premiums will be accepted on the transferring Section 32 unit-linked policies.
- 6.5.4. Based on the above considerations, in my opinion, the Transfer will not give rise to materially adverse effects on the benefit expectations of Section 32 unit-linked policyholders.

Annuity-in-payment policies

- 6.5.5. The terms and conditions of transferring annuities-in-payment will be unaffected by the Transfer.
- 6.5.6. Further, the annuity benefits are either fixed or determined mechanically by the application of published inflation indices, meaning that no elements of discretion apply, and the benefits will thus be unchanged as a result of the Transfer.
- 6.5.7. Lastly, as the transferring annuities are currently in payment, no further premiums will be accepted on this business.
- 6.5.8. Therefore, in my opinion, transferring annuities-in-payment will not be materially adversely affected by the Transfer in relation to benefit expectations.

6.6. Risk profile

- 6.6.1. The risk profile in relation to transferring FIL Life policyholders will change following the Transfer as FIL Life and SF operate different business models and are therefore exposed to different types of risk.
- 6.6.2. The following table compares the components of the undiversified Pre-Funding basis Pillar 1 SCR for FIL Life pre-Transfer, with the components of the undiversified Pillar 1 SCR for SF post-Transfer as at 30 June 2025:

Proportion of total undiversified SCR	FIL Life Pre-Transfer (Pre-Funding Basis)	SF Pro-Forma Post-Transfer
Market risk	5.9%	36.9%
Counterparty default risk	74.5%	5.6%
Life underwriting risk	1.8%	48.4%
Health underwriting risk	-	0.8%
Operational risk	17.8%	8.3%

Source: FIL Life Chief Actuary Report on the Transfer, SF Chief Actuary Report on the Transfer

- 6.6.3. I present my findings with respect to the above table in paragraphs 6.6.4 to 6.6.6 below.
- 6.6.4. The mix of FIL Life’s risk exposure pre-Transfer differs significantly from that of SF post-Transfer. In particular, those risk categories which differ the most in terms of proportion of total undiversified Pillar 1 SCR are counterparty default risk and life underwriting risk.
- 6.6.5. The proportion of FIL Life’s undiversified Pillar 1 SCR pre-Transfer accounted for by counterparty default risk is 74.5%, compared with 5.6% of SF’s undiversified Pillar 1 SCR post-Transfer. FIL Life’s counterparty default risk is driven by its unit-linked business, its exposures to reinsurance fund partners, and FIL Life’s holdings in the Institutional Liquidity Fund (“*ILF*”), a fund held by FIL Life which can be used to provide liquidity to FIL Life.

- 6.6.6. Further, life underwriting risk accounts for just 1.8% of FIL Life’s undiversified Pillar 1 SCR pre-Transfer, compared with 48.4% of SF’s undiversified Pillar SCR post-Transfer. FIL Life is exposed to a low level of life underwriting risk, although it does have some exposure to lapse risk arising from its unit-linked business. For SF post-Transfer, life underwriting risk is primarily driven by a higher level of lapse risk.
- 6.6.7. Sections 7.6 and 8.6 provide further detail on FIL Life and SF’s risk profiles pre- and post-Transfer, respectively.
- 6.6.8. In my opinion, neither risk profile is inherently superior to the other, as long as they:
- Are appropriately managed by the insurer and in line with the risk appetite as articulated by the Board in accordance with its governance process
 - Are appropriately managed within the context of the capital management framework adopted by the insurer
- 6.6.9. On balance, taking into account the analysis set out above, I am satisfied that while the profile of risks to which the transferring FIL Life policyholders will be exposed will change in several aspects, the Transfer will not have a materially adverse effect in relation to risk profile.

6.7. Capital management policy

- 6.7.1. In relation to capital management policy associated with the transferring policyholders, I have compared FIL Life’s policy (which applies pre-Transfer) to SF’s policy (which will apply post-Transfer). Note that my separate analysis of the impact of the Transfer for non-transferring FIL Life policyholders and for existing SF policyholders in terms of capital management can be found in sections 7.7 and 8.7, respectively.
- 6.7.2. The impact of the Transfer on the capital management policy associated with the transferring policyholders is a nuanced consideration as it can be over simplistic to directly compare the capital management policy of two insurers. This is because the capital management policy is only a single component of the overall risk management framework (including risk appetite and exposures as a result of each insurer’s chosen business strategy) which is unique to each insurer. I have therefore compared FIL Life’s and SF’s capital management policies and trigger levels at a broad level, with due regard for both insurers’ inherent financial position, group structures, risk management policies and business strategies.
- 6.7.3. I have concluded from my review that:
- Both FIL Life’s and SF’s capital management policies are reasonable and appropriate for their respective businesses
 - I am satisfied that SF’s capital management policy is at least as strong as FIL Life’s capital management policy
- 6.7.4. Taking into account the considerations set out in this section, in my opinion the Transfer will not have a materially adverse effect on the capital management policy in relation to transferring FIL Life policyholders.

6.8. SF run-off scenario

6.8.1. If the Part VIII Merger does not proceed, it is possible that the SF Main Fund may stop writing new business and enter into run-off. Under such a scenario, the business of SF may eventually be transferred to another insurer, although I consider that it is extremely unlikely that SF opts to transfer any of its other notional sub-funds in isolation to another insurer as I do not believe that it would be either commercially or operationally attractive to do so. In the event that all or part of SF's business were transferred to another insurer in the future, it would be subject to similar regulatory and legal processes that apply to either the Transfer or the Part VIII Merger.

6.9. Conclusions

6.9.1. Based on the analysis set out in this section, I have concluded that:

- The security of benefits for all transferring FIL Life policyholders will not be materially adversely affected by the Transfer
- As the annuities-in-payment are fully reinsured to Hannover Re, the benefits of transferring FIL Life annuitants will not be affected by the Transfer
- The Section 32 unit-linked policyholders will not be materially adversely affected by the Transfer in relation to investment strategy, expenses or charges
- The Transfer will not have a materially adverse effect on the profile of risks to which the transferring FIL Life policyholders will be exposed
- The Transfer will not have a materially adverse effect on the capital management policy in relation to transferring FIL Life policyholders

7. Financial effect of the Transfer on non-transferring FIL Life policyholders

7.1. Overview

7.1.1. In this section, I have considered the financial effect of the Transfer on all non-transferring FIL Life policyholders, specifically, all non-transferring unit-linked policyholders.

7.1.2. I have assessed the impact of the Transfer on all such policyholders in terms of:

- Security of benefits
- Investment strategy
- Expenses and charges
- Benefit expectations and levels of premiums payable

7.2. Security of benefits

7.2.1. My analysis in section 5.2 indicates that the Transfer will not have a material adverse effect on the UK Solvency II Pillar 1 financial position of FIL Life, with only minimal impact on its Surplus and SCR Coverage Ratio. In particular, FIL Life's Surplus is expected to fall from £99.4m to £98.7m, and its SCR Coverage Ratio from 191.1% to 190.8% (on a Pre-Funding basis).

7.2.2. The relatively small size of the Transferring Business from FIL Life compared with the remaining business is such that the Transfer will not have a materially adverse impact on the wider considerations of FIL Life's solvency and on the security for non-transferring policyholders. In particular, the Transferring Business accounted for c. 5.2% of FIL Life's current business by policy number as at 30 June 2025.

7.2.3. When considering the financial security of benefits, it is also instructive to consider FIL Life's capital management policy, which is discussed further in section 7.7 below.

7.2.4. Based on these factors, it is my opinion that the security of benefits for non-transferring FIL Life policyholders will not be materially adversely affected by the Transfer.

7.3. Investment strategy

7.3.1. The Transfer of the Section 32 unit-linked business and the annuity-in-payment business is not expected to alter the investment profile of non-transferring policies.

7.3.2. Therefore, in my opinion, the Transfer will not have a materially adverse impact on non-transferring FIL Life policyholders in relation to investment strategy.

7.4. Expenses and charges

- 7.4.1. The transfer of the Section 32 unit-linked business will not impact the expenses and charges applicable to, or unit-pricing of, funds available to non-transferring policyholders.
- 7.4.2. Similarly, the transfer of the annuity-in-payment business will not impact the expenses and charges applicable to non-transferring policyholders.
- 7.4.3. Therefore, in my opinion, non-transferring FIL Life policyholders will not be materially adversely affected by the Transfer in relation to expenses and charges.

7.5. Benefit expectations

- 7.5.1. The transfer of the Section 32 unit-linked policies will not impact the choice or operation of unit-linked funds available to non-transferring policyholders, and will not impact the level of premiums payable on non-transferring policies or on future unit-linked policies written by FIL Life.
- 7.5.2. The transfer of the annuity business will have no impact on the benefit expectations of non-transferring policyholders as this annuity business is fully-reinsured and managed quite separately within FIL Life.
- 7.5.3. Therefore, in my opinion, the Transfer will not have a materially adverse impact on non-transferring FIL Life policyholders in relation to benefit expectations.

7.6. Risk profile

7.6.1. FIL Life's current risk profile is as follows:

7.6.2. The following table details the impact of the Transfer on the components of the Pre-Funding basis UK Solvency II Pillar 1 diversified SCR for FIL Life as at 30 June 2025:

£m	Pre-Transfer (Pre-Funding Basis)	Pro-Forma Post-Transfer (Pre-Funding Basis)	Impact of Transfer	Impact of Transfer (%)
Market risk	6.8	6.2	(0.6)	(8.8)
Counterparty default risk	86.0	85.9	(0.1)	(0.1)
Life underwriting risk	2.1	1.9	(0.2)	(9.5)
Diversification benefits	(6.4)	(5.8)	0.6	(9.4)
Basic SCR	88.5	88.2	(0.3)	(0.3)
Operational risk	20.6	20.6	(0.0)	(0.0)
SCR	109.1	108.8	(0.3)	(0.3)

Source: FIL Life Chief Actuary Report on the Transfer

- 7.6.3. I present my findings with respect to the above table in paragraphs 7.6.4 to 7.6.7 below.
- 7.6.4. The impact of the Transfer on FIL Life’s capital requirements is minimal, with an overall reduction in diversified SCR of 0.3%.
- 7.6.5. The diversified SCR risk component which will see the largest impact in percentage terms is life underwriting risk, with a 9.5% (£0.2m) reduction post-Transfer. This is due to FIL Life’s exposure to the components of life underwriting risk (including lapse risk, for example) falling as the Section 32 unit-linked business is transferred out of the business.
- 7.6.6. Market risk will see an 8.8% (£0.6m) reduction post-Transfer. This is due to the present value of future profits arising from the unit-linked business being lower post-Transfer, and hence the impact of a market shock is reduced.
- 7.6.7. Counterparty default risk as a component of diversified SCR reduces by 0.1% (£0.1m) post-Transfer, whilst operational risk will remain unchanged.
- 7.6.8. The following table details the impact of the Transfer on the components of the Pre-Funding basis UK Solvency II Pillar 1 undiversified SCR for FIL Life as at 30 June 2025, where each risk type is expressed as a proportion SCR:

Proportion of total undiversified SCR	Pre-Transfer (Pre-Funding Basis)	Pro-Forma Post-Transfer (Pre-Funding Basis)
Market risk	5.9%	5.4%
Counterparty default risk	74.5%	75.0%
Life underwriting risk	1.8%	1.7%
Operational risk	17.8%	18.0%

Source: FIL Life Chief Actuary Report on the Transfer

- 7.6.9. The above table shows that:
- Counterparty default and operational risk are currently the largest risk components for FIL Life, making up 74.5% and 17.8% of its undiversified Pillar 1 SCR as at 30 June 2025, respectively
 - The remaining components of its undiversified Pillar 1 SCR are market and life underwriting risk, accounting for 5.9% and 1.8%, respectively
- 7.6.10. Taking into account the considerations set out in this section, in my opinion, the Transfer will not have a materially adverse effect on the risk profile of FIL Life.

7.7. Capital management policy

- 7.7.1. FIL Life maintains a capital management policy which aims to ensure the company maintains sufficient capital to readily absorb its material risks as well as meeting regulatory requirements.
- 7.7.2. I present my observations with respect to FIL Life’s capital management policy in paragraphs 7.7.3 to 7.7.8 below.

- 7.7.3. The SCR is calculated in line with the UK Solvency II Standard Formula, and is calibrated to ensure the company's resilience against a 1-in-200-year adverse event or combination of adverse events.
- 7.7.4. No use is made of any of the possible UK Solvency II measures to hold lower liabilities (including the TMTP, MA or VA).
- 7.7.5. In addition to the regulatory solvency capital requirements, additional capital is maintained in relation to the FIL Life Master Trust, through which some of FIL Life's business is written.
- 7.7.6. In practice, FIL Life seeks to maintain capital above an amber trigger level of 135% of the SCR plus the additional Master Trust capital requirement. If the SCR plus the Master Trust capital falls below this level, Management and the Board must be notified and a plan for rectification produced. If this coverage ratio were to further fall below a red trigger level of 122%, FIL Life must inform the Trustees of the Master Trust and escalate to Management and the Board prior to reporting to the regulator. As at 30 June 2025, the SCR Coverage Ratio was 191.1% on a Pre-Funding basis. I note that the Transferring Business is not in any way connected with the Master Trust.
- 7.7.7. FIL Life also monitors capital coverage on a Pillar 2 basis, and has confirmed to me that the impact of the Transfer on the Pillar 2 solvency position is similar to the Pillar 1 impact, as discussed in section 5.4.
- 7.7.8. There are no expected changes to FIL Life's capital management policy as a result of the Transfer.
- 7.7.9. Taking into account the considerations set out in this section, and the fact that the Transfer does not have a significant impact on FIL Life's SCR Coverage Ratio, in my opinion, the Transfer will not have a materially adverse effect on FIL Life's capital management policy or FIL Life's ability to adhere to its capital management policy, in relation to non-transferring FIL Life policyholders.

7.8. Conclusions

- 7.8.1. Based on the analysis set out in this section, I have concluded that:
- The security of benefits for all non-transferring FIL Life policyholders will not be materially adversely affected by the Transfer
 - The level of premiums payable for all policies will not be affected by the Transfer
 - Non-transferring FIL Life unit-linked policyholders will not be adversely affected by the Transfer in relation to investment strategy or expenses and charges
 - The Transfer will not have a materially adverse effect on the profile of risks to which the non-transferring FIL Life policyholders will be exposed
 - The Transfer will not have a materially adverse effect on the capital management policy in relation to non-transferring FIL Life policyholders

8. Financial effect of the Transfer on existing SF policyholders

8.1. Overview

- 8.1.1. In this section, I have considered the financial effect of the Transfer on all existing SF policyholders within the SF Main Fund and the notional sub-funds, including with-profits, non-profit, and unit-linked policyholders.
- 8.1.2. I have assessed the impact of the Transfer on all such policyholders in terms of:
- Security of benefits
 - Investment strategy
 - Expenses and charges
 - Benefit expectations, levels of premiums payable and bonus prospects

8.2. Security of benefits

- 8.2.1. As shown in section 5.3, the Transfer is expected to result in a reduction in SF's SCR Coverage Ratio on a Pillar 1 basis, in particular, from 226.0% to 179.1%. Despite this reduction, and based on the 30 June 2025 position, SF expects to be comfortably solvent on a Pillar 1 basis post-Transfer, and to hold an excess of £69.3m over the regulatory capital requirement. The Transfer is not expected to have a material adverse effect on SF's overall financial position.
- 8.2.2. Furthermore, additional management actions can be taken to improve SF's solvency position if required. However, as SF is expected to be comfortably solvent post-Transfer, I consider the likelihood of it requiring additional capital support to be extremely unlikely.
- 8.2.3. In particular, the SCR Coverage Ratio of the SF Main Fund will reduce post-Transfer. However, the SF Main Fund Own Funds is expected to remain comfortably in excess of the SCR for the fund. Further, the absolute level of the SF Main Fund Own Funds is expected to increase. Nevertheless, it should be noted that whereas capital support for the Transferring Business is currently provided by FIL Life's shareholders, any capital support for the Transferring Business post-Transfer would be provided by the SF Main Fund and, as SF is a mutual friendly society without shareholders, any provision of capital support would be subject to a balanced consideration of the different groups of policyholders.
- 8.2.4. As part of SF's due diligence in relation to the Transfer, the potential impact of a range of scenarios on the SF Main Fund Pillar 2 solvency ratio has been considered, including:
- Combined economic and demographic shock
 - Persistent inflation and increase in interest rates
 - High profile operational failure
 - Demographic mis-estimation
 - Counterparty downgrade following increase in mortality

- 8.2.5. I have reviewed these scenarios and consider them to be reasonable and appropriate for SF's business profile. Under all the scenarios tested, the SF Main Fund remained comfortably solvent with the most extreme adverse scenario tested resulting in the SF Main Fund's projected Pillar 2 solvency ratio being 25 percentage points lower than the base case.
- 8.2.6. In my opinion, in the unlikely event that the Transferring Business requires capital support, the SF Main Fund has sufficient financial capacity to provide the required support without materially adversely affecting the benefit security of the existing SF Main Fund policyholders, including with-profits, non-profit and unit-linked policyholders.
- 8.2.7. With respect to the impact of the Transfer on the benefit security of existing SF sub-fund policyholders, as the assets and liabilities of the M&GM, Scottish Legal, and Manulife notional sub-funds are ring-fenced, the benefit security of policies within those funds will not be directly affected by the Transfer. To the extent that the notional sub-funds potentially have access to capital support from the SF Main Fund, the Transfer could, in theory, result in a reduction in the strength of that capital support.
- 8.2.8. However, taking into account the expectation that the SF Main Fund will be comfortably solvent post-Transfer, and that all notional sub-funds are currently comfortably solvent on a standalone basis, in my opinion, the Transfer will not materially adversely affect the benefit security of existing SF sub-fund policyholders.
- 8.2.9. Lastly, when considering the financial security of existing SF policyholder benefits, it is instructive to consider SF's capital management policy, which is discussed further in section 8.7 below.
- 8.2.10. Taking into account the considerations set out above, in my opinion, the Transfer will not have a material adverse effect on the security of benefits of existing SF Main Fund or sub-fund policyholders, including with-profits, non-profit and unit-linked policyholders. Moreover, the Transfer should benefit the existing SF Main Fund with-profits policyholders to the extent that the profits arising due to the Transferring Business are expected to increase benefit security.

