

## Statement of Proposed Transfer of Engagements.

Proposed Transfer of the Engagements of Scottish Friendly Assurance Society Limited to Family Assurance Friendly Society Limited, to implement the merger of Scottish Friendly and OneFamily.

This document explains the proposed transfer and what it means for policyholders

### Contents

|                                                                       |    |
|-----------------------------------------------------------------------|----|
| Introduction                                                          | 1  |
| Comparative financial position                                        | 2  |
| Expected financial position after the proposed transfer               | 3  |
| Notes to the financial information                                    | 4  |
| Membership and Premium Income                                         | 8  |
| Funds under management                                                | 9  |
| Interests of the members of the Boards in the transaction             | 9  |
| Compensation or other consideration                                   | 9  |
| Jersey and Guernsey customers of Scottish Friendly                    | 11 |
| Summary of the Transfer - what it means for members and policyholders | 11 |
| Summary of Independent Actuary's report                               | 14 |
| Key dates                                                             | 17 |
| Glossary                                                              | 17 |



**Statement approved by the Prudential Regulation Authority under paragraph 2(2) of Schedule 15 of the Friendly Societies Act 1992.**

Proposed Transfer of the Engagements of Scottish Friendly Assurance Society Limited (“Scottish Friendly”) to Family Assurance Friendly Society Limited (“Family Assurance”), to implement the merger of Scottish Friendly and OneFamily.

This document includes an overview of what the transfer means, together with a summary of the financial position of Family Assurance and Scottish Friendly and a projected position of the proposed combined organisation. It highlights the key information that delegates need to help them make an informed decision when voting on the transfer resolution.

An Independent Actuary has been appointed to report on the proposed transfer. The role of this independent expert is to assess how the transfer could affect the different groups of policyholders involved.

A summary of the Independent Actuary’s findings is included at the end of this document. A full copy of the Independent Actuary’s report may be obtained from the registered offices of the Society, at Galbraith House, 16 Blythwood Square, Glasgow, G2 4HJ, at [www.scottishfriendly.co.uk/together](http://www.scottishfriendly.co.uk/together) or on request by emailing [memberfeedback@scottishfriendly.co.uk](mailto:memberfeedback@scottishfriendly.co.uk).

This statement on pages 1 to 18 has been approved by the Prudential Regulation Authority on 29 September 2026. It has been prepared in accordance with Schedule 15 to the Friendly Societies Act 1992. The Society remains responsible for the accuracy of the financial data included in this statement.

## Comparative financial position

### Balance Sheet as at 31 December 2025 (note 1)

|                                                        |        | Scottish<br>Friendly | Family<br>Assurance |
|--------------------------------------------------------|--------|----------------------|---------------------|
|                                                        | Note   | £000's               | £000's              |
| <b>Assets</b>                                          |        |                      |                     |
| <b>Intangible assets</b>                               |        |                      |                     |
| Goodwill                                               | 4a     | (23,235)             | -                   |
| Other intangible assets                                | 4a     | -                    | 20,517              |
| <b>Investments</b>                                     |        |                      |                     |
| Land and buildings                                     | 4b     | 3,100                | 8,678               |
| Investment in group undertakings                       | 4c)i   | 5,071                | 15,088              |
| Derivative financial instruments                       | 4c)iii | 4,519                | -                   |
| Non-linked financial instruments                       | 4c)ii  | 854,666              | 169,487             |
| <b>Assets held to cover linked liabilities</b>         | 4c)ii  | 2,736,981            | 1,556,714           |
| <b>Reinsurers' share of technical provisions</b>       | 4d     | 569,859              | 113,255             |
| <b>Cash at bank and in hand</b>                        |        | 98,541               | 22,795              |
| <b>Other assets (excluding Pension scheme surplus)</b> |        | 47,432               | 34,708              |
| <b>Pension scheme surplus</b>                          | 4e     | 11,236               | -                   |
|                                                        |        | 4,308,170            | 1,941,242           |

|                                                                       |    |           |           |
|-----------------------------------------------------------------------|----|-----------|-----------|
| <b>Liabilities</b>                                                    |    |           |           |
| Technical provisions                                                  | 4d | 4,017,461 | 1,709,659 |
| Other liabilities and provisions (excluding Pension scheme liability) |    | 95,810    | 60,825    |
| Pension scheme liability                                              | 4e | -         | 22,882    |
| Retained earnings                                                     |    | -         | 143,622   |
| Fund for future appropriations                                        |    | 194,899   | 4,254     |
|                                                                       |    | 4,308,170 | 1,941,242 |

## Capital position (note 1)

The capital position of Scottish Friendly and Family Assurance under Solvency UK as at 31 December 2025 is set out below. Both Scottish Friendly and Family Assurance had significant excess capital over the minimum required by regulations, as well as the level required by each Society's own risk appetite.

