

Howden Insurance Actuarial & Longevity

Scottish Friendly Assurance Society Limited and Family Assurance Friendly Society Limited

Report by the Independent Actuary on
the proposed transfer of business of
Scottish Friendly Assurance Society
Limited to Family Assurance Friendly
Society Limited by means of a transfer of
engagements under Part VIII of the
Friendly Societies Act 1992

HOWDEN

Contents

1.	Introduction.....	3
2.	Executive summary.....	10
3.	Background to Scottish Friendly.....	16
4.	Background to OneFamily	28
5.	Outline of the transfer	40
6.	Financial impacts of the transfer.....	45
7.	Assessment criteria	55
8.	Impact of the transfer on Scottish Friendly Transferring Policyholders	58
9.	Fairness of the transfer from the perspective of Scottish Friendly with-profits policyholders.....	74
10.	Impact of the transfer on OneFamily Existing Policyholders	82
11.	Other stakeholders	89
12.	Policyholder communications	91
13.	Conclusions	96
Appendix A	Abbreviations	98
Appendix B	Glossary	99
Appendix C	Documents considered.....	103

1. Introduction

Background

- 1.1 Scottish Friendly Assurance Society Limited (“Scottish Friendly”) and Family Assurance Friendly Society Limited (“OneFamily”) propose to merge the two entities by transferring all business within Scottish Friendly to OneFamily.
- 1.2 Scottish Friendly and OneFamily (“the parties”) are both mutual friendly societies, registered in Scotland and in England and Wales, respectively. The parties are each regulated by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”).
- 1.3 OneFamily comprises a non-profit fund (“OFNPF”) containing exclusively non-profit business and with-profits business limited to a single closed ring-fenced fund (“WP2” fund). Scottish Friendly comprises a Main Fund (“SFMF”), which includes non-profit business and a material volume of with-profits business, as well as three closed ring-fenced with-profits funds (“SF RFFs”).
- 1.4 Under the proposed transfer:
- the non-profit business of the SFMF will transfer into the OFNPF;
 - a new closed ring-fenced fund (“SFAS” sub-fund) will be created to house the remaining with-profits business from the SFMF; and
 - the SF RFFs will be transferred and established as equivalent ring-fenced sub-funds within OneFamily.
- 1.5 The transferor, Scottish Friendly, is a friendly society and, as such, the business will be transferred by means of a transfer of engagements (“transfer”) under Part VIII of the Friendly Societies Act 1992 (“FS Act”). The transfer will proceed in accordance with the terms of an Instrument of Transfer (“IoT”) agreed between the parties. The transfer is scheduled to take effect on 28 February 2027 (“Effective Date”), subject to confirmation by the PRA, in consultation with the FCA.
- 1.6 Under the FS Act and the rules of each society, the proposed transfer is subject to approval by the members of Scottish Friendly and OneFamily by way of special resolution. For Scottish Friendly, these voting rights are exercised through its delegate structure. For OneFamily, the vote is undertaken directly by eligible individual members. The outcome of these member votes forms part of the statutory process.

Instructions

- 1.7 Under the FS Act, and consistent with the guidance provided in its Statement of Policy¹ (and as mentioned in SUP 18.4²), the PRA is required to confirm a proposed transfer of engagements. It will do so only where, alongside other considerations, it is satisfied that the transfer is in the interests of the members of each friendly society participating in the transfer.
- 1.8 In support of this, under section 88 of the FS Act, the PRA may direct a transferor society or a transferee society to provide the PRA with a report by an independent actuary on the terms of the proposed transfer and their opinion on the likely effects of the transfer on members who are long-term policyholders of either the transferor or (if it is a friendly society) the transferee. In addition, the PRA may request that the independent actuary considers the likely effects on any other policyholders or members impacted by the transfer. The PRA will take into account the scale and complexity of the transfer in its decision on whether to require such a report.

¹ Statement of Policy: “The PRA’s approach to insurance business transfers” (January 2022)