8.3. Investment strategy

- 8.3.1. SF currently considers the investment policy separately for the SF Main Fund and each of the notional sub-funds. The transfer of the Transferring Business to the SF Main Fund is not expected to alter the investment profile of the SF Main Fund.
- 8.3.2. Since the Transfer will not have a materially adverse impact on SF's financial position, it will not necessitate an immediate direct change in investment strategy.
- 8.3.3. The SF WPA has noted in his report on the Transfer that SF's exposure to market risk is expected to increase post-Transfer, as outlined below in section 8.6, which may impact future investment strategy decision making. He has further stated that in the event of a future market stress, SF's solvency position may deteriorate and reach the agreed trigger level earlier than would have been the case due to the additional market risk exposure. However, if such trigger level is reached, I consider a market stress of a sufficient magnitude to create these adverse impacts to be extremely unlikely, and additional management actions can be taken in accordance with SF's capital management policy to restore the solvency position.

- 8.3.4. Taking into account the considerations set out above, in my opinion, the Transfer is unlikely to have a materially adverse impact on existing SF Main Fund or sub-fund policyholders, including with-profits, non-profit and unit-linked policyholders, in terms of investment strategy.

8.4. Expenses and charges

- 8.4.1. In my considerations as set out in this section and the section below, I have taken into account the relevant provisions of the FCA's Conduct of Business Sourcebook ("**COBS**"), including in particular COBS 20.2.28 (which relates to effecting new contracts in an existing with-profits fund) and COBS 20.2.60 (which relates to the fair distribution and emergence of future profits from non profit business within a with-profits fund).
- 8.4.2. Direct costs associated with the Transfer are not expected to have an impact on policyholder benefits. While the costs borne by SF, detailed in section 1.3, will be met from the estate of the SF Main Fund, those costs have been allowed for in full in the pricing of the acquisition, such that an acceptable rate of return is expected to be achieved for SF members on the investment.
- 8.4.3. The charges applicable to each of the notional sub-funds are fixed in line with the relevant court schemes that effected the transfer of such policies to SF. The Transfer will therefore have no impact on expenses and charges with respect to policyholders in each of such notional sub-funds operated by SF.
- 8.4.4. The Transfer will not result in a change to the unit-pricing methodologies or the level of charges on unit-linked funds held by existing SF policyholders.
- 8.4.5. With respect to existing SF with-profits policyholders specifically, there will be no change to expense allocation or policy charges as a result of the Transfer.
- 8.4.6. Taking into account the considerations as set out above, in my opinion, the Transfer is unlikely to have a materially adverse impact on expense charges for existing SF Main and sub-fund policyholders, including with-profits, non-profit and unit-linked policyholders, relative to the scenario in absence of the Transfer.

8.5. Benefit expectations and bonus prospects

- 8.5.1. The terms and conditions of existing SF policies, the level of premiums payable on existing SF policies, and the range of unit-linked funds available to existing SF policyholders will be unaffected by the Transfer.
- 8.5.2. With respect to existing SF with-profits policyholders specifically, each year there is an assessment made of profits emerging in the SF Main Fund. Currently, a share of these profits is distributed to eligible policyholders by means of enhancing the investment returns applied to asset shares, as noted in section 3.2.10. The methodology of determining annual bonuses is not expected to change as a result of the Transfer. Indeed, any additional profit arising due to the Transferring Business will be included in the surplus assessment going forward, which supports the level of profit share distributions to eligible SF Main Fund with-profits policyholders.

- 8.5.3. Furthermore, SF maintains a With-Profits Committee (“**WPC**”) and a With-Profits Approval Committee (“**WPAC**”) to oversee its with-profits business, discussed further in section 9.3.8. In my experience of with-profits governance and based on the information that I have reviewed in relation to these committees, I am satisfied that they provide an appropriate level of oversight. In particular, they act as a safeguard against any subsequent change in approach to the distribution of profits, the determination of bonuses, or the treatment of with-profits policyholders that could otherwise act to the detriment of existing SF with-profits policyholders.
- 8.5.4. Taking into account these considerations, in my opinion, the Transfer will not have a materially adverse effect on the benefit expectations of existing SF Main Fund and sub-fund policyholders, including with-profits, non-profit and unit-linked policyholders.

8.6. Risk profile

- 8.6.1. I present my observations with respect to SF’s current risk profile in paragraphs 8.6.2 to 8.6.5 below.
- 8.6.2. Market risk and life underwriting risk are currently the largest risk categories for SF, comprising 48.9% and 32.8% of its Pillar 1 undiversified SCR as at 30 June 2025, respectively.
- 8.6.3. The remaining components of its undiversified Pillar 1 SCR are counterparty default, health underwriting and operational risk.
- 8.6.4. The SF Main Fund bears the most risks in the business, compared with the notional sub-funds. Consistent with the overall SF risk profile, life underwriting and market risk are currently the largest risk categories, comprising 31.7% and 49.7% of the SF Main Fund undiversified Pillar 1 SCR as at 30 June 2025, respectively. That said, my analysis of the security of SF policyholder benefits (as shown in section 8.2) indicates that the SF Main Fund was strongly capitalised as at 30 June 2025. The transferring Section 32 business will sit in the SF Main Fund. This will result in a substantial increase in the size of the SF Main Fund, and consequently a 39.7% increase in SF’s Pillar 1 SCR from £62.7m to £87.6m, as at 30 June 2025.
- 8.6.5. Each of SF’s notional sub-funds is expected to be self-sufficient, which means that in the normal course of events the notional sub-funds are expected to meet their capital requirements from capital resources within the notional sub-funds themselves, which is reflected in the respective PPFMs. My analysis of the solvency positions indicates that all the notional sub-funds were comfortably capitalised as at 30 June 2025.
- 8.6.6. The following table details the impact of the Transfer on the components of the UK Solvency II Pillar 1 undiversified SCR for SF as at 30 June 2025, where each risk category is expressed as a proportion of SCR:

Proportion of total undiversified SCR	Pro-Forma	
	Pre-Transfer	Post-Transfer
Market risk	32.8%	36.9%
Counterparty default risk	6.8%	5.6%
Life underwriting risk	48.9%	48.4%
Health underwriting risk	1.0%	0.8%
Operational risk	10.5%	8.3%

Source: SF Chief Actuary Report on the Transfer

- 8.6.7. I present my findings with respect to the impact of the Transfer on SF's risk profile in paragraphs 8.6.8 to 8.6.13 below.
- 8.6.8. Market risk and life underwriting risk will remain the dominant risks for SF post-Transfer.
- 8.6.9. As a proportion of Pillar 1 undiversified SCR, market risk will increase from 32.8% to 36.9% post-Transfer. This increase is mainly driven by higher equity risk post-Transfer.
- 8.6.10. Life underwriting risk will decrease slightly from 48.9% to 48.4% post-Transfer, as a proportion of Pillar 1 undiversified SCR. The main component of life underwriting risk in this context is lapse risk, that is, policyholders remaining in force for a shorter period of time than anticipated, which consequently means SF would earn a lower future charge income.
- 8.6.11. Although the proportion of Pillar 1 undiversified SCR accounted for by counterparty default risk will decrease from 6.8% to 5.6% post-Transfer, there will be a small increase in absolute terms due to the transferring reinsurance arrangement with Hannover Re covering the annuities-in-payment. I note that SF already has a much larger annuity book (the majority of which is also externally reinsured), and as a result, the small book of transferring annuities (gross BEL of £6.4m) does not change SF's risk profile in a material manner. Further, SF has noted that if Hannover Re were to default on its liabilities, the annuity claims could be supported from the SF Main Fund with no material impact on the overall solvency position.
- 8.6.12. As a proportion of Pillar 1 undiversified SCR, operational risk will decrease from 10.5% to 8.3% post-Transfer, and will remain the same in absolute terms immediately after the Transfer. This is because the operational risk capital requirement for SF under the UK Solvency II Standard Formula is primarily calculated based on earned premiums. As there is no premium income arising from the Transferring Business post-Transfer, the operational risk component of SF's Pillar 1 SCR does not increase as a result of the Transfer. There is a further component of the operational risk capital requirement related to expenses incurred in relation to unit-linked business which would increase over time after the Transfer as a result of expenses associated with the Transferring Business, but I consider this to be immaterial for the purpose of my analysis.
- 8.6.13. The operational risk associated with the Transfer is discussed in further detail in section 9.2 below.
- 8.6.14. Health underwriting risk as a proportion of Pillar 1 undiversified SCR will decrease slightly post-Transfer, from 1.0% to 0.8%, given that there is no health underwriting risk associated with the Transferring Business.
- 8.6.15. In my opinion, taking into account the considerations set out in this section, the Transfer will not have a material adverse effect on SF's risk profile.

8.7. Capital management policy

- 8.7.1. SF's Financial and Capital Management Framework sets out the circumstances under which management would take actions to improve the solvency position, and the range of actions available. It is used on a day-to-day basis to guide the management of the business in the deployment of capital, and ensures consistency with the business's overall risk appetite.
- 8.7.2. I present my observations with respect to SF's capital management policy in paragraphs 8.7.3 to 8.7.12 below.

- 8.7.3. Similar to FIL Life, the Pillar 1 SCR is calculated in line with the UK Solvency II Standard Formula, and is calibrated to ensure the company's resilience against a 1-in-200-year adverse event or combination of events.
- 8.7.4. No use is made of any of the possible UK Solvency II measures to hold lower liabilities (including the TMTP, MA, or VA).
- 8.7.5. SF's Pillar 1 capital coverages are currently calibrated to a tolerance of 130% and a trigger point of 150%, below which SF would consider options to restore its solvency position.
- 8.7.6. SF also monitors capital coverage on a Pillar 2 basis, set to withstand a 1-in-20-year shock. The Pillar 2 capital coverages for the SF Main Fund are currently calibrated to a tolerance of 130% and a trigger point of 160%.
- 8.7.7. The tolerance and trigger levels referenced above were approved by the SF Board in June 2025 and account for the economic risks of the Transferring Business to which SF is exposed in the period prior to the Effective Date. It is therefore my opinion that it is appropriate to use these tolerances and trigger points in my assessment of the post-Transfer position.
- 8.7.8. The lower Pillar 1 trigger level, relative to the SF Main Fund Pillar 2 trigger level, reflects ring-fencing requirements for notional sub-funds that apply under Pillar 1, which also means that SF's Pillar 1 SCR Coverage Ratio is less volatile compared with its Pillar 2 solvency ratio.
- 8.7.9. Triggers and tolerances have also been established for each of the notional sub-funds.
- 8.7.10. The SF Chief Actuary has stated in his report on the Transfer that, as at 30 June 2025, the Pillar 2 solvency ratio was higher than the corresponding Pillar 1 SCR Coverage Ratio. I understand that this is expected to continue to be the case for the foreseeable future.
- 8.7.11. The impact of the Transfer on SF's Pillar 2 solvency position is similar to the Pillar 1 impact, with underlying drivers consistent across both bases (see section 5.3 for further details). The SF Chief Actuary further indicated in his Report on the Transfer that, based on the position as at 30 June 2025, the post-Transfer Pillar 2 ratio would be comfortably in excess of the Pillar 2 trigger level of 160%.
- 8.7.12. In addition, there are seven quantitative scenarios examined in the 2024 ORSA which look at the solvency capital ratio under a Pillar 1 basis for SF, and on a Pillar 2 basis for the SF Main Fund. As the ORSA is not a public document and contains commercially sensitive information I am unable to disclose full details of those scenarios. However, I have had a discussion with SF's Chief Actuary and CRO on the process and governance around the choice of scenarios, the assumptions underlying those scenarios, the challenge from the Board and what mitigating actions, if any, SF would take to recover the Pillar 2 solvency capital ratio above 160% (for example, making changes to investment strategy). I am satisfied there is an appropriate process involving the senior executives, Board Risk Committee and full Board to allow challenge of the choice of scenarios and assumptions and in particular, ample opportunity to discuss any use of mitigating actions.
- 8.7.13. Taking into account the considerations set out in this section, in my opinion the Transfer will not change the capital management policy in the SF Main Fund or any of the notional sub-funds or have an adverse effect on SF's ability to meet its capital management policy, in relation to existing SF policyholders.

8.8. Conclusions

8.8.1. Based on the analysis set out in this section, I have concluded that:

- The security of benefits for all SF policyholders will not be materially adversely affected by the Transfer
- SF policyholders will not be materially adversely affected by the Transfer in relation to investment strategy
- The level of premiums payable for all policies will not be affected by the Transfer
- SF policyholders will not be adversely affected by the Transfer in relation to expenses and charges
- Due to the guaranteed nature of the benefits of non-profit business, the benefits of SF non-profit policies will not be affected by the Transfer
- The Transfer will not have a material adverse effect on the profile of risks to which SF policyholders will be exposed
- The Transfer will not have a material adverse effect on the capital management policy in relation to SF policyholders

9. Administration and governance

9.1. Overview

9.1.1. In this section, I consider the administrative and governance arrangements that will be in place following the Transfer, with respect to transferring FIL Life and existing SF policies, as well as non-transferring FIL Life policies. My review focuses on the assessment of whether adequate provisions have been made under the terms of the Transfer:

- To mitigate any possible risk of deterioration in standards of service experienced by transferring FIL Life and existing SF policyholders, as well as non-transferring FIL Life policyholders post-Transfer
- To ensure adequate protections are in place so that the Transfer operates as presented
- To consider whether sufficient safeguards are in place against a subsequent change of approach that could act to the detriment of any policyholders

9.2. Service levels

9.2.1. The administration of all transferring FIL Life policies will be transferred to SF. There is therefore a risk that both transferring FIL Life and existing SF policyholders could experience adverse changes to service standards following the Transfer as:

- The in-house SF administration team may, at least initially, be somewhat inexperienced in administering and have limited knowledge of the transferring FIL Life Section 32 unit-linked policies for which drawdown functionality is required, given that drawdown is currently outside of SF's offering
- SF may seek to minimise the costs associated with the administration of transferring FIL Life policies, which could also have a detrimental effect on the servicing of all SF policies

9.2.2. As part of my investigations into the quality of SF's service capabilities and its ability to manage the transition as part of the Transfer, I have conducted interviews with several members of SF senior management, including the Chief Operating Officer ("**COO**"). I present my observations based on these interviews in paragraphs 9.2.3 to 9.2.19 below.

Operational Capability

9.2.3. SF currently has approximately 1.3m policies in force.

9.2.4. The Transfer will involve SF taking over the administration of approximately 38,000 Section 32 policies.

9.2.5. SF has conducted extensive operational due diligence on FIL Life's product suite, having collaborated closely with FIL Life to understand the different products and verify the completeness of data.

9.2.6. Following the Transfer, the administration of transferring Section 32 policies will be migrated onto SF's insurance administration platform, Sonata, which is currently adopted by SF for the vast majority of its existing business:

- Whilst I am not an expert in insurance administrative systems, I have undertaken due diligence and consulted with colleagues who are experts in this field and I understand that Sonata is a well-respected IT system which is currently used by several significant insurers in the UK, with a reputation for strong

scalability and adaptability. I also understand that a number of UK insurers have completed successful data migrations to Sonata in recent years.