|                                                                   | Scottish Friendly | Family Assurance |
|-------------------------------------------------------------------|-------------------|------------------|
|                                                                   | £000's            | £000's           |
| Assets in excess of liabilities                                   | 215,794           | 161,177          |
| Deduction for restricted own funds relating to With-Profits funds | (89,145)          | (3,721)          |
| Eligible Own Funds                                                | 126,649           | 157,456          |
| Solvency capital requirement (SCR)                                | 64,366            | 76,502           |
| Capital coverage ratio                                            | 197%              | 206%             |

## Expected financial position after the proposed transfer

The expected capital position of Family Assurance under Solvency UK as at 31 December 2025 including the effects of the proposed transfer and the changes detailed in note 2, is set out below.

|                                                                   | Family Assurance |
|-------------------------------------------------------------------|------------------|
|                                                                   | £000's           |
| Assets in excess of liabilities                                   | 484,700          |
| Deduction for restricted own funds relating to With-Profits funds | (100,102)        |
| Eligible Own Funds                                                | 384,598          |
| Solvency capital requirement (SCR)                                | 229,829          |
| Capital coverage ratio                                            | 167%             |

After the proposed transfer, Family Assurance continues to have significant excess capital over the minimum required by regulation. The capital position has been considered further by the Independent Actuary in their assessment of the transfer in their report.

## Notes to the financial information

### 1. Source

The balance sheet information is extracted from the audited accounts of Scottish Friendly and Family Assurance respectively, for the year ended 31 December 2025.

The capital information is extracted from the Solvency and Financial Condition Report of Scottish Friendly and Family Assurance respectively, for the year ended 31 December 2025.

The figures included in this statement represent the accounts for each entity, and not their respective group consolidated accounts (unless stated). Both the Family Assurance Group (the OneFamily Group) and the Scottish Friendly Group have business carried out in subsidiary companies, however for the OneFamily Group this was more significant. The proportion of group funds under management managed by subsidiary entities as at 31 December 2025 was 72% for the OneFamily Group and 3% for the Scottish Friendly Group.

### 2. Change in financial position

The changes below have a material impact on the financial information presented above.

The impact of these changes has been fully anticipated by the Independent Actuary when considering the expected position of the enlarged Family Assurance entity once the Transfer has completed.

#### Scottish Friendly

On 30 September 2026 Scottish Friendly completed the acquisition of a book of annuities and “Section 32” policies from FIL Life Insurance Limited (the “FIL book”). This book is formed of c37,000 policies with assets under management of £2.3bn. The annuities consist of around 600 policies and £6m outstanding liabilities.

The acquisition has been considered separately by an independent expert, appointed to consider the impact of the transfer of the FIL book on policyholders and other interested persons. The independent expert has concluded he was satisfied that the transfer of the FIL book will have no material adverse impact on either the Scottish Friendly or the FIL policyholders. Consequently, the acquisition was sanctioned by the High Court of England & Wales on 8 September 2026. Further details can be found by emailing [memberfeedback@scottishfriendly.co.uk](mailto:memberfeedback@scottishfriendly.co.uk)

The effect of the acquisition of the FIL book is to increase Scottish Friendly’s assets under management by c£2.3bn relative to the position reported as at 31 December 2025.

The FIL book acquisition generates value for Scottish Friendly’s members by increasing Own Funds by c£15m (after allowing for the consideration paid to acquire it and all project costs incurred as part of the acquisition) relative to the position shown as at 31 December 2025. It, however, also increases Scottish Friendly’s Solvency Capital Requirement by c£25m compared to the position as at 31 December 2025, reflecting the additional capital required in accordance with the Solvency UK regulations primarily to allow for the risk that adverse experience reduces the present value of future management charges. Over time this additional capital requirement is expected to be released if experience emerges in line with expectations.

Consequently, after completing the acquisition, Scottish Friendly’s regulatory capital coverage ratio will have reduced by approximately 35 percentage points on a standalone basis relative to the position reported at 31 December 2025.

## **Family Assurance**

Family Assurance has a programme underway to simplify its legal entity structure. This involves transferring some unit-linked retail investment business, previously undertaken by subsidiary companies, to Family Assurance.

The transfer of business will enable certain legal entities to be deauthorised and wound up reducing operational cost and complexity for the group, as well as enhancing the proposition for members. These transfers therefore generate economic value for the group. While Family Assurance expects future profits to emerge within the Society from this business, the initial impact of the transfers is a reduction in regulatory capital coverage due to an increase in Solvency Capital Requirement.

While some of the planned transfers were completed prior to the end of 2025, the final transfer (of approximately £2.6bn in assets and liabilities, valued as at 31 December 2025 ) was completed during the third quarter of 2026 leading to a reduction in regulatory capital coverage ratio of approximately 20 percentage points compared to the position reported at 31 December 2025.