² Chapter 18 of the Supervision Manual of the FCA Handbook

- 1.9 The PRA has requested that an independent actuary report is prepared for this transfer. I have been appointed by the parties to act as the Independent Actuary in connection with the transfer. The PRA, in consultation with the FCA, confirmed they had no objection to my appointment.
- 1.10 The purpose of my work is to provide a comprehensive report on the terms of the proposed transfer and its likely effects on members who are long-term policyholders of both the transferor and transferee. For the purposes of this report, ‘policyholders’ refers to those members holding contracts of long-term insurance business. These policyholders represent the principal group whose economic interests are directly affected by the transfer.
- 1.11 I note, however, that the statutory test for confirmation of the transfer applies more broadly to the interests of members as a whole. OneFamily includes members who are not long-term policyholders, specifically those whose relationships arise through non-insurance policies, e.g. ISAs and Child Trust Funds, originally sold through its subsidiary entities. I have separately considered whether the transfer gives rise to any material adverse effect on such members and this is addressed in Section 11 (‘Other stakeholders’).
- 1.12 My report is primarily for the purpose of assisting the PRA in confirming the proposed transfer. My report will also be provided to the Boards of both Scottish Friendly and OneFamily as well as to the PRA and FCA. In addition, the report will be made available to members of both organisations via their respective websites.
- 1.13 Paragraph 4.6 of the PRA’s Statement of Policy explains that the general principles in paragraphs 2.30 to 2.37 apply to an independent actuary’s report on a transfer of engagements. Paragraph 2.30(13) sets out the PRA’s expectation that the report should acknowledge any matters that have not been assessed but which may influence policyholders’ consideration of the IoT. I do not consider there to be any such matters.
- 1.14 During the regulatory review of the transfer, Scottish Friendly and the FCA discussed whether the proposed division and allocation of the SFMF under the transfer engaged the requirements under Chapter 20 of the FCA’s Conduct of Business Sourcebook (‘COBS 20’) governing the reattribution of an inherited estate.
- 1.15 Scottish Friendly subsequently applied to the FCA for a modification of COBS 20.1.2R in relation to the transfer. If the modification is approved in the form proposed and its conditions are satisfied, the reattribution process set out in COBS 20.2.42R to COBS 20.2.52G, including the appointment of a separate policyholder advocate, would not apply. The proposed conditions of the modification include approval of the transfer by special resolution, an Independent Actuary’s report with an enhanced scope and a communications plan shared with the FCA. The communications will include information on the transfer’s effects, the benefits affected policyholders are likely to receive, any rights and interests they are likely to give up and the relevant actuarial opinions.
- 1.16 In connection with the proposed modification, my terms of reference require me to report on: the fairness of the transfer from the perspective of Scottish Friendly’s with-profits policyholders; the proposed allocation of assets; such credible alternatives to the transfer as are reasonably available to Scottish Friendly; and the benefits that relevant with-profits policyholders are likely to receive and any rights or interests that they are likely to give up under the transfer.
- 1.17 Scottish Friendly is responsible for identifying those alternatives and providing the information and analysis needed for my assessment. My role is to assess these matters independently and challenge the information, methodology and assumptions as appropriate, including whether the alternatives identified comprise a reasonable and sufficiently complete set for the purposes of my opinion. My detailed assessment of the allocation of the inherited estate and the fairness of the transfer is set out in Section 9.
- 1.18 If the modification of COBS 20.1.2R is not approved, or is approved in a materially different form from that proposed, I will consider the implications for my assessment and conclusions and report on them in a Supplementary Report.

Scope of the Independent Actuary’s Report

- 1.19 My report considers the terms of the proposed transfer and its likely effects in general, but its principal focus is to consider the likely effects on the policyholders of Scottish Friendly (‘Transferring Policyholders’, who hold ‘Transferring Policies’) and OneFamily (‘Existing Policyholders’, who hold ‘Existing Policies’).

Consideration is also given to the likely effects on different classes of business, to assess whether the transfer is expected to have a greater impact on any particular classes in isolation.

- 1.20 In considering the likely effects on these groups, I have identified the changes arising from the transfer and assessed whether those changes are expected to have positive or adverse effects. Where an adverse effect has been identified, I have considered its nature, likelihood and potential impact, including whether it is material. I have similarly identified positive effects, whether or not these are expected to be material.
- 1.21 The identification of a potential adverse effect does not, by itself, mean that the transfer is contrary to members' interests. Some adverse effects may be limited, remote or offset by protections or by other benefits arising from the transfer. I have therefore explained the basis on which I consider each identified adverse effect to be material or not material and have considered the overall balance of effects on each relevant group.
- 1.22 As a reference point in assessing the significance of adverse effects, I have considered whether the transfer would have a 'material adverse effect' on members in relation to a set of factors including benefit expectations, benefit security, and administration and service standards. This assessment informs, but does not replace, my broader assessment under Part VIII of whether the transfer is in the interests of members.
- 1.23 My assessment of whether an adverse effect is material is ultimately a matter of judgement, having regard to the likelihood and impact of possible future events. In forming that judgement, I have had regard to relevant legal principles and judicial guidance concerning the assessment of adverse impacts in the context of insurance portfolio transfers and similar arrangements.
- 1.24 In particular, I have considered the guidance given by the Court of Appeal in its judgement relating to the transfer of a portfolio of annuities from The Prudential Assurance Company Limited to Rothesay Life Plc. That judgement clarified that an adverse effect will only be material if it is:
- a possibility that cannot sensibly be ignored given the nature and gravity of feared harm in the particular case;
 - a consequence of the transaction in question; and
 - material in the sense that there is the prospect of real or significant (as opposed to fanciful or insignificant) risk to the position of the stakeholder concerned.
- 1.25 Although the present transfer does not require court approval, I consider this framework to provide an appropriate and well-established basis for my consideration of material adverse effects.
- 1.26 In carrying out my assessment, I have also had regard to the FCA's Consumer Duty, which requires firms to deliver good outcomes for customers across products and services, price and value, consumer understanding and consumer support. This forms a relevant context for the assessment of policyholder impacts arising from the transfer.
- 1.27 Scottish Friendly recently completed the acquisition of a portfolio of unit-linked pension and annuity business from FIL Life Insurance Limited ("FIL Life") via a Part VII transfer process. The acquisition was entered into in March 2025, sanctioned by the High Court on 8 September 2026 and became effective from 30 September 2026. The opening financial position for this report therefore includes the effect of the acquired FIL Life business, unless otherwise stated.
- 1.28 OneFamily has recently undertaken an efficiency programme to simplify operations, including the transfer of retail investment business in its subsidiary entities into the main society (Family Assurance Friendly Society Limited) entity. The opening financial position for this report therefore includes the effect of this consolidation activity, unless otherwise stated.