- SF completed a Sonata upgrade project in 2024, which provides a strong foundational basis for the planned migration of transferring policies
- SF has identified Sonata as a suitable platform for offering the drawdown product, and has been working with external outsourcing partners, including the provider of the Sonata system and a UK expert in Sonata migrations, to configure Sonata as the core system for the drawdown product. As part of the policy administration system selection process, SF engaged a third-party consultancy to assess the costs and benefits of alternative systems. SF ultimately deemed Sonata to be the best choice for the business's needs.

9.2.7. However, there is a possibility that SF may change administration platforms or service providers in the future, for example if alternatives were to better align with the company's broader offering. At the time of writing the Report, no such changes are anticipated as part of the Transfer. Further, given the level of governance and oversight maintained within SF, as discussed in section 9.3, I consider there be sufficient policyholder protections in place to prevent a material impact.

Drawdown Functionality

9.2.8. In anticipation of potential risks and skills gaps associated with offering the drawdown functionality to certain transferring policyholders, SF has recently hired individuals with specific drawdown knowledge, in particular, from an IT systems perspective. Further, SF plans to provide training and conduct further recruitment over the next 12 months to ensure that SF has the appropriate skillset for such policies. The SF COO has confirmed to me that the drawdown knowledge base has expanded significantly in recent months, establishing SF's operational readiness to offer drawdown functionality to transferring policyholders.

9.2.9. I also understand from the SF COO that no material findings or issues have been raised by a third-party expert in digital transformation, engaged as part of the second-line assurance process, in relation to drawdown system configuration and customer servicing, indicating positive progress towards drawdown readiness.

9.2.10. Furthermore, the Transfer of the Section 32 unit-linked business in particular, which includes those policies for which a drawdown functionality is provided, aligns with and supports SF's wider ambitions to develop and enhance its own-brand pension offering, including an income drawdown product.

9.2.11. Following discussions with SF's senior management I am satisfied that adequate plans are in place to mitigate any potential risks associated with the administration and management of the transferring drawdown policies. I have also, in reaching this conclusion, taken into account that both FIL Life and SF have recognised and highlighted this area as one of high priority during the knowledge transfer process in the run up to the Transfer. I shall comment further on progress in my Supplementary Report.

Annuities Administration

9.2.12. The administration of the annuities-in-payment is currently outsourced by FIL Life to Hannover Re, who has in turn sub-contracted administration services to Equiniti. The annuities will continue to be outsourced to Hannover Re post-Transfer, with both the existing reinsurance and outsourcing arrangements with Hannover Re transferring to SF. Therefore, I am satisfied that the Transfer will not have a material impact on the service standards applicable to transferring annuitants.

Resourcing

9.2.13. Drawing on the experience of previous transfers, SF anticipates a likely spike in the level of customer interactions for a period in the run up to and after the Transfer due to “woken up” customers prompted by communications relating to the Transfer. To address this, SF is finalising plans to ensure sufficient additional resources are in place post-Transfer to support the ongoing administration of the enlarged business. At the time of writing the Report, SF expects that approximately 10 to 15 additional full-time equivalent employees will be required post-Transfer, who will be onboarded and fully-trained prior to the Effective Date. Internal resourcing capacity will cover some of these roles, and further recruitment to cover the remainder will begin in early 2026. These employees will be dedicated to servicing the Transferring Business, ensuring no impact to existing SF policyholders. I shall comment further on resourcing requirements in my Supplementary Report.

Migration Plan

9.2.14. I have received and reviewed the agreed migration plan which shows that after an initial period of alignment in terms of process and data exchange protocols between FIL Life and SF, good progress is being made and SF is confident that the agreed timetable will be met with no unanticipated timeline shifts. In particular, the client data migration process is now under way. The completion of the data migration process will enable two user acceptance testing cycles to be undertaken in April and June 2026, respectively. Furthermore, there are two readiness rehearsals scheduled for March and June 2026, respectively, after which staff training is scheduled to ensure comfort with the associated processes and procedures. I consider the data migration plan to be comprehensive and robust, with a sufficient time and resources buffer built in to accommodate any unanticipated problems. I also consider the progress made to date to be in line with the plan.

Service Level Standards

- 9.2.15. I have reviewed SF’s current target service level standards for the administration of its business which are expected to apply to the transferring Section 32 policies post-Transfer, and consider them to be in line with the market. I further understand that SF aims to match or exceed FIL Life’s existing service level targets post-Transfer.
- 9.2.16. Further, SF is building a new system and associated processes for the transferring section 32 book, with a ring-fenced team dedicated to work on the transferring policyholders. I have further reviewed SF’s target service levels, its performance relative to the target service levels and its recent experience of customer complaint statistics.

- 9.2.17. In my opinion, SF operates to a high level of service standards and has the necessary experience and ability to manage the transition of transferring FIL Life policies into SF. Further, in my opinion, taking into account factors described in this section, SF will have sufficient resources and IT capability to apply the service level it proposes for the Transfer. I will provide an update in my Supplementary Report with regard to the operational readiness of SF for the Transfer.
- 9.2.18. With respect to non-transferring FIL Life policyholders, the Transfer will not have any direct impact on the administration and servicing of such policies. In the medium- to longer-term, there may be a reduction in the workload of the relevant teams within FIL Life and its inter-group outsourcer companies. However, there will be some additional work in the nearer term in implementing the Transfer and in staffing customer helplines (for both transferring and non-transferring FIL Life policyholders). I consider the level of resourcing within FIL Life to deal with such activities to be sufficient, such that there will be no material adverse effect on non-transferring FIL Life policyholders in terms of service levels.

Pension Guidance Services

- 9.2.19. FIL Life currently provides a telephone based pension retirement guidance service to Section 32 policyholders to assist with their retirement options. Post-Transfer, SF will offer the Section 32 policyholders an online guidance service as part of a multi channel retirement journey support that includes additional telephone support by SF. The availability of this telephone support will be clearly signposted throughout the online guidance process.
- 9.2.20. In addition, policyholders who prefer telephone based guidance post-Transfer will be directed to Pension Wise (a UK-government backed service offering free, impartial pension guidance, either by telephone or face-to-face). Under such circumstances, SF will offer the option of Pension Wise appointment booking support to policyholders.
- 9.2.21. I have compared FIL Life's and SF's respective retirement guidance approaches and summarise my findings below:
- Both FIL Life and SF provide pre-retirement "wake up" packs by post at scheduled points as well as on request. The "wake up" packs cover available options, details of how to access guidance, open market options statements and retirement risk warnings
 - SF's wake up pack directs policyholders to its online retirement guidance tool, but also points to the Money and Pension Service and the Pension Wise service, as well as availability of SF's telephone support. This contrasts to FIL Life's current approach of mandating telephone guidance prior to policyholders accessing their benefits
 - SF strongly encourages (but does not require) policyholders to obtain guidance (either online or via Pension Wise) prior to accessing their benefits, in the interest of not introducing unreasonable barriers to policyholders accessing their benefits
 - SF's online guidance tool is designed to support vulnerable customers, and aligns closely with Web Content Accessibility Guidelines (WCAG) standards, which is an international standard for making web content accessible to people with disabilities. In addition, call handling staff of both FIL Life and SF are trained to identify and provide additional support to customers with characteristics of vulnerability.
 - SF will regularly monitor management information on online guidance usage, drop-offs and decision-making, which forms part of its quarterly Good Customer Outcome management information.

Immediately after the Transfer, SF will place additional focus on this to ensure early visibility of any emerging trends

- Both FIL Life and SF provide paper-based risk warnings and all policyholders must return signed declarations to ensure understanding prior to execution of benefit choices. FIL Life provides the option of digitally signing declarations or by post, whereas SF requires signed declarations by post only
- FIL Life has recently migrated to an online guidance approach (which is similar to SF's approach) for some of their other pensions products, and is in the process of extending this to all pensions products as part of a phased rollout

9.2.22. I have compared FIL Life's telephone guidance service and the Pension Wise telephone guidance service and summarise my findings below:

- Both services provide consistent topic coverage (including when policyholders can access their benefits, ways to access pension benefits, ways each option is taxed and how to avoid scams)
- Both services are delivered by trained specialists
- Calls under both services last a similar amount of time (up to 60 minutes)
- FIL Life has the policyholder information on screen during the call, whereas with Pension Wise, the policyholder will be required to provide the information. I do not consider this difference to adversely affect a policyholder's ability to receive appropriate guidance
- Pension Wise offer a video call service whereas FIL Life's service is voice only
- Pension Wise appointments can be booked online and the specialist calls the policyholder directly, whereas the policyholder calls FIL Life's specialist team for the service

9.2.23. Taking into account the points outlined in 9.2.21 and 9.2.22, I do not consider the absence of insurer provided telephone guidance service post Transfer to materially adversely affect the transferring Section 32 policyholders. In arriving at this conclusion, I have taken into consideration, inter alia, the availability of telephone support by SF at any time during the online guidance journey, the availability of the Pension Wise telephone guidance service as an alternative to online guidance and FIL Life's likely eventual roll out of the online guidance approach for the Section 32 policyholders in the absence of the Transfer.

9.2.24. Overall, it is my opinion that adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in service standards being experienced by transferring FIL Life and existing SF policyholders, as well by as non-transferring FIL Life policyholders, following the Transfer. I shall comment further on progress in my Supplementary Report.

9.3. Governance of policies

9.3.1. The transferring and non-transferring FIL Life policies are currently subject to oversight by an Independent Governance Committee ("**IGC**") at FIL Life. Following the Transfer, non-transferring FIL Life policies will continue to be overseen by the IGC.

- 9.3.2. Transferring Section 32 FIL Life policies, however, will be overseen by SF's Governance Advisory Arrangement ("**GAA**"), which will also continue to oversee existing SF policies. 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.
- 9.3.3. While the governance structure will change, the scope of oversight, degree of responsibility and level of independence are very similar between the FIL Life IGC and the SF GAA (which is provided by a specialist provider of independent governance services to UK pension arrangements).
- 9.3.4. I have further compared the respective Terms of Reference between the FIL Life IGC and the SF GAA and found them to be very alike. In particular, the areas covered within the Value for Money assessment requirements were both found to be equally comprehensive and granular. Therefore, I am satisfied that there will be no material difference to the level of independent oversight provided to transferring FIL Life policies and existing SF policies.
- 9.3.5. SF's foundation of membership is a Delegate-based system of governance, which is common amongst friendly societies. Therefore, SF is structured such that its members elect Delegates who are responsible for representing the interests of all of the members to the Board. Delegates are members that are elected in accordance with rules outlined in the Memorandum and Rules of SF, which also details the powers and responsibilities of Delegates to represent the interests of the membership.
- 9.3.6. SF is managed by its Board in accordance with its Memorandum and Rules. The Board meets with Delegates annually at Annual General Meetings ("**AGMs**"), where the Delegates put forward the views of the members that they represent. There is also a legislative requirement of SF that transfers of engagements into SF, including insurance business transfers under Part VII of FSMA must be approved by the Delegates on behalf of all SF members. If the Delegates were to vote against the Transfer, it would not proceed. In my opinion, the Delegate-based system of governance will adequately protect the interests of existing SF policyholders.
- 9.3.7. In addition, as a member of the Association of Financial Mutuals ("**AFM**"), SF reports annually on the AFM Corporate Governance Code for Mutual Insurers, whilst also adopting the relevant best practice from the 2018 UK Corporate Governance Code, to ensure best practice in corporate governance.
- 9.3.8. As part of SF's broader governance structure, it operates an internal control system for managing and mitigating risk. I present a summary in paragraphs 9.3.9 to 9.3.15 below.
- 9.3.9. The Board has overall responsibility for risk management and implementing strategic controls, as well as setting the strategic framework and objectives. It delegates a number of responsibilities and powers to the SF CEO (and by them onto the Executive Management and other members of SF's staff) and to Board Committees. The powers retained by the Board, and those delegated to the SF CEO and to Board Committees, are reviewed at least annually by the Board.
- 9.3.10. Board committees such as the Risk Committee, the Audit Committee, the WPC and the WPAC have been established and appropriate powers have been given to them. The committees and control functions of SF are responsible for providing ongoing oversight and challenge of the risk exposures and internal control environment. In particular:
- The Risk Committee provides focused support and advice on risk governance, assisting the Board in reviewing the systems for managing corporate risks

- The Audit Committee reviews SF’s internal control systems and ensures that they continue to be effective. It also advises the Risk Committee in relation to the effectiveness of the current control framework.
 - The purpose of the WPC is to assess, report on and provide clear advice and (where appropriate) recommendations to the Board or the WPAC in any matter that impacts with-profits policyholders, for example in relation to the determination of bonus rates to be applied to the with-profits business.
 - The WPAC was established in 2024 to support the Board in the consideration of certain delegated matters relating to the management of with-profits policies and to discharge certain aspects of the Board’s responsibilities as set out in the FCA’s COBS.
- 9.3.11. SF has an Executive Risk Committee (“**ERC**”), chaired by the CRO, which serves as the primary forum for executive oversight and challenge of the risk and control environment across the business.
- 9.3.12. Executive Risk Owners are responsible for identifying, managing and monitoring risks within their business areas, including reporting any risk appetite breaches. They may delegate aspects of this responsibility where appropriate. Risk management responsibilities are embedded across all employees, with managers ensuring this approach is maintained, and the ERC ensuring effective monitoring.
- 9.3.13. The Risk and Compliance Functions are responsible for the design and oversight of the Risk Management Framework and own the quarterly Risk and Control Self Assessment (“**RCSA**”), amongst other responsibilities.
- 9.3.14. SF’s internal audit function provides independent assurance on the adequacy and effectiveness of SF’s risk and control environment, delivered via a programme of risk-based audits covering all business areas as well as the Risk and Compliance Functions.
- 9.3.15. Overall, in my opinion, the Transfer will not have any material adverse impact on the governance of transferring FIL Life policies, existing SF policies, or non-transferring FIL Life policies. In particular, I am satisfied that SF maintains an effective governance structure, and that the existence of Board committees such as the WPC and the WPAC will ensure that the interests of existing SF with-profits policyholders will be protected post-Transfer.

9.4. FCA Consumer Duty

- 9.4.1. My assessment of Consumer Duty aspects of the Transfer primarily focusses on SF’s ability to continue to comply with Consumer Duty post-Transfer, in relation to both existing SF policies as well as transferring FIL Life policies. As part of this assessment, I have reviewed SF’s latest Annual Consumer Duty Report and compared FIL Life’s and SF’s frameworks with respect to Consumer Duty. In addition, I have focussed on the processes and initiatives SF has implemented to achieve good outcomes for its consumers, in line with the FCA Consumer Duty. I present my findings with respect to Consumer Duty aspects of the Transfer in paragraphs 9.4.2. to 9.4.4 below.

- 9.4.2. From early 2022, SF began focusing on the outcomes of Consumer Duty, and has since dedicated significant resource to improving customer outcomes. A Consumer Duty Programme, sponsored by the Head of Operational Control and Conduct Risk, was implemented by SF, maintaining dedicated resource across the business to deliver the Board-approved Consumer Duty Implementation Plan, which was completed on 31 July 2025. The work done in relation to the SF Consumer Duty Implementation Plan was driven by a cross-functional working group, and identified various actions to improve customer outcomes.
- 9.4.3. Ongoing compliance with the requirements of Consumer Duty is overseen by the SF Board, with day-to-day compliance delegated to relevant Executives. The SF Board formally reviews and agrees an assessment of SF's compliance with Consumer Duty annually, and the progress of key actions and initiatives are monitored by the SF Customer & Conduct Committee.
- 9.4.4. The results of the latest SF customer outcome monitoring exercise assign each of the four Consumer Duty outcomes a Red-Amber-Green ("**RAG**") status, measuring SF's service standards against these outcomes. In particular, the Products and Services, Customer Understanding and Consumer Support outcomes were rated as amber, while Price and Value was rated as green. This indicates that whilst tangible progress has been made to date, there remains some outstanding actions required for SF to improve customer outcomes.
- 9.4.5. Below is an assessment of SF's ability to comply with Consumer Duty post-Transfer drawing on the information presented in previous parts of section 9. This assessment is structured around the four Consumer Duty outcomes.

9.4.6. Products and Services

- As the Transfer introduces no changes in terms and conditions, investment management or servicing provisions related to existing SF policies, it is expected that such policyholders will continue to receive products that meet their needs and objectives
- The terms and conditions of the transferring policies will be unaffected by the Transfer. In particular, the range of unit-linked funds available to Section 32 policyholders will remain unchanged. Therefore, it is expected that such policyholders will continue to receive products that meet their needs and objectives, in particular given that oversight of the transferring policies will be carried out by SF's GAA.
- Further, I understand from FIL Life and SF that there are no mis-selling issues currently faced by either company. However, under the terms of the Framework Agreement, FIL Life will indemnify SF against the cost of any compensation due to mis-selling or administrative errors relating to transferring FIL Life policies (subject to certain time caps and monetary limits). This provides a significant level of protection to existing SF policyholders from the risk of exposure to mis-selling liabilities or liabilities relating to administrative errors incurred by FIL Life prior to the Transfer.