## **3. Capital Commitments**

Neither Scottish Friendly nor Family Assurance have any significant future capital commitments other than those disclosed above.

## **4. Key accounting policies used to determine the financial position of each Society**

To aid a comparison of the financial positions shown in the balance sheet above, a summary of the key accounting policies of each Society are noted below along with an assessment of the impact of any material differences.

Further information on accounting policies can be found in the Annual Report and Financial Statements of each Society at [www.onefamily.com](http://www.onefamily.com) and at [www.scottishfriendly.co.uk](http://www.scottishfriendly.co.uk).

### **a) Goodwill and Intangible assets**

#### **Scottish Friendly**

Negative goodwill arising on the acquisition of subsidiary undertakings and businesses is capitalised and amortised on a straight-line basis over 10 years.

#### **Family Assurance**

All goodwill in Family Assurance is now fully amortised.

Intangible assets are initially recognised at cost (or fair value in the case of intangibles acquired as part of a business combination) and are amortised over their estimate useful economic life.

A Present Value of In-force business asset is recognised on acquisition of long-term business. It is amortised over the expected life of the acquired policies.

Intangible assets are reviewed annually for indicators of impairment.

## **Comparison**

There is no material difference between the accounting policies.

### **b) Land and buildings**

Land and buildings have been brought into account on the following bases:

#### **Scottish Friendly**

Land and buildings are revalued to fair value at least every three years.

#### **Family Assurance**

Land and buildings are categorised as Investment Property due to being fully let to another Group company. Subsequent to initial recognition, investment properties are revalued to fair value every year.

## **Comparison**

The difference between the above accounting policies is not considered to have a material financial effect.

### **c) Investments**

Investments have been brought into account on the following bases:

#### **i) Investments in Group undertakings**

##### **Scottish Friendly**

Investments in Group undertakings are held at fair value. Fair value is determined as the excess of assets over liabilities, within the balance sheet of the undertaking. The Scottish Friendly Board believe this is an approximate fair value at which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

##### **Family Assurance**

Investments in Group undertakings are held at fair value. Fair value is determined using techniques including present value of future projections and recoverable amount. As at 31 December 2025 the fair value is equivalent to the excess of assets over liabilities, within the balance sheet of the undertaking, excluding any intangible assets.

## **Comparison**

Both Societies are using a similar method to determine the value of Investments in Group undertakings.

#### **ii) Financial Investments**

##### **Scottish Friendly**

Basic financial assets are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. Debt instruments that have no stated interest rate (and do not constitute a financing transaction) and are classified as payable or receivable within one year, are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets held at fair value through income and expenditure are initially measured at fair value, usually the transaction price excluding transaction costs. Subsequent measurement is to fair value.

#### **Family Assurance**

Basic financial assets are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses (for financial assets).

Financial assets held at fair value through income and expenditure are initially measured at fair value, usually the transaction price excluding transaction costs. Subsequent measurement is to fair value.

#### **Comparison**

Both Societies follow similar accounting policies for valuing financial investments.

### **iii) Complex financial instruments**

#### **Scottish Friendly**

A small portfolio of derivatives is held for efficient portfolio management. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

#### **Family Assurance**

No complex financial instruments are held.

#### **Comparison**

Both Societies follow similar accounting policies for valuing complex financial instruments, however Family Assurance did not hold any as at 31 December 2025.

### **d) Technical Provisions**

|                                                              | <b>Scottish Friendly</b> | <b>Family Assurance</b> |
|--------------------------------------------------------------|--------------------------|-------------------------|
|                                                              | <b>£000's</b>            | <b>£000's</b>           |
| Long term business provision                                 | 1,818,238                | 152,945                 |
| Technical provision for linked liabilities                   | 2,199,223                | 1,556,714               |
| Total technical provisions                                   | <b>4,017,461</b>         | <b>1,709,659</b>        |
| Claims outstanding (within Other Liabilities and Provisions) | 32,814                   | 13,763                  |
|                                                              | <b>4,050,275</b>         | <b>1,723,422</b>        |

Both Societies measure linked investment contracts at the fair value of the underlying assets and liabilities.

Scottish Friendly and Family Assurance both value the long-term business provision on a prudent basis using the methodology of Solvency UK. Scottish Friendly calculates the prudence within

the long-term business provision using the risk margin parameters of Solvency UK whereas Family Assurance uses parameters that reflect management's explicit risk appetite.

Scottish Friendly and Family Assurance both value the reinsurers' share of technical provisions using the methodology of Solvency UK.

### Comparison

Applying the Family Assurance accounting policy for determining prudence margin to Scottish Friendly would lead to a circa £5.6m reduction in the long-term business provision and an equivalent increase in Fund for Future Appropriations.