The Jersey and Guernsey Schemes

- 1.29 Following advice from Jersey and Guernsey counsel, it is proposed that the transfer of any business carried on in, or from within, Jersey by Scottish Friendly, or the transfer of any policies issued by Scottish Friendly to persons resident in the Bailiwick of Guernsey ("Guernsey") will be effected following the approval of separate

schemes in Jersey and Guernsey (referred to as the "Jersey Scheme" and the "Guernsey Scheme", and together, the "Schemes").

- 1.30 These Schemes, pursuant to the relevant local law, will provide for the transfer of policies on substantially the same terms as the proposed transfer under the IoT. However, unlike the transfer, in each of Jersey and Guernsey an application must be made to the relevant Court for approval of the relevant Scheme.
- 1.31 If either of the relevant Courts in Jersey and Guernsey does not sanction the transfer of any policies where requested to do so, or if either of the Jersey Scheme or Guernsey Scheme is sanctioned by the relevant Court but the transfer of any policy does not become effective by the intended effective date of the Schemes then the broader transfer of business from Scottish Friendly to OneFamily under the FS Act shall not become effective.
- 1.32 References to the transfer in this report should be taken to include the Jersey Scheme and the Guernsey Scheme unless otherwise stated. This report and its conclusions apply equally to the Jersey Scheme and the Guernsey Scheme.
- 1.33 This report will be provided to the Royal Court of Jersey and the Royal Court of Guernsey to assist in their deliberations in respect of the Jersey Scheme and the Guernsey Scheme, respectively, and will also be shared with the Jersey Financial Services Commission and the Guernsey Financial Services Commission.

Status, credentials and independence

- 1.34 I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 2010. I am a Partner in the Insurance consulting practice at Barnett Waddingham LLP ("Barnett Waddingham"), operating under the brand name Howden Insurance Actuarial & Longevity ("Howden IAL"). Barnett Waddingham LLP is a group company of Howden, a global insurance, risk and actuarial consulting firm. I have over 20 years' broad experience within the life insurance industry including Solvency II, M&A, external and internal audit, capital model development, capital management and with-profits management. I am currently the Head of Life Insurance at Howden IAL.
- 1.35 The PRA has been provided with a statement of my suitability and my independence to fulfil the role of the Independent Actuary reporting on the proposed transfer. I considered the following points when assessing the independence of myself and my supporting team:
- My personal remuneration is not influenced by, or related to, the outcome of the proposed transfer.
 - I do not hold any policies with, or have any financial interests in, either party, nor do I stand to make any personal gain from the success or failure of the proposals.
 - I have not provided consulting services to Scottish Friendly (including FIL Life) or OneFamily in the past five years.
 - Over the last five years, Barnett Waddingham has provided both Scottish Friendly and OneFamily with consulting services, all unrelated to this transfer. The resulting fee income has been modest, at less than 1% of Barnett Waddingham's revenue over that period.
 - The wider Howden group has no existing relationship with either Scottish Friendly or OneFamily.

Other advice and opinions

- 1.36 Under section 87 of the FS Act, the transferee is required to provide the PRA with a report by its appropriate actuary as to whether it will, immediately after the proposed transfer, possess the necessary minimum margin of solvency. Mr. Robert Bugg, of Milliman LLP, has provided a report considering the likely impacts of the transfer on the transferee (OneFamily) policyholders, including the required solvency statement, in his capacity as Chief Actuary for OneFamily, for the firm's Board. I have relied on the information and analyses set out in that report and I note the conclusions in respect of the likely effects of the transfer, including on policyholders' benefit expectations and on the future security of those benefits.
- 1.37 Mr. Thomas Michael of Willis Towers Watson, in his capacity as With-Profits Actuary to OneFamily, has provided a report to the OneFamily Board assessing the impact of the proposed transfer on the transferee

(OneFamily) with-profits policyholders, specifically those in the WP2 fund. The report considers matters including policyholder benefit expectations and the security of those benefits and concludes that the transfer is not expected to have any material adverse effect on these policyholders.

- 1.38 Mr. Scott McNeill, of Scottish Friendly, has provided a report considering the impact of the transfer on the transferor (Scottish Friendly) policyholders in his capacity as Chief Actuary for Scottish Friendly. Mr. Callum Stuart, of Scottish Friendly, has provided a statement considering the impact of the transfer on the transferor (Scottish Friendly) with-profits policyholders in his capacity as With-Profits Actuary to Scottish Friendly. Where relevant, I have taken the analysis and conclusions in that report and statement into account in forming my own views.