9.4.7. Price and Value

- Existing SF policyholders will not experience any changes to their value proposition, charges, or expense allocations post-Transfer. In particular, existing SF Main Fund with-profits policyholders are expected to ultimately benefit from the profits generated by acquiring the Transferring Business via profit share distributions.
- There will be no change to the level of charges deducted from unit-linked funds held by Section 32 policyholders, nor will there be any changes to any expenses or charges that apply to transferring annuities-in-payment

9.4.8. Consumer Understanding

- No changes to SF's policyholder communications are expected post-Transfer, which is relevant to both existing SF policyholders and transferring FIL Life policyholders. Further, I consider the policyholder communications provided by SF post-Transfer to be comparable to those provided by FIL Life pre-Transfer.
- A detailed communication plan for transferring policyholders is jointly developed and agreed between FIL Life and SF. This plan is discussed in further detail in section 10.

9.4.9. Consumer Support

- Detailed plans are being developed by SF to ensure the enlarged business, including both existing SF policyholders and transferring policyholders, can be supported post-Transfer, as discussed in section 9.2.
- The administration of the annuities-in-payment will remain unchanged, continuing to be outsourced to Hannover Re and its sub-contractors
- Transferring Section 32 policies will migrate onto the existing SF policy administration platform, and SF will utilise and further develop its existing customer portal to deliver the digital functionality that such policyholders currently access at FIL Life
- I have also assessed SF's 2025 Consumer Duty Annual Report to the Board with particular reference to complaints handling. SF has implemented several initiatives during 2024 to improve consumer support, including upskilling Customer Contact Centre employees in proactive resolution. I note that complaints are consistently closed within the regulatory eight-week timeframe, and that a dedicated Quality Assurance team reviews closed cases to ensure good customer outcomes. Taking into consideration the existence of these arrangements, I am satisfied that both existing SF policyholders and transferring FIL Life policyholders should continue to have access to fair and timely complaint resolution post-Transfer.
- Lastly, I have considered SF's capabilities in terms of supporting vulnerable customers. Upon my review, I have found that a focus point for SF going forward is in improving its processes of identifying and assessing vulnerable customers. Taking into consideration such improvement plans, I am satisfied that support to vulnerable consumers should not change materially adversely post-Transfer.

9.4.10. I further note that the FIL Life Chief Actuary is satisfied that SF's overall approach to Consumer Duty is comparable with that of FIL Life, and thus that there will be no material adverse effect on the transferring policyholders from the perspective of Consumer Duty, as stated in the FIL Life Chief Actuary report. In particular, the following points in relation to the transferring policies, which position the application of the Consumer Duty rules to these policies at the more straightforward end of the spectrum:

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

- 9.4.11. Finally I note that FIL Life has embedded the Consumer Duty requirements within its business and the firm's governance framework. This includes, but is not limited to, oversight provided by the FIL Life Board, designated individuals responsible for monitoring specific aspects of the business, and management information dashboards to track performance against defined metrics. FIL Life has defined its own internal outcomes which are mapped to the four Consumer Duty outcomes and monitored as part of a quarterly report to the Board. I am therefore satisfied that there will be no change to FIL Life's approach to Consumer Duty as a result of the Scheme, and consequently no impact on the non-transferring policyholders.
- 9.4.12. I have reviewed SF's overall governance and approach to Consumer Duty, noting in particular that:
- Governance and oversight of good customer outcomes is through the Customer and Conduct Committee and sits within Conduct Risk in the risk universe
 - This is an Executive committee that meets quarterly and is delegated by the Executive to ensure that appropriate action is being taken by the business to deliver good customer outcomes for SF's retail customers. Key duties of the committee are to:
 - Provide oversight in relation to SF's aim of ensuring customers, including those who may be considered vulnerable, do not incur foreseeable harm and receive good outcomes from SF's behaviours and the products and services it provides
 - Review management information and key measures relating to Good Customer Outcomes at each stage of the product lifecycle and customer journey and the action being taken to address any gaps, identified trends or vulnerabilities, to ensure good customer outcomes are being delivered
 - Be satisfied that training and leadership is in place to foster a culture that customers are at the heart of everything Scottish Friendly does and receive good outcomes
 - Support the Conduct Executive Risk Owner in their assessment of the quarterly conduct position against risk appetite
 - The Conduct Risk Executive Risk Owner (role performed by the Head of Compliance and Financial Crime) prepares the Consumer Duty Annual Report for approval
- 9.4.13. Finally, I regard each firm's approach to Consumer Duty to be tailored to its business model, products and customers, and therefore the respective approaches of SF and FIL Life to their implementation of Consumer Duty requirements are not directly comparable given the differences in business model, products and customers.
- 9.4.14. Taking into account the considerations set out in this section, I am satisfied that the Transfer will not have any material adverse effect on SF's ability to comply with FCA Consumer Duty Rules in respect of transferring FIL Life policies and existing SF policies, and that the existing SF and transferring FIL Life policyholders will not experience any material differences in their customer outcomes as a result of the Transfer. However, given that SF is still on a journey to improve the outcomes its customers receive, I will continue to monitor its progress towards these outcomes to enable me to be satisfied to a greater degree that there will be no material adverse effect on policyholders post-Transfer. I will provide further commentary in my Supplementary Report.

9.5. Conclusions

- 9.5.1. Taking into account the provisions as described in this section and my understanding that the existing governance and administrative arrangements for existing SF policyholders will not be materially adversely affected by the Transfer, in my opinion adequate safeguards are in place to ensure that the interests and rights of the policyholders of FIL Life and SF will be protected post-Transfer.

10. Membership rights and policyholder communications

10.1. Membership rights

- 10.1.1. As FIL Life does not confer any membership rights on its policyholders, the Transfer would not result in any loss of membership rights for transferring FIL Life policyholders.
- 10.1.2. As part of the Transfer, all transferring FIL Life policyholders will become members of SF, with rights prescribed in the Memorandum and Rules of SF in respect of such a member, including the right to vote and be elected as a Delegate in accordance with the Rules. This means that transferring FIL Life policyholders who are not currently members will benefit from having gained membership rights in SF.
- 10.1.3. The SF Delegate system provides a further layer of protection for existing SF policyholders. The delegates represent the interests of all members, including existing SF policyholders, to the Board, for example in relation to the exercise of member rights. Therefore, in my opinion, this acts as an additional safeguard against any future changes of approach that could otherwise be detrimental to policyholders.

10.2. Communication to policyholders

- 10.2.1. The FSMA (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (as amended) (the “*Regulations*”) set out the requirements that FIL Life and SF need to comply with regarding the communication strategy with respect to the Transfer. The FCA’s Supervision Manual (the “*SUP*”) sets out further guidance on this area, while the FCA has also provided additional guidance on its approach to insurance business transfers in FG22/1. In this section, I summarise those requirements and set out my opinion on whether FIL Life’s and SF’s plans to meet those requirements are fair and not misleading.
- 10.2.2. SUP18.2.48 sets out guidance relating to the form and content of communication materials and FIL Life and SF intend to fully comply with this guidance. I have reviewed the draft communications plan to transferring FIL Life policyholders with respect to the Transfer and consider that it is reasonable and appropriate. At the time of writing this Report, I have reviewed the draft communications which will be issued to transferring FIL Life policyholders, however, these communications have not yet been finalised. The SF Chief Actuary has stated in his report on the Transfer that these policyholder communications will be reviewed in due course by appropriately trained specialists within FIL Life and SF to ensure they are clear and understandable for policyholders. Furthermore, my summary of this Report will be included in the communications to policyholders in accordance with the SUP. SUP18.2.49 sets out additional requirements relevant to SF in accordance with the Friendly Societies Act 1992. SF intends to fully comply with this guidance.

FIL Life’s waiver application

- 10.2.3. In accordance with paragraph 3(2)(b) of the Regulations, FIL Life intends to submit an application to the Court for a waiver from writing to:
- All non-transferring policyholders
 - Transferring policyholders classified as “goneaways”
 - A goneaway status is applied to an annuity policyholder where FIL Life holds no postal address for the policyholder or correspondence has been sent to the policyholder by post and that correspondence has subsequently been returned

- A goneaway status is applied to a Section 32 policyholder where (i) FIL Life holds no postal address for the policyholder or correspondence has been sent to the policyholder by post and that correspondence has subsequently been returned; and (ii) if the policyholder has not indicated a preference for paper communications, FIL Life has determined that it does not hold a reliable email address for the policyholder

- Transferring policyholders in relation to whom a power of attorney is recorded
- Contingent annuitants
- Trustees in bankruptcy, bankruptcy lawyers, receivers, and administrative receivers
- Former spouses and civil partners
- Executors and personal representatives of deceased policyholders

10.2.4. Also, in accordance with paragraph 3(2)(b) of the Regulations, SF intends to submit an application for a waiver to the requirement to write to each of its individual policyholders, primarily on the basis that appropriate and detailed written communication will be provided to Delegates in a timely manner outlining the nature and expected effect of the Transfer, who themselves represent the interests of all of SF's policyholders.

10.2.5. When considering whether the applications are reasonable and appropriate, I have paid due regard to the following factors which were outlined in the Court judgement in the case of Aviva International Insurance Limited [2011] WEHC 1901 (Ch) as being an appropriate list of criteria to take into account:

- The impossibility of contacting policyholders
- The practicality of contacting policyholders
- The utility of contacting policyholders
- The availability of other information channels through which notice of the application can be made available
- The proportionality of strict compliance
- The impact of collateral commercial concerns
- The object of the Transfer and its likely impact upon policyholders

10.2.6. I have not treated the factors as formal requirements, nor have I attached equal weighting to each factor, but instead have sought to arrive at a balanced view taking into account the set of factors listed. Furthermore, I do not believe that there are any other factors not listed that I consider relevant to my assessment.

10.2.7. I present my findings with respect to FIL Life's application for a waiver from writing to all non-transferring policyholders and transferring policyholders classified as "goneaways" in paragraphs 10.2.8 to 10.2.15 below.

10.2.8. Whilst it is not impossible for FIL Life to write to every non-transferring policyholder for whom it has, or is able to attain, details on its database, the waiver is being sought on the basis of materiality and costs. In particular, the transferring policies constituted only approximately 5% of FIL Life's total policies as at 30 June 2025 and therefore represent only a small proportion of FIL Life's overall business.

- 10.2.9. No goneaways have been identified in respect of annuity policies, and no such goneaways are expected in the future given that FIL Life is actively paying benefits to, and therefore is in regular contact with, the members.
- 10.2.10. As at 24 February 2026, there were 5,220 goneaways in respect of Section 32 policies, representing 14% of transferring FIL Life policyholders who have been issued Section 32 policies as at this date.
- 10.2.11. A 'Track and Trace' programme recently has been implemented by a third-party partner, whereby FIL Life updates its records if there is positive confirmation of a policyholder's postal address. The programme involves first running through an automated tool that attempts to trace the policyholder's address. Where the automated tool was able to link a goneaway to a UK address, a letter was sent asking the policyholder to confirm their details. Those who have responded and confirmed their address are no longer marked as goneaways. Those who did not respond (representing around half of the total goneaways in the Section 32 book at the time) were identified as warranting full investigation with manual attempts to update their details. No further activity was undertaken under the programme for the remaining goneaways that could not be "auto-traced", but they continue to be subject to ongoing "business as usual" track and trace activity.
- 10.2.12. I understand that FIL Life has conducted multiple 'Track and Trace' exercises and all Section 32 goneaways have been subject to at least two manual attempts to update their details (and for some policyholders as many as six attempts). A policyholder remains a goneaway until such a time as a Track and Trace results in a positive confirmation of the policyholder's postal address.
- 10.2.13. In my view, additional efforts to trace these policyholders are unlikely to yield significant success. Further, given the extensive Track and Trace programme, I am satisfied that FIL Life has taken and continues to take sufficient measures to identify goneaway policyholders.
- 10.2.14. I understand that FIL Life intends to dedicate a section of its website to the Transfer, and to set up a dedicated telephone helpline which all FIL Life policyholders can use. This would provide accessible channels of information which are available to interested non-transferring FIL Life policyholders or "goneaways" to obtain further details regarding the Transfer.
- 10.2.15. I have also taken into account my opinion that the Transfer does not materially adversely affect non-transferring FIL Life policyholders (as discussed in section 7).
- 10.2.16. Furthermore, I am not aware of any commercial dependencies arising from the waiver application that should be taken into account in my considerations.
- 10.2.17. It is therefore my view that FIL Life's rationale for the waiver application is sound and appropriate.

SF's waiver application

- 10.2.18. I present my opinion with respect to SF's waiver application in paragraphs 10.2.18 to 10.2.25 below.
- 10.2.19. Whilst it is not impossible for SF to write to every policyholder for whom it has, or is able to attain, details on its database, this waiver is being sought in the context that the utility and proportionality of such notice in view of the negligible impact of the Transfer on existing policyholders and noting the other information channels by which policyholders and other relevant third parties will be informed about the Transfer and be able to make representations.

- 10.2.20. The application for the waiver will be made provided that the delegates are written to in a timely manner outlining the nature and expected effect of the Transfer.
- 10.2.21. The Delegate system is a well-established, tried and tested system of governance within SF (and more generally within the friendly society sector).
- 10.2.22. The powers and responsibilities of Delegates to represent the interests of the membership are enshrined in the Memorandum and Rules of SF. This includes an explicit requirement for all transfers of insurance business to be approved by the Delegates on behalf of all SF members by way of a special resolution.
- 10.2.23. For the most recent completed transfer of certain long-term insurance business to SF, namely from Canada Life, SF adopted the same approach and it was accepted by the Court that it was reasonable to assume that the Delegates will represent the interests of the members of SF with respect to the Transfer, which provides legal precedence that the approach remains appropriate.
- 10.2.24. I understand that SF intends to dedicate a section of its website to the Transfer. This would provide an accessible channel of information which is available to interested SF policyholders to obtain further details regarding the Transfer. Furthermore, in compliance with paragraph 3(2)(a) of the Regulations, notice of the application for the Transfer will be published in appropriate newspapers.
- 10.2.25. I have also taken into account my opinion that the Transfer does not adversely affect existing SF policyholders (as discussed in section 8).
- 10.2.26. Furthermore, I am not aware of any commercial dependencies arising from the waiver application that should be taken into account in my considerations.
- 10.2.27. It is therefore my view that SF's rationale for the waiver application is sound and appropriate.

Objections

- 10.2.28. I further note that any affected policyholder or reinsurer has the right to raise their objections to the Court. I shall consider all objections made in advance of the Court hearing and will report on those objections in my Supplementary Report.

10.3. Conclusions

- 10.3.1. Taking into account the points set out in this section, it is my opinion that FIL Life's and SF's planned communications strategies are reasonable, fair and not misleading.

11. Proposed merger between SF and OneFamily

- 11.1.1. In December 2025, SF agreed Heads of Terms to enter into a merger with Family Assurance Friendly Society Limited ("**OneFamily**"), subject to legal and regulatory processes. Upon the completion of the proposed merger (which is expected to be completed in 2027), all of SF's policies will be transferred via Part VIII of the Friendly Societies Act 1992 to OneFamily and SF will cease to exist as a standalone entity. This will include all the policies acquired from FIL Life as part of the Transfer. I have referred to this proposed merger as the **Part VIII Merger**.
- 11.1.2. I note that the Part VIII Merger will be a separate and distinct legislative process which will be subject to its own regulatory confirmation processes with relevant associated protections provided to policyholders. I further note that under Part VIII of the Friendly Societies Act 1992, a separate **Independent Actuary** is expected in due course to be appointed to produce a report to provide details of and comment on the terms of the proposed merger and set out their opinion on the likely effects of the merger on the affected members and policyholders.
- 11.1.3. The key steps of the process that will apply to the Part VIII Merger, and the relevant associated protections for policyholders (in addition to the expected appointment of a separate Independent Actuary) are set out below:
- SF must produce a statement setting out the terms of the proposed merger (also known as a Schedule 15 statement). The statement would normally contain, inter alia, comparative statements of balance sheets of SF and OneFamily at the same date.
 - The Schedule 15 statement must contain a summary of any Independent Actuary's report, which needs to be clear and concise while containing sufficient detail to enable a recipient to understand in broad terms the likely effect of the proposed merger.
 - SF, as the transferor friendly society, must obtain approval through a special resolution, as voted on by its Delegates
 - OneFamily, as the transferee friendly society, must obtain approval through a special resolution, as voted on by its members (unless it obtains consent from the PRA, in consultation with the FCA, to dispense with this requirement)
 - The PRA (as the appropriate authority), in consultation with the FCA, is required to formally confirm the proposed Part VIII Merger, unless it is precluded from doing so by any of the conditions set out in Schedule 15 of the Friendly Societies Act 1992. The preclusion grounds include a requirement that the PRA is satisfied that the transfer is in the interests of the members of each friendly society participating in the merger
 - Any interested party (including policyholders) has the right to make representations or objections about proposed Part VIII Merger to the PRA prior to any confirmation. This includes any person who believes that they would be adversely affected by the proposed merger. Such representations or objections can be made in written form or orally at a hearing on a date set in advance, and can be made either by individuals or collectively by groups.
 - In addition, any SF policyholder (including the transferring policyholders) will be provided with means to contact SF with their views (for example, through a dedicated email inbox) on the proposed Part VIII Merger prior to any Delegate vote on the proposed merger.