### e) Pension Scheme surplus/liability

#### Scottish Friendly

Scottish Friendly operates a closed defined benefit pension scheme. The pension scheme assets are measured in line with FRS102, with the assets attributable to a buy-in insurance policy being measured at the fair value of the liabilities. The liabilities are measured on an actuarial basis using the projected unit method. The actuarial valuations are obtained at least triennially and updated at each balance sheet date.

Where assets exceed liabilities, a surplus is permitted to be recognised.

#### Family Assurance

Family Assurance has obligations in relation to a closed defined benefit pension scheme. The pension scheme assets are also measured in line with FRS102 (as guided by IFRS). Pension scheme assets exclude a buy-in insurance policy issued by Family Assurance to the Scheme. As this is not recognised under accounting rules, a pension scheme liability is shown within the Family Assurance financial statements. It should be noted that this reflects accounting rules only, and if the buy-in policy was recognised the resulting deficit would reduce to £1m.

### Comparison

Both Societies apply the same accounting policies to value defined benefit pension schemes.

### Membership and Premium Income

|                                                                       | Scottish Friendly | Family Assurance |
|-----------------------------------------------------------------------|-------------------|------------------|
| Membership numbers as at 31 December 2025                             | 855,000           | 1,223,000        |
| Premium income net of reinsurance for the year ended 31 December 2025 | £143,196,000      | £27,383,000      |

Premium income net of reinsurance represents the premiums receivable by each Society in respect of insurance contracts written by it during the year ended 31 December 2025, after deduction of premiums to reinsurers. Premium income does not include contributions by policyholders into unit-linked investment contracts within each Society.

As stated in note 1 to the financial information, both Scottish Friendly Group and the OneFamily Group have business carried out in subsidiary companies; this also includes the receipt of contributions into investment products managed by these subsidiaries, which are not reflected within the Society or Group accounts.

In each Society, membership is connected to the holding of a qualifying policy. In Scottish Friendly, membership is conferred on policyholders of the Society. In Family Assurance, membership similarly includes policyholders of the Society, but also extends, in certain cases and in accordance with the Society's rules, to holders of qualifying products issued by subsidiary undertakings within the OneFamily Group. Accordingly, the membership structure of Family Assurance is broader in scope.

### Funds under management

|                                | Scottish Friendly | Family Assurance |
|--------------------------------|-------------------|------------------|
|                                | £m                | £m               |
| Funds under management - Group | 4,446             | 6,154            |

The table above shows the funds under management of the two groups as at 31 December 2025, as disclosed in their respective accounts. These numbers are unaudited. Funds under management is an alternative reporting metric, which is designed to provide an indication of the scale of each group and to complement the disclosures on reported assets. Whilst both businesses report this as an alternative reporting metric, there are small differences in the bases of preparation. We do not consider that these differences are significant.

As stated in note 2 to the financial information, Family Assurance has a programme underway to simplify its legal entity structure. This involves transferring some unit-linked retail investment business, previously undertaken by subsidiary companies within the OneFamily Group, to Family Assurance Friendly Society Limited. Approximately £2.6bn in funds under management, as at 31 December 2025 valuation, was transferred during the third quarter of 2026.

The table above excludes the impact of Scottish Friendly's acquisition of the FIL book as described earlier. This would have the impact of increasing the Scottish Friendly funds under management by £2.3bn.

### Interests of the members of the Boards in the transaction

Except as otherwise stated in this statement, the interests of members of the Boards of Scottish Friendly and Family Assurance in the transaction, are limited to the holding of policies or other products in Scottish Friendly and Family Assurance or its subsidiaries.

### Compensation or other consideration

Certain employees of Scottish Friendly and Family Assurance are eligible to receive transaction incentive payments in connection with the Transfer (the "Transaction Incentive Scheme"). The arrangements under the Transaction Incentive Scheme, which are intended to promote retention and ensure operational continuity, have been approved through the established governance processes of the Societies and have been informed by external independent advice.

The final amount of any award payable to individuals (whether Officers or other employees) (which will be at the entire discretion of the remuneration committee) will be made in recognition of their responsibilities in delivering the Transfer and supporting the business of the Societies throughout the Transfer.

As required by The Act, the table below details awards made for Officers (which term is defined by

The Act). The current Company Secretary of Scottish Friendly (which is an “Officer role”) is also the Chief People Officer (which is not an “Officer role”) and she may receive a payment for her role as Chief People Officer, not Company Secretary – but as she has an Officer role, the award that may be payable is nonetheless disclosed.

The terms of the Transaction Incentive Scheme require that individuals remain employed by the business to completion of the Transfer to qualify for an award. Awards will be payable over a period of up to three years from the merger effective date.

The total amount agreed and set aside under the Transaction Incentive Scheme relating to Scottish Friendly employees is £1,424,786.