Reliances and limitations

- 1.39 This report is subject to the terms and conditions (including the reliances and limitations) of an engagement letter between Barnett Waddingham LLP, Scottish Friendly and OneFamily, with an Effective Date of 28 January 2026.
- 1.40 The parties have provided me with all of the information that I have requested. The principal documents that I have reviewed in preparing the Independent Actuary Report are listed in Appendix C. I have also had access to and discussions with senior management of Scottish Friendly and OneFamily to assist me in completing my report. I have reviewed the information provided and, where it appeared to me to be necessary, have sought further detail and clarification. Having considered the explanations and additional information provided by Scottish Friendly and OneFamily, I am satisfied with the reasonableness, consistency and completeness of the written and oral information provided. However, I would note that my review is not, and should not be considered to be, a full validation of the information provided. In that context, I have necessarily relied on the information provided to me. For the avoidance of doubt, this includes reliance, where relevant, on the audited information relating to Scottish Friendly and OneFamily.
- 1.41 I have considered whether any elements of the transfer and its implementation introduce matters which are outside my professional and practical experience as an actuary working in the life insurance and financial services industry. In particular, I have considered whether any aspects of the transfer are dependent on legal or tax opinions or advice that could materially influence my assessment of the transfer or the conclusions I have reached. Scottish Friendly has obtained independent legal advice from Pinsent Masons LLP ("Pinsent Masons") in relation to factors relevant to the transfer and I have relied on that advice in preparing this report. I have not considered it necessary to seek separate advice on such matters myself, noting that Pinsent Masons is a respected legal firm with extensive experience in the topic of UK insurance law.
- 1.42 The Independent Actuary Report should be considered in its entirety. I have provided a summary of the report for inclusion in the communications to the various groups of policyholders (and, where relevant, distributed to any persons requesting a copy of such communications). Any other summary of the report or part thereof must not be treated as having been approved or authorised by me.
- 1.43 The Independent Actuary Report has been prepared on an agreed basis for Scottish Friendly and OneFamily and must not be relied upon for any other purpose than that intended, namely to assist the PRA, Royal Court of Jersey and Royal Court of Guernsey, Jersey Financial Services Commission and Guernsey Financial Services Commission in considering the proposed transfer. No liability will be accepted for use of the Independent Actuary Report for any purpose other than for which it was intended, nor for any misunderstanding of any aspect of the Independent Actuary Report by any user. No liability is accepted to any third parties unless it has been accepted in writing. Furthermore, no liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999. Draft versions of the Independent Actuary Report may not be relied upon by any person for any purpose and must not be used or distributed by Scottish Friendly or OneFamily (or any other party receiving such a draft).
- 1.44 This report should not be interpreted as fact or likelihood or expectation of a particular financial outcome. Any assessment of the likely effects of a transfer on the various affected classes and groups of policies is ultimately a matter of judgement regarding the likelihood and impact of possible future events. Given the inherent uncertainty of the outcome of such future events, it is not possible to be certain about their effect on

the policyholders or policies concerned. Barnett Waddingham therefore accepts no liability of any kind for any resulting loss, whether direct or indirect, from any decisions made using the information contained in this report. Any analysis included is provided “as is” and without warranty or guarantee of any kind.

- 1.45 Barnett Waddingham does not provide legal services and therefore accepts no liability to Scottish Friendly or OneFamily, or to any other third party, in respect of any opinions on legal matters. Furthermore, nothing in this report should be considered to be investment, accounting or tax advice, which are also outside of the scope of this work. The parties will therefore need to take their own advice in respect of any such matters arising out of this report. No part of this Independent Actuary Report should be taken as a recommendation for any person to maintain, surrender, invest further or refrain from investing in policies issued by Scottish Friendly or by OneFamily.
- 1.46 The information in the report has been compiled by Barnett Waddingham and is based upon my understanding of legislation and of events at the date of this report.
- 1.47 Unless otherwise stated, all financial information and policy counts in this report are as at 31 December 2025. As noted in 1.28, certain consolidation activity has been undertaken by OneFamily since 31 December 2025 and additional reinsurance has been put in place. Where appropriate, “pro forma” balance sheets have been prepared which allow for this activity. This is clearly noted in all appropriate tables. For the avoidance of doubt, the transfer is expected to be implemented on 28 February 2027, so the resulting values may differ from those set out in this report.
- 1.48 I will prepare a Supplementary Report, if required, to comment on any material developments that have occurred since the drafting of this report, including (but not limited to) changes in relation to economics, solvency, operational readiness and any policyholder representations.

Regulatory and professional guidance

- 1.49 The Independent Actuary Report has been prepared in line with the regulatory guidance issued by the PRA, as set out in Statement of Policy “The PRA’s approach to insurance business transfers” January 2022. Its preparation is also in line with the regulations set out in Chapter 18 of the Supervision Manual of the FCA Handbook (“SUP 18”). I have also taken into account the FCA’s Consumer Duty, which establishes a framework requiring firms to deliver good customer outcomes, as relevant context for my assessment of the likely effects of the transfer.
- 1.50 The analysis in this report meets the requirements of Technical Actuarial Standards 100 and 200 (so far as they apply).
- 1.51 The IFoA sets professional standards for its members. This report has been prepared having due regard to APS X2: Review of Actuarial Work and, in relation to APS X2, has been subject to independent peer review.

Structure of the Independent Actuary Report

- 1.52 The remainder of the Independent Actuary Report is structured as follows:
- Section 2 sets out a summary of the Report and its conclusions.
 - Section 3 provides background to Scottish Friendly.
 - Section 4 provides background to OneFamily.
 - Section 5 provides an outline of the transfer.
 - Section 6 sets out the financial impacts of the transfer.
 - Section 7 discusses the criteria used to assess the impact of the transfer on policyholders.
 - Section 8 analyses the likely effects of the transfer on Scottish Friendly Transferring Policyholders.
 - Section 9 assesses the fairness of the transfer from the perspective of Scottish Friendly’s with-profits policyholders.
 - Section 10 analyses the likely effects of the transfer on OneFamily Existing Policyholders.