- 11.1.4. Taking into account the steps as outlined above, I am satisfied that the Part VIII Merger process provides transferring policyholders with appropriate opportunity to participate in the process and benefit from the protections afforded by the process.
- 11.1.5. Whilst my appointment and responsibilities as Independent Expert relate specifically to the Transfer, given the proximity in timing and the overlap of the two processes, I have considered whether the Part VIII Merger gives rise to any issues that would affect my conclusions on the Transfer, based on information currently available which has been shared with me by SF. Although my primary focus for this section is on the transferring policyholders, where relevant I have also included comments in relation to existing SF policyholders.
- 11.1.6. For avoidance of doubt, my consideration of the Part VIII Merger is necessarily limited and at a high level at this stage, and is not intended as a replacement or substitute for the report that will be produced by the Independent Actuary to be appointed in respect of the Part VIII Merger.
- 11.1.7. In forming my views, I have held discussions with SF's Senior Management and Chief Actuary and have reviewed information provided to me, including explanations of the proposed post-merger structure, overview of transaction terms, relevant extracts of Board papers, analysis of post-merger capital position, intended governance arrangements and other relevant information. It should be noted that some of the information may be subject to change.
- 11.1.8. In this section, I consider the potential impact of the proposed Part VIII Merger, insofar as it is relevant to the Transfer:
- Post-merger financial position
 - Security of benefits
 - Investment strategy
 - Expenses and charges
 - Benefit expectations
 - Risk profile and capital management policy
 - Administration and governance
 - Membership rights and policyholder communications

Post-merger financial position

- 11.1.9. I have reviewed materials related to SF's analysis of the expected solvency position and financial strength of the post-merger combined entity based on an outline of the proposed post-merger fund structure, and discussed the results and underlying assumptions with SF (which I consider to be not unreasonable). The analysis indicates that the post-merger financial position of the combined entity is expected to be strong, with solvency ratios that are comfortably in excess of both SF's and OneFamily's respective current capital management targets (which I understand to be comparable to each other based on my discussions with SF).

11.1.10. Due to the commercially sensitive nature of the financial information relating to the Part VIII Merger provided to me, I am unable to disclose specific figures or quantitative detail within this Report. However, based on the information and explanations provided to me, I currently have no reason to believe that the proposed Part VIII Merger would have a material adverse impact in terms of the financial position of the merged entity relative to the pre-merger financial position of SF.

Security of benefits

11.1.11. As noted in 11.1.9 the post-merger financial position of the combined entity is expected to be strong. Consequently, I currently have no reason to believe that the proposed Part VIII Merger would have a material adverse impact on policyholder benefit security.

Investment strategy

11.1.12. I understand that all existing investment strategy commitments applicable to the transferring policies post-Transfer (as described in section 6.3), including those relating to the FutureWise arrangements, will continue unchanged post-merger. I further understand that there is no intention to alter the underlying investment mandates or asset allocation frameworks as a result of the merger.

Expenses and charges

11.1.13. I understand that all expense charges applicable to the transferring policies post-Transfer (as described in section 6.4), will be unchanged post-merger.

Benefit expectations

11.1.14. I understand that there will be no change in any policyholder terms and conditions as a result of the Part VIII Merger. Therefore, further taking into account the above points in relation to investment strategy and expense charges, the merger is not expected to have any impact on transferring policyholders' benefit expectations.

Risk profile and capital management policy

11.1.15. My analysis indicates that the pro-forma post-Transfer risk profile of SF (as set out in section 8.6) and the current risk profile of OneFamily are broadly comparable. However, it is possible that the risk profile of the post-merger combined entity could change from current risk profiles. In my opinion, there is currently no reason to believe that any change to the risk profile would affect the transferring policyholders as long as they are appropriately managed and in line with the risk appetite by the Board in accordance to its governance process and are appropriately managed within the context of the capital management framework adopted.

11.1.16. As noted in 11.1.9, SF's and OneFamily's respective current capital management targets are comparable to each other. That said, it is expected that the post-merger combined entity will, in due course, be required to develop its own capital policy.

Administration and governance

- 11.1.17. Whilst detailed operational integration planning has not yet been undertaken, my current understanding is that there will be no planned material changes in relation to the expected operational processes used to administer the transferring policies following the merger. As a result, it is expected that the post-Transfer service standards would not be materially different post-merger. I note that OneFamily does not currently operate a standalone pensions administration platform and that SF's systems and processes for servicing the transferring Section 32 policies (with a ring fenced team dedicated to servicing the Section 32 policies only) is expected to be fully retained post-merger.
- 11.1.18. I further understand that 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.
- 11.1.19. In addition, I have been informed 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.
- 11.1.20. With respect to governance, I understand that OneFamily has a robust governance framework, including audit and risk committees, comparable to that of SF. While structures are not identical, I have no reason to expect the post-merger governance arrangements to be inappropriate following the merger. I shall provide further commentary in my Supplementary Report.

Membership rights and policyholder communications

- 11.1.21. I understand that all SF policyholders will become members of OneFamily post-merger and will enjoy similar benefits of membership that they currently achieve within SF. I note however that OneFamily does not operate a delegate system, as SF currently does.
- 11.1.22. A communication strategy is currently being developed by SF and OneFamily for the proposed Part VIII Merger and it is envisaged that the formal communications with respect to the proposed merger would not commence before the Effective Date of the Transfer. It is therefore expected that the transferring policyholders will have an opportunity to fully participate in the communications process with respect to the merger in due course. This process will include the receipt of a policyholder communications pack setting out the full details with respect to the Part VIII Merger, the opportunity for transferring policyholders to contact an SF delegate before the delegate vote, and the opportunity for transferring policyholders to make representations to the PRA directly.
- 11.1.23. I also understand that SF is giving ongoing consideration to potentially enhance the representation for the rights of transferring policyholders within SF's delegate voting system. For example, SF will be appointing a Delegate to represent the interests of all transferring policyholders. A facility enabling messages to be relayed to the appointed Delegate will be provided to transferring policyholders. I shall comment further in my Supplementary Report to reflect any relevant updates in this regard.

Other considerations

- 11.1.24. I have also considered the position in the event that the proposed Part VIII Merger does not proceed. I understand that SF would continue to operate in line with its existing strategy and business model, which I consider to be sustainable and viable on a standalone basis based on my discussions with SF senior management and review of relevant business planning materials.
- 11.1.25. Finally, I have discussed with SF and sought assurances regarding its capacity to manage overlapping timings of the Transfer and the proposed Part VIII Merger. SF responded that it has given this due consideration, including obtaining external advice on whether the senior management team is equipped to manage the proposed merger through to completion, while successfully completing the Transfer as well as delivering business-as-usual activities. The key recommendations from the external advisors in this regard have either been implemented by SF or are currently in the process of being implemented by SF.
- 11.1.26. Further, SF has assembled a dedicated project team to manage the proposed merger, including multiple new external hires of very experienced professionals in change management into that team. I am therefore satisfied that SF is appropriately recognising the challenges and implementing measures to manage the expected capacity spikes caused by overlapping timings of the Transfer and the proposed Part VIII Merger.

11.2. Conclusions

- 11.2.1. Taking the above considerations together, I am satisfied that the proposed Part VIII Merger does not give rise to any material adverse effect on transferring policyholders and does not affect my conclusions in relation to the Transfer considered in this Report.
- 11.2.2. I have further given consideration to whether the proposed Part VIII Merger (even if the merger is not successful) may bring about any other changes at SF that is relevant to my assessment of the Transfer, and I am satisfied that the relevant changes have been covered in this section.
- 11.2.3. I shall comment further in my Supplementary Report to reflect any relevant updates with respect to the proposed merger.

12. Other considerations

12.1. The effect of the Transfer on SF's reinsurance arrangements

12.1.1. I have reviewed the potential impact of the Transfer on SF's current reinsurance counterparties (as described in Appendix F) and in my opinion, the Transfer will not have any effect on those reinsurance counterparties.

12.2. The tax implications of the Transfer

12.2.1. I understand that FIL Life and SF will obtain, as soon as reasonably practicable, tax clearance from His Majesty's Revenue and Customs ("**HMRC**") under Section 133 of the Finance Act 2012 that neither party has an unallowable purpose (that is, the securing of a tax advantage or a purpose which is not a business or commercial purposes) as a main purpose of entering into the Transfer or the wider transactions between the parties, and accordingly, that the anti-avoidance provisions of Section 132 of that Act will not apply. SF will also seek confirmation from HMRC that the Transfer will not give rise to UK stamp taxes.

12.2.2. I have been provided with and reviewed a summary of the conclusions drawn by SF's external tax advisor, Ernst and Young LLP ("**EY**") in relation to the Transfer. In forming my view on the Transfer, I have taken these conclusions into account as expert opinions on the tax implications of the Transfer on FIL Life and SF. In particular, the conclusions include:

- The Transferring Business will not be subject to corporation tax in SF post-Transfer, given that SF is a mutual
- The Transfer will not impact the tax position of the transferring FIL Life policyholders
- The Transfer is expected to be treated as a Transfer of a Going Concern ("**TOGC**") from a Value Added Tax ("**VAT**") perspective, and thus is not subject to VAT. HMRC no longer gives formal clearances on this point, however, FIL Life has discussed the VAT treatment of the Transfer with HMRC, and HMRC did not raise any objections to the VAT TOGC treatment.

12.2.3. Taking into account the considerations as set out above, I am satisfied that the Transfer is not expected to have any materially adverse tax impact on the policyholders of FIL Life or SF, and that no changes to the tax status of transferring FIL Life policies are expected as a result of the Transfer. I shall comment further in my Supplementary Report should there be any changes to the tax advice as outlined above.

12.3. Impact of the Transfer on competition

12.3.1. I have considered the potential of the Transfer on competition and discussed this topic with FIL Life and SF. I am not aware of any issues that would be a cause of concern in relation to the impact of the Transfer on competition as, notwithstanding the proposed Part VIII Merger described in section 11 would be between two large mutuals, there continues to be a large number of market participants (both mutuals and non-mutuals) offering a variety of life insurance and pension products to consumers.

12.4. Emerging risks and volatility

12.4.1. When considering the impact of implementing the Scheme, I have continued to review emerging risks in the wider operating environment and whether these affect my conclusions in relation to the Scheme. In light of recent and ongoing geopolitical events, including the introduction of US trade tariffs, the COVID-19 pandemic, the war in Ukraine, the Israeli-Palestinian conflict, and the wider political unrest in the Middle East, I have considered a range of plausible and relevant scenarios, including:

- Heightened volatility in financial markets and the potential impact on solvency positions
- Operational challenges within FIL Life and SF, including disruption due to system or process weaknesses
- Disruptions affecting key third party service providers supporting the implementation of the Scheme
- Increased frequency and sophistication of cyber attacks, with potential impacts for data security
- Emergence of changes to political landscapes, such as the prospect of a new Scottish referendum

12.4.2. In particular, key emerging risks that I have considered are set out in paragraphs 12.4.3 to 12.4.10 below.

12.4.3. **Sanctions:** FIL Life has demonstrated that Fidelity Group, and each of its majority-owned subsidiaries, are firmly committed to participating in international efforts to prevent financial crime, including adherence to relevant sanctions regimes. Fidelity Group has policies and procedures in place that comply with all applicable sanctions laws and regulations. Further, FIL Life has confirmed to me that clients and investments are screened against sanctions target lists, including that maintained by HM Treasury's Office for Financial Sanctions Implementation in the UK, amongst other relevant area- and country-specific sanctions lists, as applicable. Where true sanctions matches are identified, controls are implemented to ensure any assets are frozen and transactions are not undertaken. At the time of writing, no transferring policyholders have been identified as either sanctions targets or Politically Exposed Persons ("**PEPs**"). I will provide an update on sanctions screening in my Supplementary Report.

12.4.4. In addition, FIL Life holds units in certain unitised mutual funds which in turn hold certain "**subject assets**" (assets subject to Ukraine-Russia sanctions). The subject assets are held for and on behalf of certain unitised mutual funds managed by FISL, which has issued units in such funds to FIL Life (the "**FISL Funds**"). FIL Life then allocated units in unitised life funds to Section 32 policyholders ("**FIL Life Funds**"), while holding units in the FISL Funds to match its liability to policyholders under the policy, effectively allowing them to access the economics of the FISL Funds without buying units in the FISL Funds.

12.4.5. Each unit in a FISL Fund entitles the owner to be paid a cash amount on surrender of the unit to FISL. The cash amount is equal to a set portion of the Net Asset Value ("**NAV**") of the FISL Fund. Following the application of sanctions, the NAV of the subject assets was reduced from roughly £70,000 to £0 (reflecting the loss of value resulting from the application of sanctions). A similar process was followed at the FIL Life Fund level. The effect of these processes is 1/ to reduce the value of Section 32 policyholders' claims under their policies (as a result of the reduction in NAV in the FIL Life and FISL Funds), and 2/ to retain the economic exposure of the policyholders such that if sanctions are removed they will continue to have exposure to assets which may no longer be valued at £0.

12.4.6. The intention of the parties is to transfer:

- FIL Life's holdings in the units of the mutual funds to SF (meaning SF will become the registered unit holder instead of FIL Life in the FISL Funds)

- FIL Life’s obligation to Section 32 policyholders (meaning SF will step into FIL Life’s position with regard to the FIL Life Funds)
- 12.4.7. When that transfer happens, neither the legal nor beneficial title to the subject assets will transfer. I further note that this approach is similar to a process previously undertaken by SF. Furthermore, FIL Life has received legal advice which supports this determination. I am therefore satisfied based on the facts presented to me that there will be no transaction or dealing in any sanctioned asset as a result of the Transfer. I will provide an update on subject assets in my Supplementary Report.
- 12.4.8. **Climate change:** The impact of climate change is a key emerging risk for insurance companies and will affect both the assets and liabilities of insurance companies. The Bank of England has particularly emphasised that assessing and managing the risks arising from climate change is a key priority for insurers.⁶ This risk would exist regardless of whether or not the proposed Scheme were to be implemented and the implementation of the proposed Scheme would not impact the emergence of this risk. Further, the impact of the Transfer on climate risk was considered as part of the quantitative scenario analysis within SF’s 2024 ORSA. The proposed Transfer is not expected to have any material impact on the climate risks faced by SF.
- 12.4.9. **Data security:** Data security, in the context of increasingly sophisticated cybersecurity attacks including potential for Artificial Intelligence (“AI”) enhancement, remains a significant challenge facing insurance companies. Cyber attacks remain a key risk to businesses, with potential consequences including theft of sensitive policyholder data, phishing, and ransomware attacks. Cyber-related stresses, including ransomware scenarios, form part of the wider scenario SF scenario testing programme. In addition, SF maintains a cyber attack communication plan to ensure appropriate communications in the event of an attack. Having reviewed these measures, I am satisfied that SF currently undertakes an appropriate level of testing and review of communication plans in relation to cybersecurity threats, although I note that the risk remains an area of ongoing focus and uncertainty. With respect to AI risks, significant evolution and availability of AI tools pose a risk to insurance companies. One of the five qualitative scenarios considered in SF’s 2024 ORSA was the failure to effectively leverage AI. I am therefore satisfied that SF has considered AI risks to a reasonable extent.
- 12.4.10. In the event that I considered emerging risks were to render it inappropriate for FIL Life and SF to proceed with the Scheme within the planned timeframes, I would make my views on this known to both FIL Life and SF. Based on current conditions, in my view, it remains appropriate for FIL Life and SF to continue to pursue the Scheme. I will continue to monitor this and I will provide an update in my Supplementary Report.

12.5. Operational readiness for the Transfer

- 12.5.1. Implementation of the Transfer, from the commencement of policyholder mailings, through to the final processes that take place on the Effective Date and immediately thereafter, clearly constitutes a major operational exercise for both FIL Life and SF.