The total amount agreed and set aside under the Transaction Incentive Scheme relating to Family Assurance employees is £1,365,441.

Accordingly, the total amount agreed and set aside under the Transaction Incentive Scheme across Scottish Friendly and Family Assurance in connection with the Transfer is £2,790,227.

The amounts that may be payable under the Transaction Incentive Scheme are broken down as follows:

#### **Transaction Incentive Scheme Payments to Officers of Scottish Friendly**

| <b>Role</b>                    | <b>Maximum Payable (£)</b> |
|--------------------------------|----------------------------|
| <b>Chief Executive</b>         | <b>494,227</b>             |
| <b>Chief Financial Officer</b> | <b>239,943</b>             |
| <b>Company Secretary</b>       | <b>119,972</b>             |

#### **Transaction Incentive Scheme Payments to Other Employees of Scottish Friendly**

An aggregate amount of £570,645 for other Scottish Friendly employees who are not Officers of Scottish Friendly.

#### **Transaction Incentive Scheme Payments to Officers of Family Assurance**

| <b>Role</b>                    | <b>Maximum Payable (£)</b> |
|--------------------------------|----------------------------|
| <b>Chief Executive</b>         | <b>445,000</b>             |
| <b>Chief Financial Officer</b> | <b>234,000</b>             |

#### **Transaction Incentive Scheme Payments to Other Employees of Family Assurance**

An aggregate amount of £686,441 for other OneFamily employees who are not Officers of Family Assurance.

#### **Redundancy and Payments In Lieu of Notice**

In addition to the Transaction Incentive Scheme payments described above, aggregate amounts of £252,746 in respect of Scottish Friendly Officers and £203,940 in respect of Family Assurance

Officers have been agreed for redundancy and payments in lieu of notice.

Any redundancy payment or payment in lieu of notice will be payable only where the relevant individual's employment terminates in circumstances giving rise to that entitlement.

Non-executive directors of Scottish Friendly and Family Assurance will not receive any compensation or other consideration in connection with the Transfer.

### **Jersey and Guernsey customers of Scottish Friendly**

The Courts in Jersey and the Bailiwick of Guernsey have been asked to approve the transfer of Scottish Friendly business to OneFamily. If you would like more information about the Jersey and/or Bailiwick of Guernsey processes, including details of when the Court hearings will take place and what to do if you have any questions or objections on the proposals, please email [memberfeedback@scottishfriendly.co.uk](mailto:memberfeedback@scottishfriendly.co.uk).

### **Summary of the Transfer - what it means for members and policyholders**

This section summarises the main terms of the Transfer and explains how it would affect members and policyholders of both Scottish Friendly and Family Assurance if the Transfer goes ahead. The entire insurance business of Scottish Friendly is proposed to transfer to Family Assurance.

#### **Approval and Effective Date**

The Transfer can only take place if:

- the Special Resolutions are passed; and
- the Prudential Regulation Authority (PRA), after consulting the Financial Conduct Authority (FCA), confirms the Transfer.

The proposed Effective Date of the Transfer is 28 February 2027, or a later date approved by the PRA and FCA.

#### **Policies and benefits**

If the Transfer takes effect:

- all assets, liabilities and policies of Scottish Friendly will transfer to Family Assurance;
- Family Assurance will become responsible for administering those policies;
- the terms, conditions, guarantees and benefits of transferred policies will not change as a result of the Transfer, except as noted below under the heading **With-Profits policies**; and
- all subsidiaries of Scottish Friendly will become subsidiaries of Family Assurance

Policies originally issued and administered by Family Assurance will continue to be administered by Family Assurance in the same way as before.

#### **Membership**

- Members of Scottish Friendly will become members of Family Assurance on the Effective Date.
- Members of Family Assurance will continue to be members of Family Assurance.

After the Transfer, all members will have the same membership rights within Family Assurance

under its rules. Where a policy does not carry membership rights before the Transfer, this position will not change solely because of the Transfer.

Scottish Friendly members currently exercise their rights to vote on ordinary and special resolutions of the society through a member delegate system. After the Transfer, these members will become members of Family Assurance and will participate in Family Assurance's one member, one vote system, in accordance with its rules.

### **With-Profits policies**

Members and policyholders who hold With-Profits policies with Scottish Friendly should note that:

- the Scottish Legal Life, Marine & General Mutual and Manulife sub-funds will continue after the transfer as separate ring-fenced funds within Family Assurance, and will continue to be managed in accordance with their established Principles and Practices of Financial Management;
- A new with-profits fund (the "SFAS sub-fund") will be established within Family Assurance and the with-profits policyholders currently invested in the Main Fund will be transferred into this new sub-fund at the point the merger completes. In order to commute future expectations in relation to ProfitShare distributions which would have arisen in the Main Fund, a one-off payment will be made into the SFAS sub-fund at the point the merger completes, in addition to the assets otherwise attributed to the relevant With-Profits policies. This will support enhancements to policy values over time;
- The SFAS sub-fund will be managed in accordance with a new Principles and Practices of Financial Management for that sub-fund, which is expected to be based on the Principles and Practices of Financial Management currently applying to the Scottish Friendly Main Fund, other than for some minor amendments to reflect the specifics of the merger with Family Assurance and the impact this has on ProfitShare;
- All With-Profits sub-funds will be managed with ongoing independent actuarial oversight.