- Section 11 analyses the likely effects of the transfer on other stakeholders.
- Section 12 describes the communications to be made to policyholders in relation to the transfer and my review of these communications.
- Section 13 sets out my conclusions.

1.53 I then include a copy of my summary report, for inclusion in the Schedule 15 statement to policyholders.

1.54 The report also has three appendices:

- Appendix A provides definitions of the abbreviations used throughout the Independent Actuary Report.
- Appendix B provides a glossary for certain terms used throughout the Independent Actuary Report.
- Appendix C lists the principal documents I have considered and relied upon in preparing the Independent Actuary Report.

2. Executive summary

Introduction

- 2.1 Scottish Friendly Assurance Society Limited (“Scottish Friendly”) and Family Assurance Friendly Society Limited (“OneFamily”) propose to merge their businesses through a transfer of engagements under Part VIII of the Friendly Societies Act 1992 (“FS Act”).
- 2.2 Under the proposal, all of Scottish Friendly’s business, assets and liabilities will transfer to OneFamily under an agreed Instrument of Transfer (“IoT”), with an Effective Date currently intended to be 28 February 2027, subject to regulatory approval by the Prudential Regulation Authority (“PRA”), in consultation with the Financial Conduct Authority (“FCA”).
- 2.3 Both organisations are mutual friendly societies, owned by their members rather than shareholders. The transaction represents the combination of two broadly comparable mutual entities, rather than an acquisition of one by the other. Following the transfer, Scottish Friendly members will become members of OneFamily with equivalent rights to existing OneFamily members.

Background to the parties

- 2.4 Scottish Friendly and OneFamily are UK mutual friendly societies offering life insurance, savings and investment products, operating for the benefit of their members and with broadly similar business mixes.
- 2.5 Scottish Friendly writes:
- with-profits business (conventional and unitised);
 - unit-linked savings and pensions; and
 - non-profit protection business.
- 2.6 Its business has developed through both organic growth and acquisitions, resulting in a diversified portfolio with a significant legacy component. As at 31 December 2025, it had, at group level, approximately 1.3m policies, 890,000 members and £6.7bn of funds under management (“FuM”), including around 37,000 policies and £2.3bn of FuM from its recent acquisition of a pension and annuity book from FIL Life.
- 2.7 OneFamily (Family Assurance Friendly Society Limited) writes primarily:
- unit-linked savings and investment products (including tax-exempt savings plans, single premium bonds, ISAs and Child Trust Funds); and
 - non-profit protection business (including Over 50s whole of life and term assurance).
- 2.8 Its business has developed through a combination of organic growth, acquisitions and a recent programme of subsidiary consolidation, resulting in a broad and diversified customer base across insurance and savings products. This consolidation has increased the scale of business held within the main society, particularly within the non-profit fund, while simplifying the overall group structure. As at 31 December 2025, OneFamily had, at group level, approximately 1.5m policies, 1.2m members and £6.2bn of FuM.

Outline of the transfer

- 2.9 The merger is expected to benefit current and future members and policyholders through the creation of a larger and more diversified mutual entity, including:
- a greater ability to compete for new business with larger financial services firms, including mutuals and non-mutuals;
 - enhanced investment capability and diversification;
 - more efficient use of capital and improved risk diversification; and
 - improved operational efficiency and expense savings.

- 2.10 While both firms are currently financially well capitalised, the intended benefits are expected to be more readily achievable in the combined entity than on a standalone basis.
- 2.11 The transfer mechanism is designed to provide continuity and preserve existing policyholder interests. In summary:
- non-profit business in the Scottish Friendly Main Fund (“SFMF”) will transfer into OneFamily’s non-profit fund (“OFNPF”);
 - with-profits business in the SFMF will transfer to a new closed sub-fund within OneFamily (“SFAS sub-fund”);
 - the three existing Scottish Friendly ring-fenced with-profits funds will be transferred and established as equivalent ring-fenced sub-funds within OneFamily; and
 - all existing Scottish Friendly subsidiaries will transfer into the OFNPF.
- 2.12 All existing contracts held by Scottish Friendly with third parties, including reinsurance treaties and outsourcing arrangements, will transfer to OneFamily under the Part VIII provisions, with express novations expected for certain material contracts.
- 2.13 Following the transfer, the residual Scottish Friendly legal entity will be dissolved.
- 2.14 The Board of the combined entity will comprise equal representation from the two organisations. The final composition will be subject to the Board collectively possessing the requisite skills and experience to oversee the combined business.
- 2.15 While my remit under the FS Act is to consider the proposed transfer, I note that alternative options, including independent run-off for Scottish Friendly, have also been considered. The analysis indicated that while some policyholders may benefit in specific run-off scenarios, the transfer is expected to deliver similar or improved outcomes for the majority of members, with reduced uncertainty.

Impact on members and policyholders

- 2.16 In my assessment, I have considered the effects of the transfer on members as a whole, with a primary focus on long-term policyholders.