⁶ See ‘CP10/25 – Enhancing banks’ and insurers’ approaches to managing climate-related risks – Update to SS3/19’, published by the Bank of England on 30 April 2025

- 12.5.2. Certain operational activities being undertaken by SF, such as upgrading policy administration systems to support the potential launch of SF's own-brand pension capability as part of the wider SF corporate strategy, will progress independently of the Transfer.
- 12.5.3. SF has indicated to me that the build and development of the Sonata policy administration system is expected to be completed by the end of 2025. The development of other areas, such as the reporting functionality and customer letters, will take place in early 2026. I will continue to monitor the state of operational readiness for the implementation of the Transfer, including the outstanding tasks and issues, and provide an update in my Supplementary Report. In particular, I shall comment on the status of completion of the development of the drawdown functionality within Sonata.
- 12.5.4. For further detail on SF's operational readiness for the Transfer, please refer to section 9.2 above.

12.6. The effects of the Transfer not proceeding

- 12.6.1. I have considered the likely effects on all policyholders of FIL Life and SF if for any reason the Transfer were not be put into effect.
- 12.6.2. In such a scenario, the transferring policies would remain policies of FIL Life. Consequently, the reinsurance and outsourcing arrangements for the transferring annuity-in-payment business currently in place between FIL Life and Hannover Re would also remain with FIL Life and would not transfer to SF.
- 12.6.3. With respect to the transferring Section 32 policies, if the Transfer were not to proceed, SF would not enter into investment management agreements with the relevant asset managers. The units held in the OEICs and the ACS units would continue to be registered in the name of FIL Life, and FIL Life would retain those investment management agreements.
- 12.6.4. However, potential benefits of the Transfer, for example the expected increase in profit share distributions to SF with-profits policyholders from the profits arising from the Transferring Business, would not materialise.
- 12.6.5. It is likely that alternative arrangements for the management and operation of the Transferring Business would be considered if the Transfer were not to proceed. However, this consideration is outside of my scope as the Independent Expert appointed to opine on this proposed Transfer.

12.7. Regulatory considerations

Financial Services Compensation Scheme and Financial Ombudsman Service

- 12.7.1. The Financial Services Compensation Scheme ("**FSCS**") is the UK's statutory fund of last resort for customers of authorised financial services firms. It was created under FSMA to provide compensation when an authorised financial firm cannot pay money it owes. The FSCS covers investments, deposits and insurance.

- 12.7.2. In the event that an eligible insurance compensation claim arises, the FSCS would first seek to protect policyholders by arranging continuity of insurance via the transfer of the business to another insurer. This is the most likely scenario provided that a willing and solvent replacement insurer is available at the time. Any benefits falling due in the period that the FSCS is seeking continuity will be paid by the FSCS in the meantime.
- 12.7.3. If the FSCS is unable to secure continuity of insurance then cash compensation would be paid to eligible claimants under the rules. The amount of compensation would be determined in accordance with the terms of the contract as valued in a liquidation of the failed insurer. The basis would be determined by a Court, with the amount of compensation provided equal to 100% of the policy value. There is no limit to the overall amount payable.
- 12.7.4. The Financial Ombudsman Service ("**FOS**") is an independent and impartial public body established by the UK Parliament to resolve disputes between individuals and UK financial services firms, including insurers. Where deemed appropriate, it has legal powers to award compensation payments in favour of policyholders.
- 12.7.5. As a transfer between UK-based insurers, I have no reason to believe that the Transfer will affect the rights of FIL Life's or SF's policyholders to access the FSCS or FOS. Therefore, it is not expected that there will be any change to FSCS or FOS cover to policyholders as a result of the Transfer.

Other regulatory considerations

- 12.7.6. I am not aware of any other regulatory matters which may have a bearing on the Transfer.
- 12.7.7. In my Supplementary Report, I will consider if there are any further regulatory matters which arise after the publication of this Report.

Appendix A – Compliance of this Report with regulatory guidance

Table A.1 Compliance of this Report with Chapter 18 of the Supervision Manual of the FCA Regulatory Handbook (Supervision Chapter)⁷

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
18.2.31	Under section 109 of the Act, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the appropriate regulator. The appropriate regulator would generally expect a scheme report to contain at least the information specified in SUP 18.2.33 G before giving its approval.	Yes
18.2.31A	When the appropriate regulator has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect from that regulator.	Information only, no requirements
18.2.32	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators.	Yes – the report has been updated to reflect queries and feedback from the regulator where applicable
18.2.33	The scheme report should comply with the applicable rules on expert evidence and contain the following information: (1) who appointed the independent expert and who is bearing the costs of that appointment;	Yes – sections 1.2.1. and 1.3.
	(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;	Yes – section 1.2.4.
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	Yes – section 1.2.2.

⁷ <https://www.handbook.fca.org.uk/handbook/SUP/18/>

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	(4) whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	Yes – section 1.2.3.
	(5) the scope of the report;	Yes – section 1 and Appendix C
	(6) the purpose of the scheme;	Yes – sections 1, 3.1.12., 3.1.13., 3.2.6., 3.3.2., and 9.2.
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	Yes – sections 1.1. and 3.3.
	(8) what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;	Yes – section 1.7. and Appendix D
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others;	Yes – section 1.7.
	(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	Yes – section 1.7.
	(11) his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee;	Yes – sections 6, 7, 8, 9, and 10
	(11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	Yes – sections 3.3., 3.4., 6.2.10., 6.3.3., 9.2.12., and 12.1.
	(12) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his	None – see section 1.5.8.

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	opinion, be relevant to policyholders' consideration of the scheme; and	
	(13) for each opinion that the independent expert expresses in the report, an outline of his reasons.	Yes – throughout the Report
18.2.34	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	Yes
18.2.35	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	Yes – sections 3.3., 3.4., 6.2.10., 6.3.3. and, 9.2.12.
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	Yes – sections 3.1., 3.4., 6.2.10. and 6.3.3.
18.2.36	The independent expert's opinion of the likely effects of the scheme on policyholders should: (1) include a comparison of the likely effects if it is or is not implemented;	Yes – section 12.6.
	(2) state whether he considered alternative arrangements and, if so, what;	Yes – sections 1.5.4. and, 12.6.5.
	(3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and	Yes – sections 6, 7, 8, 9 and, 10
	(4) include his views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Yes – sections 6, 7, 8 and, 10.1.

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:</p> <ul style="list-style-type: none"> (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and 	Yes – sections 6, 7, 8, 9, and 10
	<p>(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.</p>	Yes – sections 1.3., 8.4, and 12.2.
18.2.37	The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.	Yes – section 1.5.5.
18.2.38	<p>For any mutual company involved in the scheme, the report should:</p> <ul style="list-style-type: none"> (1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without. 	Yes – sections 3.3. and 10.1.
18.2.39	<p>For a scheme involving long-term insurance business, the report should:</p> <ul style="list-style-type: none"> (1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits; 	Yes – sections 3.2.10., 3.3., 8.5., 9.3.8., and 10.1.4.

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	(2) if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	Yes – 10.1.
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	Yes – section 8.5.
	(b) the levels of any discretionary charges;	N/A
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	Yes – sections 8.5.3., 9.3., and 9.4.
	(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	Yes – sections 6.5, 7.5, and 8.5.
	(6) state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders; and	Yes – sections 6, 7, 8, 9, and 10
	(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	Yes – sections 6, 7, 8, 9.3., and 10.1.
18.2.40	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run.	Yes – section 11

SUP 18.2 Sections	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
18.2.41	<p>A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either:</p> <p>(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or</p> <p>(2) otherwise, he is unable to report on this aspect in the time available.</p> <p>Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of the Act. Each regulator would wish to consider any such reduction against its statutory objectives and section 113 of the Act allows the court, on the application of either regulator to appoint an independent actuary to report on any such post-transfer reduction in benefits.</p>	N/A - no benefits reduced

Table A.2 Compliance of this Report with the PRA’s Policy Statement: “PS1/22: The PRA’s approach to insurance business transfers” dated January 2022(Paragraphs 2.27 to 2.40)⁸

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
2.27	Under section 109 of FSMA, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the PRA (following consultation with the FCA).	Yes
2.27A	<p>The PRA’s assessment of whether to approve the form of the scheme report considers if the report is in an appropriate form to be submitted to the court to assist its assessment of the scheme. The PRA expects to take into consideration whether the report:</p> <p>(1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and</p> <p>(2) incorporates appropriate reasoning</p>	<p>(1) Yes – all relevant issues covered in detail</p> <p>(2) Yes – appropriate reasoning used and explained in reaching conclusions throughout the Report</p>
2.27B	The PRA would generally expect a scheme report to contain at least the information specified in 2.30 and 2.32–2.33 below before it would be able to consider approving the form of the report	See below
2.28	When the PRA has approved the form of a scheme report, the scheme promoter(s) may expect to receive written confirmation to that effect.	Information only, no requirements
2.29	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form their own opinion on such issues, which may differ from the opinion of the regulators.	Yes – the report has been updated to reflect queries and feedback from the regulator where applicable

⁸ <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2022/the-pras-approach-to-insurance-business-transfers-sop-jan-2022.pdf>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
2.30	<p>The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information:</p> <p>(1) who appointed the independent expert and who is bearing the costs of that appointment;</p>	Yes – sections 1.2.1. and 1.3
	<p>(2) confirmation that the independent expert has been approved or nominated by the PRA;</p>	Yes – section 1.2.4.
	<p>(3) a statement of the independent expert’s professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;</p>	Yes – section 1.2.2.
	<p>(4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;</p>	Yes – section 1.2.3.
	<p>(5) the scope of the report;</p>	Yes – section 1 and Appendix C
	<p>(6) the purpose of the scheme;</p>	Yes – sections 1, 3.1.12., 3.1.13., 3.2.6., 3.3.2., and 9.2.
	<p>(7) a summary of the terms of the scheme in so far as they are relevant to the report;</p>	Yes – sections 1.1. and 3.3.
	<p>(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;</p>	Yes – section 1.7, Appendix D
	<p>(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;</p>	Yes – sections 3.1. and 3.2.

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>(9) the extent to which the independent expert has relied on:</p> <p>(a) information provided by others; and</p> <p>(b) the judgement of others;</p>	Yes – section 1.7
	<p>(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;</p>	Yes – section 1.7
	<p>(11) opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:</p> <p>(a) transferring policyholders;</p> <p>(b) policyholders of the transferor whose contracts will not be transferred;</p> <p>(c) policyholders of the transferee; and</p> <p>(d) any other relevant policyholder groupings within the above that the independent expert has identified</p>	Yes – sections 6, 7, 8, 9, and 10
	<p>(12) their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;</p>	Yes – sections 3.3., 3.4., 6.2.10., 6.3.3., 9.2.12., and 12.1.
	<p>(12A) their definition of ‘material adverse’ effect;</p>	Yes – section 1.5.2.
	<p>(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders’ consideration of the scheme;</p>	None – see section 1.5.8.
	<p>(14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and</p>	Yes – throughout the Report
	<p>(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.</p>	N/A – no concurrent or linked schemes

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
2.31	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	Yes
2.31A	The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	Yes – section 1.7
2.32	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	Yes – sections 3.3., 3.4., 6.2.10., 6.3.3., and 9.2.12.
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	Yes – sections 3.1., 3.4., 6.2.10., and 6.3.3.
2.33	The independent expert’s opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should: (1) include a comparison of the likely effects if it is or is not implemented;	Yes – section 12.6.
	(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	Yes – sections 1.5.4. and 12.6.5.
	(2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert’s opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	Yes – sections 6, 7, 8, 9, and 10

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>(3) include the independent expert’s views on:</p> <p>(a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders’ contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing ;</p>	<p>Yes – sections 6, 7, 8, 10.1., and 12.4.</p>
	<p>(aa) the transferor’s and transferee’s respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;</p>	<p>Yes – sections 6.6., 6.7., 7.6., 7.7., 8.6., and 8.7.</p>
	<p>(aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;</p>	<p>Yes – sections 6, 7, and 8</p>
	<p>(aaaa) whether the transferee’(s’) existing (or proposed, where applicable) capital model would remain appropriate following the scheme;</p>	<p>Yes – section 8.7</p>
	<p>(b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to:</p> <p>(iv) the security of policyholders’ contractual rights,</p>	<p>Yes – sections 6, 7, 8, 9, and 10</p>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>(v) levels of service provided to policyholders,</p> <p>(vi) for long-term insurance business, the reasonable expectations of policyholders;</p>	
	<p>(c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and</p>	<p>Yes – sections 1.3., 8.4.1., and 12.2.</p>
	<p>(d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.</p>	<p>Yes – sections 6.6., 7.6., and 8.6.</p>
2.34	<p>The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.</p>	<p>Yes – section 1.5.5.</p>
2.35	<p>For any mutual company involved in the scheme, the report should:</p> <p>(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;</p> <p>(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and</p> <p>(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.</p>	<p>Yes – sections 3.3. and 10.1.</p>
2.36	<p>For a scheme involving long-term insurance business, the report should:</p> <p>(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;</p>	<p>Yes – sections 3.2.10., 3.3., 8.5., 9.3.8., and 10.1.4.</p>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	(2) if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	Yes – section 10.1.
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	Yes – section 8.5.
	(b) the levels of any discretionary charges;	N/A
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm;	Yes – sections 8.5.3., 9.3., and 9.4.
	(5) include the independent expert’s overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	Yes – sections 6.5, 7.5, and 8.5.
	(6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and	Yes – sections 6, 7, 8, 9, and 10
	(7) state whether, in the independent expert’s opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	Yes – sections 6, 7, 8, 9.3., and 10.1.
2.37	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow	Yes – section 11

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level.</p>	
2.38	<p>A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless:</p> <ol style="list-style-type: none"> (1) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or (2) they are unable to report on this aspect in the time available. <p>Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.</p>	N/A – no benefits reduced
2.39	<p>The PRA expects the independent expert to provide a supplementary report for the final court hearing. Any supplementary reports will form part of the scheme report required to be produced under section 109 of FSMA and must also comply with 2.30-2.37.</p>	Supplementary Report to be produced in due course
2.40	<p>The purpose of the supplementary report is for the independent expert to provide an update on any relevant new information or events that have occurred since the date of the scheme report and to provide an opinion on whether they have affected the transfer. Matters that should be considered include, but are not limited to:</p> <ol style="list-style-type: none"> (1) the most recent audited and unaudited available financial information in respect of the transferor and transferee, which the PRA would expect to have been internally validated; (2) any recent economic, financial or regulatory developments; 	Supplementary Report to be produced in due course

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>and</p> <p>(3) any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report.</p>	
2.40A	<p>In circumstances where there has been a duration between the directions hearing and the final court hearing of six months or more, it may be appropriate for the independent expert to produce an updated scheme report rather than a supplementary report. The PRA would assess this report as set out in 2.27A.</p>	<p>Information only, no requirements within this Report</p>

Table A.3 Compliance of this Report with the FCA’s Finalised Guidance: “FG22/1: The FCA’s approach to the review of Part VII insurance business transfers” dated February 2022 (Section 6)⁹

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
6.1	<p>The PRA is responsible for approving the form of the IE’s report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants’ position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions.</p>	N/A
6.2	<p>We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. We expect the report to be easy to read and understandable by all its users and for the IE to pay attention to the following:</p> <ul style="list-style-type: none"> (1) Technical terms and acronyms should be defined on first use. (2) There should be an executive summary that explains, at least in outline, the proposed transfer and the IE’s conclusions. (3) The business to be transferred should be described early in the report. (4) The detail given should be proportionate to the issues being discussed and the materiality of the transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. (5) IEs should prepare their reports in a way that makes it possible for nontechnically qualified readers to understand. 	<ul style="list-style-type: none"> (1) Yes – section 1.5.3., Appendix G (2) Yes – section 2 (3) Yes – section 3.3.4. (4) Yes – throughout the Report (5) Yes – throughout the Report
6.3	<p>We sometimes find that IE reports lack detailed and thorough analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we sometimes find that the IE reports lack sufficient consideration and comparison of:</p> <ul style="list-style-type: none"> (1) reasonable benefit expectations, including impact of charges 	<ul style="list-style-type: none"> (1) Yes- sections 6, 7, and 8 (2) Yes – sections 9 and 12.5. (3) Yes – section 9 (4) N/A – the Scheme