Following the transfer, the SFAS sub-fund will be closed to new business other than in respect of contractual increments (including rights or options for a new, additional or replacement Policy; and other automatic increases to premiums and benefits) for Transferring Policies.

The opinion of Scottish Friendly is that the Transfer does not meet the regulatory definition of a reattribution. A reattribution happens when a company which operates a With-Profits fund redefines with-profit policyholders' rights and interests in the inherited estate of the With-Profits fund. Broadly, the inherited estate is the surplus built up over time in the With-Profits fund, over and above the amount expected to be needed to meet policy benefits and the fund's other liabilities. Scottish Friendly does not expect the proposals to result in a redefinition of the With-Profit policyholders rights and interest but others, including regulators and policyholders may take a different view of how the rules apply. To provide certainty for everyone, Scottish Friendly has applied to the FCA for a modification of its rules and this includes having to show that certain tests are met.

On that basis, Scottish Friendly has put in place measures designed to ensure it is able to meet these tests and that the interests of With-Profits policyholders are appropriately taken into account throughout the process, including oversight and engagement by the With-Profits Committee, who have responsibility for advising the Board on any matter that impacts With-Profits policyholders, taking advice from the With-Profits Actuary on their consideration of the matter, ensuring that clear communications are provided that support affected policyholders to understand the change, and in engaging with feedback from policyholders who raise queries or comments relating to the proposal. Further information about the impact on With-Profits policyholders can be found in

the Independent Actuary's report and in communications issued to With-Profits policyholders in connection with the Transfer.

## **Management and governance after the Transfer**

Following the Transfer:

- the future Family Assurance Board will manage the combined Society, and it will include current board members from both Scottish Friendly and Family Assurance, ensuring continuity of experience and understanding from both Societies; and
- the enlarged Society will continue to be regulated by the PRA and the FCA and will be required to meet all applicable financial and governance standards.

Subject to regulatory approval it is expected that the following appointments will be made: The current Chair of Scottish Friendly will become the Chair of Family Assurance. The current Chief Executive Officer of Family Assurance will remain as the Chief Executive Officer of Family Assurance in its enlarged form. The Chief Finance Officer of Scottish Friendly will become Chief Finance Officer of the enlarged Society. Three other non-executive directors of Scottish Friendly will become members of the future Family Assurance Board. Three non-executive directors and one executive director of Family Assurance will retire.

## **Costs**

The costs of the Transfer will be met by each of Scottish Friendly and Family Assurance. Members' and policyholders' benefits will not be reduced to meet these costs.

## **What does not change**

The Transfer:

- does not reduce policy benefits;
- does not alter existing policy terms and conditions; and
- does not require members or policyholders to take any action.

After the transfer Scottish Friendly will be dissolved and will cease to exist as a separate friendly society.

The Transfer will not conflict with any contractual commitment of either Society, nor those of any of their respective subsidiaries.

## Summary of Independent Actuary's report

The Independent Actuary is required to provide a report on the proposed transfer under section 88 of the Friendly Societies Act 1992.

The text below is a summary of the Report of the Independent Actuary, Mr Nick Ford FIA, Partner at Barnett Waddingham LLP, part of the Howden Group, on the proposed Transfer of Engagements (the "Transfer") of Scottish Friendly Assurance Society Limited ("Scottish Friendly") to Family Assurance Friendly Society Limited ("Family Assurance").

The full report provides details of the Independent Actuary, a statement of his independence, the basis of preparation of the report, a statement of reliance and limitations and the full body of the report and its conclusions. A full copy of the report may be obtained from the registered offices of either Society, at [www.scottishfriendly.co.uk/together](http://www.scottishfriendly.co.uk/together) or on request by emailing [memberfeedback@scottishfriendly.co.uk](mailto:memberfeedback@scottishfriendly.co.uk).

### Overview

My role is to consider the likely effects of the Transfer on the policyholders of Scottish Friendly and Family Assurance. In doing so, I consider the impact on different groups of policyholders, including whether the Transfer is fair to Scottish Friendly's with-profits policyholders.