Benefit expectations

- 2.17 Contractual benefits across all products will remain unchanged. Unit-linked investments will transfer on a like-for-like basis with no changes to terms or charges. With-profits policies will continue to be managed under existing PPFMs, with no change in the approach to setting bonuses or the exercise of other areas of discretion.
- 2.18 SFMF with-profits policyholders will no longer receive future ProfitShare distributions. Instead, a Merger Allocation will be made to the SFAS sub-fund, reflecting the value of future distributions the with-profits policyholders would have been expected to receive in the absence of the merger. The Merger Allocation will be distributed to the with-profits policyholders’ policy values, partly through an Initial Policy Uplift applied at the Effective Date and partly through the distribution of the Residual Merger Allocation over time.
- 2.19 Following the transfer, the SFAS sub-fund will meet its ongoing administration costs via an expense rate card with the OFNPF, with charges based on current expense levels and including a 5% margin to reflect future cost uncertainty. In my view, this arrangement is reasonable, consistent with recent market practice and provides increased certainty over future expense levels.
- 2.20 Overall, I am satisfied that the transfer will not have a material adverse effect on benefit expectations for any group of policyholders.

Benefit security

- 2.21 Currently, both Scottish Friendly and OneFamily are comfortably capitalised and operate prudent capital frameworks. At 31 December 2025, both firms reported solvency coverage ratios comfortably above their respective target levels.

- 2.22 Following the transfer, on a regulatory reported Pillar 1 basis, the combined entity is expected to have a solvency coverage ratio of 167%, remaining above OneFamily's current target level of 150%. The post-transfer Pillar 1 capital target is also expected to be 150%. Although the transaction results in a reduction in the solvency coverage ratio from 185% to 167%, the overall financial strength of the combined entity remains robust. This remains the case on a Pillar 2 basis, which is designed to reflect the entity's specific characteristics and risk profile.
- 2.23 This outcome depends, to some extent, on the achievement of anticipated expense synergies under the merger. However, the capital position remains robust to reasonably foreseeable adverse outcomes in this area, remaining above the 150% capital target under the scenarios considered.
- 2.24 No material new risks are introduced to OneFamily by the merger, and the combined risk profile remains well diversified and within the existing risk appetite framework. The combined entity retains the ability to apply management actions to strengthen the capital position, should this become necessary. The quality of Eligible Own Funds is expected to be unchanged following the transfer, with both firms holding only Tier 1 Own Funds.
- 2.25 In the event that the SFAS sub-fund requires external capital support, the existing capital support framework will remain unchanged, with the OFNPF replacing the SFMF as the provider. The OFNPF is expected to have sufficient capital following the merger to provide such support if required.
- 2.26 Overall, I am satisfied that the transfer will not have a material adverse effect on the benefit security of policyholders.

Administration and service standards

- 2.27 There are no planned changes or expected disruption to policy administration systems or service standards in the immediate period following the transfer.
- 2.28 Policyholders will continue to be serviced under existing arrangements. Any future changes will be subject to governance processes and regulatory requirements, including the Consumer Duty, with a focus on maintaining or improving customer outcomes.
- 2.29 I am therefore satisfied that the transfer will not have a material adverse effect on administration and service standards for policyholders.

Fairness to Scottish Friendly with-profits policyholders

- 2.30 Following discussions with the FCA concerning the application of the COBS 20 reattribution requirements, Scottish Friendly applied to the FCA for a modification of COBS 20.1.2R in relation to the transfer. Under the proposed modification, the reattribution process, including the appointment of a separate policyholder advocate, would not apply. In connection with the proposed modification, my terms of reference have been extended accordingly to require me to report expressly on the fairness of the transfer from the perspective of Scottish Friendly's with-profits policyholders, the proposed allocation of assets, credible alternatives to the transfer reasonably available to Scottish Friendly, and the benefits and rights or interests respectively received and given up by relevant with-profits policyholders. My assessment of these matters is set out in Section 9. If the modification is not approved, or is approved in a materially different form from that proposed, I will consider the implications for my assessment and conclusions and report on them in a Supplementary Report.
- 2.31 I am satisfied that the £35 million Merger Allocation represents a fair actuarial valuation of the expected future ProfitShare that relevant Scottish Friendly with-profits policyholders would otherwise receive. If the transfer did not proceed, future ProfitShare would be uncertain, with broadly symmetrical potential to be higher or lower than the value reflected in the Merger Allocation. The Merger Allocation provides policyholders with valuable certainty through the earlier realisation of those expected benefits and reduces the risk of value becoming concentrated among fewer longer-duration policies. I am satisfied that its proposed allocation between relevant policies and policyholder groups is fair.
- 2.32 I am also satisfied that the assets allocated to the OFNPF provide an appropriate and market-consistent level of financial support for the transferring SFMF non-profit business. After the transfer, the fund is

expected to hold around 142% of the capital required by regulatory standards, which, based on my analysis, is broadly in line with the levels typically maintained by UK insurance companies. My separate analysis of recent insurance sector acquisitions indicates that an independent sale could also result in a reduction in Own Funds and would likely have involved additional transaction and implementation costs. These potential downsides are avoided under the proposed transfer.

- 2.33 Scottish Friendly identified principal credible alternatives to the transfer as: (a) continuation on its existing basis; (b) an independent sale of the non-profit business; and (c) closure to new business followed by run-off. I am satisfied that the alternatives identified comprise a reasonable and sufficiently complete set for the purposes of my opinion. Having assessed the information and analysis provided, I am not aware of a credible alternative reasonably available to Scottish Friendly that would provide a materially better outcome for its with-profits policyholders than the proposed transfer.
- 2.34 I recognise that the legal nature of certain rights and interests changes under the transfer, including the replacement of future ProfitShare and Scottish Friendly membership rights. Having considered the benefits and protections provided in return, I am satisfied that the terms of the transfer are fair to Scottish Friendly's with-profits policyholders.