⁹ <https://www.fca.org.uk/publication/finalised-guidance/fg22-1.pdf>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>(2) type and level of service. This includes details of the analysis to support any conclusions including factors like claims and complaints handling (speed and quality), means of access to the service (including service provided by third parties) and any changes in functionality, speed and usability of service, past performance and customer feedback, reliability of service, number of requests for assistance or complaints, quality and speed of Policyholder support services, quality and frequency of communications</p> <p>(3) management, administration and governance arrangements</p> <p>(4) where the scheme includes Employers' Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements</p> <p>(5) Where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process</p>	<p>does not involve Employers' Liability/Public Liability claimants or Run Off Claims</p> <p>(5) Yes – section 12.4.</p>
6.4	<p>We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.</p>	N/A
6.5	<p>This chapter sets out our expectations and gives some specific examples of the things we will consider when reviewing the IE's report. These include:</p> <p>(1) the level of reliance on the Applicants' assessments and assertions</p> <p>(2) balanced judgements and sufficient reasoning</p> <p>(3) sufficient regard to relevant considerations affecting Policyholders</p>	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<ul style="list-style-type: none"> (4) commercially sensitive or confidential information (5) the level of reliance placed on the work of other experts (6) examples of over-reliance on the work of other experts (7) ambiguous language or a lack of clarity (8) demonstrating challenge (9) technical actuarial guidance 	
6.6	<p>IEs will sometimes rely on Applicants’ assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point.</p>	Yes – throughout the Report
6.7	<p>We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants’ assertions without sufficient challenge or asking for supporting detail or evidence.</p>	Yes – throughout the Report
6.8	<p>An example is where conclusions are supported solely or largely by statements like ‘I have discussed with the firm’s management, and they tell me that...’ followed by ‘I have no reason to doubt what they have told me...’. In these cases, we will challenge the IE on whether they have come to their own conclusions. In these circumstances:</p> <ul style="list-style-type: none"> (1) Where a feature of the proposed transfer forms a significant part of the IE’s own assessment of the scheme’s impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants’ analysis of the material and subsequent assertions. (2) If there are concerns about matters that fall outside the IE’s sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert. We give further 	<p>(1) Yes – section 1.7. and Appendix D</p> <p>(2) Yes sections 1.7., 12.2., and Appendix D</p>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	information below about the IE obtaining and relying on their own independent advice (6.33 onwards).	
6.9	<p>We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to:</p> <p>(1) review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate</p> <p>(2) challenge the factual accuracy of matters that, on the face of the documents or considering the IE’s knowledge and experience, appear inconsistent, confusing or incomplete</p>	<p>(1) Yes – throughout the Report</p> <p>(2) N/A</p>
6.10	<p>We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis. Specific examples include:</p> <p>(1) Applicants’ assertions that service levels will be maintained to at least the pre- transfer standard. In this case, we expect the IE to include not only details of the Applicant’s plans and any gap analyses produced, but also include their view of their adequacy, and governance and oversight arrangements. We also expect the IE to include a comparison of service standards and quality, including where outsourcers are used.</p> <p>(2) Where there are concerns that a change in governance arrangements in the Transferee may lead to poorer customer outcomes. Applicants’ analysis is often carried out at a high level. It does not always include reviewing and comparing any of the Transferor’s governance arrangements that produce good customer outcomes with the Transferee’s governance arrangements. An example of these governance arrangements is any committees with conduct responsibilities.</p> <p>(3) Consideration of the potential post-transfer strain on resources which could affect the service standards provided to the Transferee’s existing customers and/or control over conduct of business risk. We will expect to see a review of relevant management information indicators and related contingency planning.</p> <p>(4) Differences in regulatory requirements, or protections</p>	<p>(1) Yes – section 9.2.</p> <p>(2) Yes – section 9.3.</p> <p>(3) Yes – section 9.2</p> <p>(4) Yes – section 6.1.4.</p>

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	available to policyholders, as a result of the transfer.	
6.11	IEs will sometimes state that they are satisfied by referencing certain features of the scheme but will not adequately explain how those features have led to their satisfaction. In these circumstances we will expect to see both the evidence and the IE’s reasoning that led to their conclusion.	Yes – throughout the Report
6.12	<p>We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following:</p> <ol style="list-style-type: none"> (1) Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree. (2) We accept that it is not the IE’s role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to challenge the Applicants to be confident that their report’s conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will effect all Policyholder groups. 	Yes – sections 5.5., 6.9., 7.8., 8.8., 9.4., and 9.5.
6.13	When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	Yes – Appendix D
6.14	Market conditions may have changed significantly since the IE’s analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the scheme document has been finalised, the IE should give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See	Supplementary Report to be produced in due course

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	paragraphs 7.32-7.35 for further information on the Supplementary Report.	
6.15	<p>We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the:</p> <ul style="list-style-type: none"> (1) current and proposed future position of each Policyholder group (2) potential effects of the transfer on each of the different Policyholder groups (3) potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated 	Yes – sections 6, 7, and 8
6.16	To support this, we will expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups’ services are provided by an outsourced function which is changing, but other Policyholder groups do not.	Yes – sections 6.1.1., 7.1.1., and 8.1.1.
6.17	<p>We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we expect the IE to include:</p> <ul style="list-style-type: none"> (1) Consideration of the impact of an outsourcing agreement entered by the parties before the Part VII process began, where the administration duty ‘moved’ from the Transferor to the Transferee in preparation for the transfer. Here, we expect to see a comparison of the pre and post-outsourced administration arrangements so the IE and firms can clearly review and compare any changes to Policyholder positions and service expectations. (2) Policyholder service level - we expect the IE and the firms not only to have consideration of the impact on Policyholder service levels due to changes in services or service providers specifically contemplated by the proposed transfer, but also to consider the possible risks associated with the transfer that may impact service levels. For example, the risk that the transferee may change services or service providers to align 	<ul style="list-style-type: none"> (1) N/A (2) Yes – section 9.2. (3) Yes – section 12.6.

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>with its broader offering, or risks associated with the migration of systems or services. We expect IEs to consider whether changes in service levels, provision and migrations could lead to consumer harms and what could be done to mitigate those risks. We expect IEs to consider whether there are differences in the identification of customers in vulnerable circumstances. In relation to migration of systems or services we expect to see a sufficiently detailed report of the possible impact.</p> <p>(3) Also, we will not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should consider what might happen if the transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process.</p>	
6.18	Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures.	N/A
6.19	<p>IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:</p> <p>(1) some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.</p> <p>(2) if the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the scheme as if the reinsurance was not in place.</p>	N/A
6.20	The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	the Transferor’s obligations under Principle 6 (Customers’ interests) of our Principles for Businesses.	
6.21	When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.	N/A
6.22	<p>We will expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example, we will expect to see this analysis where:</p> <ul style="list-style-type: none"> (1) some Policyholders within a group/sub-group will suffer higher charges post transfer because the Transferee has a different charging structure (2) some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer 	Yes – sections 6, 7, 8, and 9
6.23	When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	N/A
6.24	<p>As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer:</p> <ul style="list-style-type: none"> (1) The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee’s capital position (meeting relevant requirements), and the short-term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail, and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we will not be satisfied with this view without further evidence. For example, some evidence and analysis of why (given the size and complexity of) a particular 	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	firm may make a default, before the time that Policyholders have to claim on policies, is extremely unlikely.	
6.25	In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE’s opinion that a change due to the Part VII transfer will not materially and negatively affect a group of Policyholders.	Yes – throughout the Report
6.26	Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. Examples include: (1) where ‘whistle-blower’ information relevant to the scheme received is forwarded to the IE by the firm (2) where we are aware of enforcement action in progress with one of the Applicants	N/A
6.27	In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court’s use and not for public disclosure. Please note that this is at the Court’s discretion.	N/A
6.28	For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional’s work.	N/A
6.29	We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	Yes – section 1.7. and Appendix D

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
6.30	The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice, and we discuss our expectations in further detail below.	Yes – section 1.7.
6.31	We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes, but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.33 below for a non-exhaustive list of factors which the IE should consider.	Yes – section 1.7.
6.32	The IE’s key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants’ legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is.	Yes – section 1.7.
6.33	<p>In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following:</p> <ol style="list-style-type: none"> (1) The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely. (2) How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact? (3) The difficulty, novelty or peculiarity of the issue to the Applicants’ own circumstances. (4) Applicants’ proposals to explain to Policyholders in 	Yes – section 1.7.

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	<p>communication documents the issues involved, any uncertainty, and any residual risks.</p> <p>(5) Whether the Applicants have obtained an adequate level of advice, depending on the issue’s significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction.</p> <p>(6) Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.</p>	
6.34	<p>Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. For example, the IE’s assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant’s advice or otherwise. They should also consider where risks are identified but there are no suggestions about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations will allow the IE to consider the worst-case scenario of these effects.</p>	Yes – section 1.7.
6.35	<p>Finally, the IE should consider the Applicant’s contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.</p>	Yes – sections 12.6.
6.36	<p>Further to these points, we give some specific examples below where we have challenged the IE around potential over-reliance.</p>	N/A
6.37	<p>Often an Applicant will get a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-UK jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court will adopt the approach set out in the advice. In that case, we expect the IE not to use such advice as the sole basis of their conclusion that there are no materially adverse effects. We will expect the IE to consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court. The legal advice itself should address this and suggest ways of mitigating this risk.</p>	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
6.38	<p>The IE may be uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.</p>	N/A
6.39	<p>The position may be different depending on whether the Transferor remains authorised/in existence:</p> <p>(1) If the Transferor’s authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the scheme is not formally recognised in another jurisdiction, the courts of that jurisdiction will still act to prevent the Transferee from denying that it is liable. This may well be correct, but we still expect the IE to assess any material possibility, and any mitigations if it is not.</p> <p>(2) Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We will still expect an IE to examine what possible material adverse impact this could have on Policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements.</p>	N/A
6.40	<p>Our concern here is that the likelihood of an adverse impact should be low enough for consumers not to be adversely affected. We will expect the IE to take a view on that and seek the appropriate reassurances/ensure mitigations are in place.</p>	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
6.41	<p>In summary, in most cases we will seek to review copies of relevant significant legal advice obtained, with appropriate arrangements to maintain any legal professional privilege. We will expect that advice to also cover what happens if the relevant court does not take the position of the advice and what mitigations can be used if that happens. It is important that all significant material an IE relies on when evaluating a scheme and reaching their conclusions should, wherever reasonably possible, be available for review by the Court and interested parties. Where material is commercially sensitive there are mechanisms that allow the Court and IE to review without detailed disclosure to all other interested parties.</p>	N/A
6.42	<p>At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.</p>	Yes – section 1.7.
6.43	<p>Some examples we have seen and challenged IEs on include:</p> <ol style="list-style-type: none"> <li data-bbox="331 1178 1066 1290">(1) Where a conclusion in the report is that the IE ‘takes comfort’ from certain matters, as opposed to ‘being satisfied’ having taken various matters into account. <li data-bbox="331 1323 1066 1480">(2) Where the conclusion is uncertain. For example, ‘I am satisfied that there is no material adverse effect. However...’ but it is unclear how the qualification affects or undermines the conclusion. <li data-bbox="331 1514 1066 1704">(3) Where the conclusions are caveated, we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat. <li data-bbox="331 1738 1066 2056">(4) It is also important that the caveat does not undermine the report or the IE’s ability to be satisfied on the relevant point. For example, the conclusion may be caveated by ‘on the basis of information provided to me’. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification. 	N/A

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
6.44	<p>In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:</p> <p>(1) That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert.</p> <p>(2) How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact.</p>	N/A
6.45	<p>To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account the IE's disclaimers. We consider that Applicants can make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.</p>	Yes – reviewed by the FIL Life and SF and their respective legal advisors
6.46	<p>To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters.</p>	Yes – section 1.7. and Appendix E
6.47	<p>The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate.</p>	Yes – section 1.7.8.
6.48	<p>We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.</p>	Yes – section 1.4.2.
6.49	<p>The revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work</p>	Yes – section 1.4.2.

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
	and TAS 200: Insurance) specifically applies to technical actuarial work to support Part VII transfers.	
6.50	It is important to note paragraph 5 of TAS 100 states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	Yes – section 1.4.2.
6.51	Qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work.	Yes – sections 1.4.2. and 1.6.

Appendix B – Statement of compliance

I understand that it is my duty in preparing the Report to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, the Practice Direction, and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 paragraph 10 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the Court and have complied with and will continue to comply with this duty.

I confirm that I have made clear which facts and matters referred to in the Report are within my knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



.....
Marc Loh

Dated: 17 March 2026

Appendix C – Terms of reference

The role of the Independent Expert is to prepare a report for FIL Life, SF, the FCA, and the PRA that opines on the fairness and reasonableness of the prospective Transfer of certain businesses from FIL Life to SF.

The Independent Expert will independently consider the following matters in respect of the Transfer:

- The impact of the Transfer on the security of policyholder benefits, for different groups and generations where appropriate, before and after the Transfer including quality of allocated assets/capital and whether this is reasonable and fair
- The impact of the Transfer on the reasonable expectations for different groups and generations of policyholders in respect of their benefits, before and after the Transfer
- The impact of the Transfer on costs and expenses to be borne by policyholders after the Transfer
- The financial position pre- and post-Transfer under UK Solvency II
- The change, if any, in the capital management policy of the Transferring Business after the Transfer
- How the application of discretion, if any, that is exercised in the management of the transferring policies would be affected
- The treatment of the unit-linked and non-profit policies in respect of security, performance, charges and benefits after the Transfer
- What the likely impact of the Transfer will be on investment strategy and expense levels
- The membership rights of the transferring members
- Documents which have been issued or intend to be issued to the policyholders to explain the Transfer
- An analysis of the risks which have been considered including scenario and general stress testing
- The treatment of policies in respect of security and benefits after the Transfer
- The impact of the Transfer on the level of service provided to policyholders
- The tax consequences of the Transfer in so far as they affect transferring policies and policyholders
- The impact of the Transfer on the governance arrangements for policyholders
- Any other aspect of the Transfer that the Independent Expert considers should be reviewed or any matters drawn to his attention by the PRA or FCA in order to opine on the fairness and reasonableness of the Transfer.

Appendix D – Data

Table D.1 Information provided by FIL Life

Item	Date received
Annual reports and financial statements for the last 3 years	28 May 2025
Chief Actuary Reports for the last 3 years	28 May 2025
Calculations of Deferred Consideration payable by SF to FIL Life	28 May 2025
Pre- and post-Transfer solvency positions	28 May 2025
ORSA reports for the last 3 years and capital and liquidity projections	30 May 2025
Details of all relevant recent regulatory correspondence over the last 3 years	30 May 2025
Details of reinsurance arrangements	30 May 2025
Information on Section 32 unit-linked policies, including policy features, PTFC, and PPA provisions	4 June 2025
Articles of Association/Rules	4 June 2025
Solvency and Financial Condition Reports for the last 3 years	16 June 2025
Regulatory Supervisory Reports for the last 3 years	16 June 2025
Details of FIL Life’s current risk profile and risk appetite limits, including the impact of the Transfer on the risk profile	16 June 2025
Consumer Duty annual report	17 June 2025
Details of tax advice	3 July 2025
Details of investment arrangements for Section 32 policies, including FutureWise and self-select funds	3 July 2025
Selection process of SF and scoring chart	10 July 2025
Section 32 funds and annuity book overview	15 July 2025

Item	Date received
Details of self-select fund charges	17 July 2025
Section 32 fund brochure and structure materials	5 August 2025
Fund glidepath illustration	5 August 2025
Details on pricing uptick for Private Asset Integration	5 August 2025
Sanctions attestations	29 August 2025
SLA performance report: annuity administration	8 October 2025
IGC governance structure terms of reference	23 October 2025
Advice on sanctioned assets	26 November 2025
Update on tax position	27 November 2025
Update on subject assets	4 December 2025
Draft Section 32 policyholder communications	4 December 2025
Draft Annuity in-payment policyholder communications	10 December 2025
Draft Member Transition Communications (Consumer Guide)	06 February 2026
Draft Member Transition Communications (Email)	06 February 2026
Track and Trace Analysis	06 February 2026
Chief Actuary Report on the Transfer	17 March 2026
WPA Report on the Transfer	17 March 2026
FIL Life's First Witness Statement	17 March 2026

Table D.2 Information provided by SF

Item	Date received
Chief Actuary Reports for the last 3 years	28 May 2025
Annual reports and accounts for the last 3 years	30 May 2025
Solvency and Financial Condition Reports for the last 3 years	30 May 2025
Regulatory Supervisory Report for the last 3 years	30 May 2025
Details of intended operation to replicate FutureWise funds post-Transfer	30 May 2025
Articles of Association/Rules	30 May 2025
ORSA reports for the last 3 years and capital and liquidity projections	6 June 2025
Summary of EY Tax Advice	6 June 2025
Details of sanctions screening process	6 June 2025
Compliance with Consumer Duty regulations and implementation status	6 June 2025
Pre- and post-Transfer administration service levels	12 June 2025
Details of all relevant recent regulatory correspondence over the last 3 years	30 June 2025
Details of pre- and post-Transfer administrative arrangements	2 July 2025
M&A criteria for the Transfer	3 July 2025
Capital management framework	3 July 2025
Details of current risk profile and risk appetite limits, including the impact of the Transfer on the risk profile	10 July 2025
Operational resilience self-assessment 2025	11 July 2025
Details on unit pricing strategy	23 July 2025