I have considered both the likely positive and the likely adverse effects. I have considered the overall balance of these effects in assessing whether the Transfer is expected to be in the interests of members. In considering the likely adverse effects, I have assessed whether the Transfer would have a 'material adverse effect' on any group of policyholders in relation to a number of factors. These include benefit expectations, benefit security, administration and service standards, and governance and management. My assessment is ultimately a matter of judgement about the likelihood and impact of possible future events. I have summarised my assessment below.

### Impact on benefits expected to be paid to policyholders

#### **With-profits policyholders transferring from Scottish Friendly to Family Assurance**

The guaranteed benefits of Scottish Friendly with-profits policyholders will be unchanged following the Transfer. With-profits policyholders in the Scottish Friendly Main Fund will move to a new ring-fenced with-profits sub-fund within Family Assurance. The current ProfitShare arrangement will be removed and a lump sum will be added to the new sub-fund. This amount is intended to reflect the value of the future ProfitShare payments that eligible policyholders might reasonably have expected to receive. It will support the enhancement of future policy values for eligible policies within the sub-fund. Eligible policyholders will therefore receive greater certainty over this value. The new sub-fund will also benefit from greater certainty over its future administration expenses under a long-term expense agreement. I am satisfied that these arrangements appropriately recognise policyholders' reasonable expectations in relation to future ProfitShare payments, will not have a material adverse effect on the benefits they expect to receive and are fair to policyholders.

I have considered how Scottish Friendly's assets will be divided between the new with-profits sub-fund and Family Assurance's non-profit fund, and I am satisfied that this is fair. These policyholders will give up their Scottish Friendly membership rights but will become members of Family Assurance and remain entitled to a share of any surplus in the new with-profits sub-fund. I am satisfied that the benefits and protections provided are fair, taking account of the changes to how their rights and interests are being met.

I have also considered the main credible alternatives available to Scottish Friendly, including

continuing on its existing basis, selling the non-profit business separately, and closing to new business and running off its existing policies. I have not identified a credible alternative that would be expected to provide a materially better overall outcome for Scottish Friendly's with-profits policyholders.

The three existing Scottish Friendly ring-fenced with-profits funds will transfer into equivalent ring-fenced funds within Family Assurance. I do not expect the Transfer to have a material adverse effect on the benefits expected to be paid to policyholders in those funds.

#### **Other policyholders transferring from Scottish Friendly to Family Assurance**

There will be no change to the terms and conditions of non-profit policies, including unit-linked policies, transferring from Scottish Friendly to Family Assurance. There will be no change to the way in which these policies are managed, including, where relevant, the charges, expenses and range of funds available to invest in. I therefore do not expect the Transfer to result in either a reduction in the benefits paid to or an increase in the premium required from any of Scottish Friendly's current non-profit policyholders whose policies are to be transferred to Family Assurance. These policyholders are also expected to benefit from being part of a larger and more diversified fund.

#### **Family Assurance's existing policyholders**

Similar to the Scottish Friendly non-profit policyholders, there will be no change to the way the policies of Family Assurance's existing policyholders are managed. I therefore do not expect the Transfer to result in either a reduction in the benefits paid to or an increase in the premium required from any of Family Assurance's existing policyholders. The Transfer is also expected to provide benefits through increased scale and diversification, as well as anticipated operational efficiencies.

#### **Security of policyholder benefits**

##### **Policyholders transferring from Scottish Friendly to Family Assurance**

I do not expect the Transfer to significantly reduce the security of benefits for policyholders transferring from Scottish Friendly to Family Assurance.

Both Scottish Friendly and Family Assurance maintain internal policies which govern the amount of financial resources that must be retained within the firm. For each, this is in excess of the minimum required by regulation.

Family Assurance has reviewed the capital management policy that would apply following the Transfer, taking account of the enlarged Society's expected business mix and risk profile. I have reviewed the work supporting the proposed policy and consider it to provide a reasonable basis for managing the enlarged Society's financial position. Family Assurance is expected to remain above its proposed capital target following the Transfer.

Scottish Friendly and Family Assurance are exposed to similar risks, reflecting the similar nature of the insurance policies they have on their balance sheets. I am satisfied that the Transfer will not materially change the risks the Scottish Friendly policyholders are exposed to.

I am satisfied that there is no material adverse effect on the security of the transferring Scottish Friendly with-profits policyholders resulting from the Transfer given the level of capitalisation of the funds and the support mechanisms implemented to protect them.

##### **Family Assurance's existing policyholders**

I do not expect the Transfer to significantly reduce the security of benefits for Family Assurance's

existing policyholders. The Transfer is not expected to result in changes to Family Assurance's internal policies governing the amount of financial resources to be held. As noted above, I am satisfied that Family Assurance will hold sufficient financial resources following the Transfer and that there will be no material change to the risks that Family Assurance policies are exposed to.

#### Administration, service standards, governance and management

Immediately following the Transfer, the policies of Scottish Friendly and Family Assurance will continue to be administered by the same staff, on the same administration systems as before and to the same customer service standards.