Other stakeholders

- 2.35 Reinsurance arrangements will transfer with no change to their terms or effectiveness. I have assessed OneFamily's expected exposure to these reinsurers following the transfer relative to its risk appetite and am satisfied that the transfer does not change its risk appetite position.
- 2.36 Scottish Friendly sponsors the MGM Assurance Staff Pension Plan, which is currently progressing a buy-out and subsequent wind-up. This is expected to complete before the Effective Date, failing which the scheme will transfer to OneFamily and remain a liability of the M&GM sub-fund. This sub-fund is strongly capitalised and so no material adverse impact on the pension scheme members is expected under this scenario.
- 2.37 Other stakeholders, including members arising through non-insurance products and non-member policyholders, have also been considered. I do not expect the transfer to give rise to any material adverse impact on these cohorts.

Governance and mutuality

- 2.38 Following merger, the combined organisation will continue to operate as a mutual society, owned by its members. Existing Scottish Friendly members will become OneFamily members with equivalent rights, including voting rights and participation in any future distributions of surplus. No separate class of members will be created, with all members participating on an equal basis in the future.

Ongoing projects

- 2.39 Both OneFamily and Scottish Friendly have an ongoing portfolio of projects and other associated business-as-usual activities, as would be expected for any insurer. In broad terms, these relate to Information Technology ("IT") migrations and upgrades, regulatory initiatives, actuarial function insourcing, new business / intermediary IT and platform improvements.
- 2.40 Both firms have considered the impact of the transfer on their project portfolios. Work on existing projects will continue unaffected by the transfer, including activity to address risk events as well as projects that directly impact customer outcomes. Resource requirements to support ongoing projects, core business-as-usual activities and the transfer itself have been assessed and factored into the expense synergy analysis.
- 2.41 I am satisfied that the project portfolios and key business-as-usual activities, including ongoing remediation and risk management activity, can continue without giving rise to a material adverse effect on policyholders of either firm.

Policyholder communications

- 2.42 Both Scottish Friendly and OneFamily have established comprehensive communication strategies for the proposed transfer, designed to ensure members are appropriately informed and able to engage with the

process. These include the provision of detailed Schedule 15 information, direct mailings (where appropriate), supporting website content and dedicated customer support channels. I have also considered whether appropriate support will be available to policyholders throughout the process, including for those in vulnerable circumstances, and I am satisfied that the proposed arrangements are consistent with the Consumer Duty requirements relating to customer support.

- 2.43 The communications approach adopted by each party reflects differences in their respective governance structures, with OneFamily supporting direct member voting and Scottish Friendly facilitating member representation through the delegate system, supported by mechanisms for members to submit feedback. Both parties have comprehensive gone-aways management processes in place and additional tracing has been undertaken ahead of the transfer to maximise participation.
- 2.44 I consider the overall approach taken by the parties to member communications to be appropriate and consistent with the requirements of the FS Act. I am satisfied that the communications cover the key features of the proposed transfer and are written in language that is appropriate for policyholders. I am satisfied that the level of tracing undertaken is appropriate.
- 2.45 I am also satisfied that the communications are consistent with the Consumer Duty requirements relating to consumer understanding, including that they are clear, fair and not misleading, and are expected to support policyholders in making informed decisions in relation to the transfer.

The Jersey and Guernsey Schemes

- 2.46 A small number of Scottish Friendly policies relate to business carried on in, or from within, Jersey or were issued to policyholders resident in Guernsey. Following advice from Jersey and Guernsey counsel, these policies will transfer under separate schemes in Jersey and Guernsey, which require approval by the Royal Court of Jersey and the Royal Court of Guernsey, respectively. The Jersey and Guernsey Schemes will provide for the relevant policies to transfer on substantially the same terms as the transfer under the IoT. References to the transfer in this report should therefore be taken to include the Jersey and Guernsey Schemes, and my conclusions apply equally to both Schemes.

Overall conclusion

- 2.47 The transfer gives rise to positive, adverse and neutral effects, some of which affect different policyholder groups in different ways.
- 2.48 The principal adverse effects are the limitation of future ProfitShare distributions to the amount of the Merger Allocation for SFMF with-profits policyholders and reductions in the post-transfer solvency coverage ratios of the OFNPF and OneFamily. The transfer also results in changes to certain expense, capital support and membership arrangements, the effects of which vary between policyholder groups and are generally neutral overall. Having considered the nature, likelihood and significance of the adverse effects identified, together with the protections and mitigants that apply, I do not consider any of them to be material.
- 2.49 The transfer is also expected to have positive effects, including increased scale and diversification, greater expense certainty for the SFAS sub-fund and anticipated operational efficiencies. Eligible SFMF with-profits policyholders will also receive greater certainty over the value attributed to the future ProfitShare distributions they might otherwise have expected to receive.
- 2.50 I conclude that the transfer is not expected to have a material adverse effect on any group of policyholders in relation to their:
- benefit expectations;
 - benefit security; or
 - administration and service standards.
- 2.51 I consider the overall approach taken by the parties to member communications to be appropriate and consistent with the requirements of the FS Act.