Item	Date received
WPA Report to the Board	17 September 2025
Model deep dive documentation	23 September 2025
September 2025 Joint SteerCo pack and meeting minutes, including go/no-go criteria and warranty documentation	14 October 2025
Sonata upgrade completion report	14 October 2025
Draft migration plan	14 October 2025
Investment papers	14 October 2025
Customer services operational readiness plan	17 October 2025
Fund closure process documentation	22 October 2025
Draft communications plan	29 October 2025
Project Plan for the Transfer and Part VIII Merger	16 December 2025
Transfer valuation methodology	05 January 2026
Part VIII Merger change management team structure	05 January 2026
Draft internal audit report on the Part VIII Merger	05 January 2026
Draft Part VIII Merger communications strategy	06 January 2026
Draft note of legal consultation regarding the Transfer and the Part VIII Merger	07 January 2026
Comments from CMS on IE Report	04 February 2026
Consumer Duty Interim Update	04 February 2026
FIL Life and SF SLAs	04 February 2026
Recent Performance Against SLAs	04 February 2026
Retirement Guidance Proposition	06 February 2026
Customer-Facing Tools Documentation	06 February 2026

Item	Date received
Chief Actuary Report on the Transfer	17 March 2026
WPA Report on the Transfer	17 March 2026

Table D.3 Information provided jointly by FIL Life and SF

Item	Date received
Framework agreement (including relevant commercial details)	30 May 2025
Part VII Scheme of Transfer	21 July 2025

Appendix E – Formal interviews held

I have held one or more formal interviews with each of the following key members of FIL Life and SF management teams to support my review of the Transfer and the production of the Report:

■ **FIL Life:**

- Chief Executive Officer (CEO) and Head of UK Business Legal
- Financial Reporting Financial Controller
- Associate Director, Investment Solutions
- Director of Strategic Initiatives
- Head of Legal and Compliance
- Chief Risk Officer (CRO)
- Chief Actuary

■ **SF:**

- Senior Project Manager
- With-Profits Actuary (WPA)
- Chief Operating Officer (COO)
- Chief Financial Officer (CFO)
- Chief Risk Officer (CRO)
- Head of Compliance and Financial Crime
- Chief Actuary
- Chief Executive Officer (CEO)
- Head of Investment Oversight
- Senior Finance Manager

Appendix F – Existing reinsurance arrangements

The following table summarises SF’s reinsurance agreements in place at the time this Report was written where the reinsured liabilities exceeded £10m. SF also has other reinsurance agreements where the reinsured liabilities are in aggregate less than £10m, but I have not included these in the report on grounds of materiality:

Reinsurer	Business Covered	Reinsured Liabilities (£m)
Swiss Re	Selected protection business	252
Hannover Re	Selected protection business	59
Mobius Life	Unit-linked fund investments	264
Hannover Re and RGA	Annuities	107
Canada Life ¹⁰	Unit-linked fund investments (FIA)	357

¹⁰ This reinsurance arrangement was recaptured at the end of November 2025

Appendix G – Glossary

Term	Description
ACS	Authorised Contractual Schemes
Actuarial Function Holder	The person holding the role of the Actuarial Function Holder as defined in SUP 4.3.13 of the FCA Regulatory Handbook
AFM	Association of Financial Mutuals
AGM	Annual General Meeting
AI	Artificial Intelligence
Annual Management Charge, or “AMC”	An annual charge, which is typically a percentage of the insurance policy value, to cover the costs of managing and administering an investment-linked insurance policy
APS	Actuarial Profession Standards
AUM	Assets Under Management
AVC	Additional Voluntary Contribution
Best Estimate Liabilities, or “BEL”	The present value of future liability cash flows on a realistic basis (i.e. with no prudence margins)
BlackRock	BlackRock Fund Managers Limited
BMA	Bermuda Monetary Authority
Board	The governing body of an insurer, typically the Board of Directors
Bonus	A bonus allocated to a with-profits policy and determined in line with principles and practices set out in the PPFM
Canada Life	Canada Life Limited
CCM	Customer Compliance Manager
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chief Actuary	Person responsible for the actuarial function
CIMP	Contracted in Money Purchase

Term	Description
Civil Procedure Rules	The procedure rules in civil cases by, amongst others, the High Court of Justice in England and Wales
CMS	CMS Cameron McKenna Nabarro Olswang LLP, legal advisors to SF
COBS	The FCA's Conduct of Business Sourcebook
Companies	FIL Life and SF, collectively
COO	Chief Operating Officer
Counterparty default risk	The risk that a counterparty defaults
Court	Collectively, the High Court of Justice, Business and Property Courts of England and Wales, the Companies List, and the Court of Session
Court sanction hearing	A formal proceeding where the Court considers and, if appropriate, sanctions the Scheme
Credit Risk	The risk that a borrower defaults on a bond
CRO	Chief Risk Officer
Deed of Novation	A formal and legally binding contract that ends an existing contract between two parties while creating a new contract on the same terms, but with a different party taking the place of an original party
Deferred Consideration	The amount, in addition to the Initial Consideration, payable by SF to FIL Life on the Effective Date
Diversified SCR	Under the Standard Formula, the SCR is calculated allowing for diversification between risks, recognising that risks may not be fully correlated. This includes both the offsetting of risks and the fact that multiple risks occurring at the same time may do so at different levels of severity, typically resulting in a lower SCR. For clarity, the Report refers to this as the diversified SCR.
EEA	European Economic Area
Effective Date	The date on which the Transfer will take effect. This is expected to be 30 September 2026.
EMEA	Europe, Middle East and Africa
Equity risk	The risk of a fall in the value of equities which back insurance liabilities
ERC	Executive Risk Committee

Term	Description
Estimated Net Income Amount	An amount calculated as the income earned by the Transferring Business from 1 March 2025 until the Effective Date, less expenses incurred over the same period
EU	European Union
Execution Date	The date of the Framework Agreement, namely, 17 March 2025
FCA	Financial Conduct Authority
FCA Consumer Duty Rules	FCA rules which came into effect from 31 July 2023 (for open products) and 31 July 2024 (for closed products, such as the Transferring Business), and which require financial firms to seek good outcomes for their customers
FCA Finalised Guidance	FG22/1: The FCA's approach to the review of Part VII insurance business transfers
FIL Life	FIL Life Insurance Limited
FIL Life Funds	FIL Life allocated units in unitised life funds to Section 32 policyholders, referred to as FIL Life Funds
FISL	FIL Investment Services (UK) Limited
FISL Funds	The subject assets held for and on behalf of certain unitised mutual funds managed by FISL, which has issued units in such funds to FIL Life. These funds are referred to as the FISL Funds.
FOS	Financial Ombudsman Service
Framework Agreement	The agreement signed by FIL Life and SF in March 2025 setting out the proposed terms of the Transfer
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTI	FTI Consulting LLP
FUM	Funds Under Management
FutureWise	The FIL Life default investment strategy for Section 32 policies
GAA	Governance Advisory Arrangement

Term	Description
GAAP	Group Appropriate Personal Pensions
GMP	Guaranteed Minimum Pension
GPP	Group Personal Pensions
Hannover Re	Hannover Rück SE
Health underwriting risk	The risks associated with underwriting health insurance
HMRC	His Majesty's Revenue and Customs
HSBC	Hongkong and Shanghai Banking Corporation Limited. A British multinational banking and financial services holding company which provided £500m in overdraft facility to FIL Life.
IASA	Insurance Agency and Services Agreement. A legal contract between an insurer and an insurance agent or agency.
IFoA	Institute and Faculty of Actuaries
IFPRU firms	Firms subject to Investment Firms Prudential Regime
IGC	Independent Governance Committee
Independent Actuary	An actuary appointed under Part VIII of the Friendly Societies Act 1992 to produce a report to provide details of and comment on the terms of a proposed merger, and to set out their opinion on the likely effects of the merger on the affected members and policyholders
Initial Consideration	The upfront amount payable by SF to FIL Life on the Execution Date
Institutional Liquidity Fund, or "ILF"	A fund held by FIL Life which can be used to provide liquidity to FIL Life
Internal Model	A model developed by an insurer to calculate the SCR, alternative to the Standard Formula approach
INVE	Investment Only
ISA	Individual Savings Account
LANMAS	London, Aberdeen & Northern Mutual Assurance Society Limited
LANMAS Sub-Fund	A ring-fenced sub-fund in SF containing assets and liabilities with respect to business transferred from LANMAS, wound up on 1 October 2025

Term	Description
Lapse risk	Policyholders remaining in force for a shorter period of time than anticipated
Life underwriting risk	The risks associated with underwriting life insurance, including expense and lapse risk
Liquidity premium	A premium to compensate investors for the risk that they are unable to sell the asset prior to maturity
Longevity risk	The risk resulting from policyholders living longer than expected
Long-Term Asset Fund, or "LTAF"	An open-ended investment fund designed to allow efficient investment in illiquid, long-term assets
L&G	Legal & General Assurance (Pensions Management) Limited
MA	Matching Adjustment
Manulife Fund	A with-profits block of business acquired by SF from Canada Life as part of a 2019 Part VII transaction
Manulife Sub-Fund	A ring-fenced sub-fund in SF containing assets and liabilities with respect to business transferred from Canada Life
Market Risk	The risk that as a result of market movements there are fluctuations in the income from, or value of, a firm's assets, or the amount of its liabilities. This includes equity risk.
Master Trust	A FIL Life multi-employer defined contribution scheme governed by a board of trustees who are independent from the Fidelity Group
Minimum Capital Requirement, or "MCR"	The level of capital below which regulatory intervention is increased further, compared with the intervention that would occur if a firm breached its SCR
MLL	Mobius Life Limited
M&GM	Marine and General Mutual Life Assurance Society Limited
M&GM Sub-Fund	A ring-fenced sub-fund in SF containing assets and liabilities with respect to business transferred from M&GM
M&G Prudential	Prudential Pensions Limited
NAV	Net Asset Value
Non-profit policyholders	Policyholders which are not with-profits insurance policyholders. The contracts of such policyholders are not eligible to receive profits of the insurance company.

Term	Description
Notional sub-funds	Collectively, ring-fenced funds of SF which are not the SF Main Fund
OEIC	Open-Ended Investment Company
OneFamily	Family Assurance Friendly Society Limited
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
ORSA	Own Risk and Solvency Assessment
Own Funds	The part of the assets held by an insurer which is not required to meet its regulatory liabilities, including Technical Provisions and other liabilities, under UK Solvency II
p.a.	Per Annum
Partial Internal Model	A model used by an insurer to calculate one or more of the risk components of the SCR, or to calculate the SCR for only part of the business, rather than the entire insurance portfolio
Part VII Transfer	A transfer of long-term insurance business carried out in accordance with Part VII of the FSMA, which requires an application made to the Court for approval under Section 111 of the FSMA
Part VIII Merger	The proposed merger (which is expected to be complete in early 2027), whereby all of SF's policies will be transferred via Part VIII of the Friendly Societies Act 1992 to OneFamily and SF will cease to exist as a standalone entity. This will include all the policies from FIL Life as part of the Transfer.
Peer Reviewer	A senior advisor to FTI who has independently reviewed this Report
PEP	Politically Exposed Person
Pillar 1	The first 'pillar' of the UK Solvency II regulatory framework regarding quantitative requirements, setting out the minimum amount of capital that insurers must hold by specifying the SCR
Pillar 2	The second 'pillar' of the UK Solvency II regulatory framework regarding governance and risk management, requiring insurers to develop an ORSA, which takes into account the insurer's own view of the risks it faces
Pillar 3	The third 'pillar' of the UK Solvency II regulatory framework regarding disclosure and transparency, setting out the disclosure requirements and the quantitative and qualitative information that insurers must report to the regulators and the public

Term	Description
Pioneer	Pioneer Friendly Society Limited
Politically Exposed Person, or “PEP”	An individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official, as defined under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. It includes ministers, MPs, ambassadors, and judges who sit on supreme courts.
PPA	Protected Pension Age
PRA	Prudential Regulation Authority
PRA Statement of Policy	PS1/22: The PRA’s approach to insurance business transfers
Pre-Funding basis	The basis of analysis for FIL Life’s solvency position assuming a full £500m transition taking place as at 30 June 2025
Preston Operative	Preston Operative Assurance Collecting Society
Principles and Practices of Financial Management, or “PPFM”	A document published in respect of a with-profits fund, which sets out the principles and practices governing the operation and management of the relevant with-profits business
PTFC	Protected Tax-Free Cash
Purchase Price	The consideration for the purchase of the Transferring Business
QRT	Quantitative Reporting Template
Rational Shelley	Rational Shelley Friendly Society Limited
Rational Shelley Sub-Fund	A ring-fenced sub-fund in SF containing assets and liabilities with respect to business transferred from Rational Shelley Friendly Society, wound up on 1 October 2025
RCSA	Risk and Control Self Assessment
Regulations	The FSMA 2000 (Control of Business Transfers) (Requirement on Applicants) Regulations 2001 (as amended)
Regulatory Handbook	Rules and guidance issued by the FCA
Report	This Independent Expert report produced in connection with the Part VII Transfer of certain long-term insurance business from FIL Life to SF
Reported basis	The basis of analysis reflecting FIL Life’s actual solvency position as reported at

Term	Description
	30 June 2025, including the effects of any ongoing transitions at that date. As at 30 June 2025, such a fund transition was taking place, with the amount of the transition being £281.6m.
Risk margin	A component of the technical provisions in addition to the BEL, which broadly reflects the cost of holding capital for “unhedgeable risks” (such as operational, counterparty default and longevity risks) which an external buyer of the business would theoretically require
Royal Standard	Royal Standard Friendly Society
“Scheme”, or “terms of the Transfer”	The legal documentation setting out the terms for the Transfer
Schroders	Schroder Pension Management Limited
Scottish Legal	Scottish Legal Life Assurance Society Limited
Scottish Legal Sub-Fund	A ring-fenced sub-fund in SF containing assets and liabilities with respect to the business transferred from Scottish Legal
SCR Coverage Ratio	Defined as the ratio of Own Funds to SCR
SF	Scottish Friendly Assurance Society Limited
SF Main Fund	SF’s long-term business fund (containing all of SF’s business), within which several notional sub-funds are maintained. Where the Report refers to business in the SF Main Fund, it is specifically referring to the business in the long-term fund excluding any policies in the separate notional sub-funds.
SHP	Stakeholder Pensions
SMR	Senior Managers Regime
SM&CR	Senior Managers and Certification Regime
Solvency Capital Requirement, or “SCR”	The SCR is the minimum level of (eligible) Own Funds that a firm must hold
Solvency II	EU-wide regulatory regime for the insurance industry which took effect from 1st January 2016
Sonata	Policy administration platform used by SF
Standard Formula	A methodology prescribed under the UK Solvency II regulations to calculate the SCR

Term	Description
Subject Assets	FIL Life holds units in certain unitised mutual funds which in turn hold certain assets subject to Ukraine-Russia sanctions, referred to as subject assets
SUP	The Supervision Manual contained in the FCA Handbook
SUP 18	Chapter 18 of the Supervision Manual of the FCA Regulatory Handbook
Supplementary Report	A further report produced prior to the Sanction Hearing to provide an update for the Court on the Independent Expert's conclusions in light of any significant events subsequent to the date of the finalisation of this Report
Surplus	Defined as Own Funds less SCR
TAS	Technical Actuarial Standards
TDF	Target Date Funds
Technical Provisions	Sum of BEL and Risk Margin
TOGC	Transfer of a Going Concern
Transfer	The proposed transfer of the long-term business of FIL Life to SF under Part VII of the FSMA
Transferring Business	The policies which will transfer from FIL Life to SF on the Effective Date
Transitional Measure for Technical Provisions, or "TMTP"	A transitioning provision under UK Solvency II to allow insurers the option of "phasing in" the impact of UK Solvency II over a period of up to 16 years from the inception of UK Solvency II in 2016
UK Solvency II	A solvency regime enforced by the PRA in the UK
Undiversified SCR	For the purposes of the Report, the undiversified SCR is defined as the aggregation of standalone risk capital requirements without allowing for diversification
Unit-linked	When insurance contracts provide benefits which are directly linked to the underlying value of units in an investment fund. These contracts do not participate in the profits of the insurance company.
VAT	Value Added Tax
Volatility Adjustment, or "VA"	An adjustment designed to mitigate the effect of short-term volatility of bond spreads on solvency position
With-profits	Insurance contracts where the policyholder is eligible to participate in any

Term	Description
	surplus arising on the whole or a certain part of the insurer’s long-term business
With-Profits Actuary, or “WPA”	The person holding the role of the With-Profits Actuary as defined in SUP 4.3.16A of the FCA Regulatory Handbook
With-Profits Approval Committee, or “WPAC”	A committee established by the SF Board for the purpose of supporting the Board in the consideration of certain delegated matters relating to the management of with-profits policies and to discharge certain aspects of the Board’s responsibilities as set out in Chapter 20 of COBS
With-Profits Committee, or “WPC”	A committee established by SF to act in an advisory capacity to inform the decision-making of the Board or the associated WPAC of the Board