The governance and management of the two firms is broadly similar, with consistent internal policies, committees and governance and control structures. The Board of the combined entity is expected to have appropriate representation from both firms.

Overall, I am satisfied that there will be no material adverse effect on any group of policyholders in relation to their policy administration, service standards, governance or management as a result of the Transfer.

#### Conclusion

I have considered the positive and adverse effects of the Transfer and how they affect different groups of policyholders and members.

The principal positive effects include greater certainty over future policy enhancements and future administration expenses for eligible Scottish Friendly with-profits policyholders, increased scale and diversification, and anticipated operational efficiencies.

I have also considered the potentially adverse effects of the Transfer, together with the protections and other measures that apply. This has included consideration of benefit expectations, benefit security, administration and service standards, and the other matters covered in my report. I do not expect any of the adverse effects identified to have a material adverse effect on any group of policyholders.

Taking the positive and adverse effects together, the proposed transfer of long-term insurance business from Scottish Friendly to Family Assurance is, in my opinion, expected to be in the interests of the members of both societies. I am also satisfied that, viewed as a whole, the terms of the Transfer are fair to Scottish Friendly's with-profits policyholders.

Further, I consider the overall approach taken by the parties to member communications regarding the proposed Transfer to be appropriate and consistent with the requirements of the Friendly Societies Act 1992. I am also satisfied that the communications to be issued to members cover all of the key features of the proposed Transfer and are written in language that I consider to be appropriate for policyholders.

## Key dates

|                  |                                                                        |
|------------------|------------------------------------------------------------------------|
| 18 November 2026 | Special General Meeting of Family Assurance Friendly Society Limited   |
| 20 November 2026 | Special General Meeting of Scottish Friendly Assurance Society Limited |
| 6 January 2027   | Expected last date for making representations to the PRA               |
| 27 January 2027  | Expected date for Hearing for Oral Representations                     |
| 28 February 2027 | Expected Effective Date of Transfer                                    |

## Glossary

The purpose of this section is to introduce and explain some of the key expressions which are used in this document.

|                                    |                                                                                                                                                                                                                              |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Effective Date                     | The date on which the transfer becomes effective                                                                                                                                                                             |
| Engagements                        | All the property, assets and liabilities of Scottish Friendly.                                                                                                                                                               |
| Family Assurance                   | Family Assurance Friendly Society Limited                                                                                                                                                                                    |
| Family Assurance Board             | The board of directors of Family Assurance at the date of this document                                                                                                                                                      |
| Future Family Assurance Board      | The board of directors of Family Assurance following the transfer                                                                                                                                                            |
| FCA                                | The Financial Conduct Authority                                                                                                                                                                                              |
| Independent Actuary                | The actuary appointed to report on the terms of the transfer pursuant to section 88(2) of the Act                                                                                                                            |
| OneFamily                          | Trading name of Family Assurance Friendly Society Limited and its subsidiaries                                                                                                                                               |
| OneFamily Group                    | Family Assurance Friendly Society Limited and its subsidiaries                                                                                                                                                               |
| Own Funds                          | Surplus of assets over technical provisions and other liabilities under Solvency UK regulations                                                                                                                              |
| PRA                                | The Prudential Regulation Authority                                                                                                                                                                                          |
| ProfitShare                        | ProfitShare is a discretionary distribution paid to eligible Scottish Friendly With-Profits policyholders, allowing them to share in surplus generated by Scottish Friendly's wider business, including non-profit business. |
| Scottish Friendly / SFAS           | Scottish Friendly Assurance Society Limited                                                                                                                                                                                  |
| Scottish Friendly Board            | The board of directors of Scottish Friendly at the date of this document                                                                                                                                                     |
| Scottish Friendly Group            | Scottish Friendly Assurance Society Limited and its subsidiaries                                                                                                                                                             |
| Solvency Capital Requirement (SCR) | The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency UK regime                                                                                                                |

|                            |                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Solvency UK                | Solvency UK sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.                                                                                                                                                                                   |
| Special Resolution         | A resolution passed by at least 75% of member delegates who vote in person or by proxy                                                                                                                                                                                                                                                                                                                    |
| The Act                    | The Friendly Societies Act 1992                                                                                                                                                                                                                                                                                                                                                                           |
| The Merger or the Transfer | The transfer under section 86 of the Act of all the engagements of Scottish Friendly to Family Assurance as summarised in this document                                                                                                                                                                                                                                                                   |
| With-Profits               | A With-Profits fund is an investment fund that pools money from With-Profits policyholders to invest in a mix of assets like stocks, bonds, and property. It smooths returns over time, reducing the impact of market ups and downs, and shares profits with With-Profits policyholders through bonuses. A With-Profits policy is a policy which has invested in and participates in a With-Profits fund. |