- 2.52 I also conclude that the transfer is not expected to give rise to foreseeable harm or poorer outcomes for policyholders when assessed in the context of the FCA's Consumer Duty.
- 2.53 Overall, I have considered the terms of the proposed transfer and the overall balance of its likely positive and adverse effects, including how those effects apply to the different groups of policyholders and members. In my opinion, the proposed transfer of long-term insurance business from Scottish Friendly to OneFamily is expected to be in the interests of the members of both societies.

3. Background to Scottish Friendly

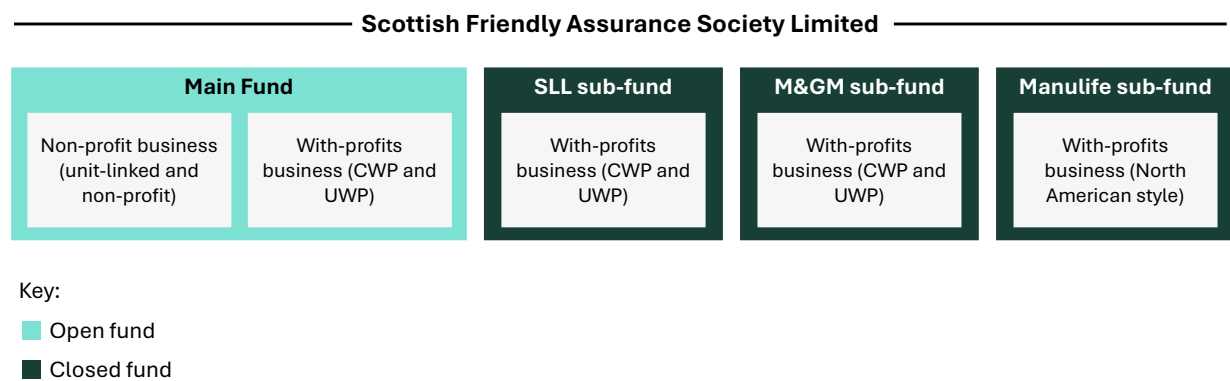
Background and history

- 3.1 In 1862, the City of Glasgow Friendly Society was formed. It acquired Scottish Friendly in the early 1990s, and the company was renamed the Scottish Friendly Assurance Society Limited.
- 3.2 Scottish Friendly has acquired business from several previous transfers, including:
- On 31 December 2005, the business of Rational Shelley Friendly Society (“Rational Shelley”) was transferred to Scottish Friendly.
 - On 31 May 2006, the business of Preston Operative Assurance was transferred to Scottish Friendly.
 - On 1 July 2007, the business of Pioneer Friendly Society was transferred to Scottish Friendly.
 - On 30 September 2007, the business of Scottish Legal Life Assurance Society Limited (“SLL”) was transferred to Scottish Friendly.
 - On 31 December 2007, the business of London Aberdeen & Northern Mutual Assurance Society (“LANMAS”) was transferred to Scottish Friendly.
 - On 30 November 2012, the business of Royal Standard Friendly Society was transferred to Scottish Friendly.
 - On 31 May 2015, the business of Marine & General Mutual Life Assurance Society (“M&GM”) was transferred to Scottish Friendly.
 - On 9 November 2018, a block of business from Mobius Life Limited (“Mobius”) was transferred to Scottish Friendly.
 - On 1 November 2019, a block of business from Canada Life Limited was transferred to Scottish Friendly.
- 3.3 Scottish Friendly entered into a deal in March 2025 to acquire a portfolio of business from FIL Life by means of a Part VII transfer. This business consists predominantly of around 37,000 Section 32 unit-linked pensions policies, along with a smaller number (approximately 1,000) of fully reinsured in-payment annuities. The acquisition was entered into in March 2025, sanctioned by the High Court on 8 September 2026 and became effective from 30 September 2026. The opening position used throughout this report therefore includes the effect of the acquired FIL Life business, unless otherwise stated. My consideration of the impact on Scottish Friendly policyholders includes consideration of the ex-FIL Life policyholders.

Society and fund structure

- 3.4 Scottish Friendly operates one long-term business fund, the Scottish Friendly Main Fund (“SFMF”). Within the SFMF, there are three notional internal sub-funds which relate to blocks of business that have been previously transferred to Scottish Friendly: the SLL sub-fund, the M&GM sub-fund and the Manulife sub-fund (part of the acquisition of business from Canada Life in 2019). The notional sub-funds are ring-fenced and are closed to new business. Figure 1 below summarises the fund structure within Scottish Friendly.

Figure 1: Fund structure of Scottish Friendly



Source: Scottish Friendly

- 3.5 Previously, separate sub-funds were operated for business transferred from Rational Shelley and LANMAS. These sub-funds were wound up in October 2025, with the surplus of each sub-fund being distributed to eligible policyholders and the assets and liabilities of each sub-fund being transferred into the SFMF.
- 3.6 Scottish Friendly operates five non-insurance subsidiaries. There are two active subsidiaries: Scottish Friendly Asset Managers Limited, which is the authorised fund manager of an open-ended investment company vehicle and the provider of Child Trust Fund, ISA and Junior ISA products; and SF Pensions Managers & Trustees Limited, which is a trustee entity providing oversight of certain legacy pension schemes. The remaining subsidiaries are dormant.
- 3.7 Scottish Friendly operates a ProfitShare system, the mechanism by which it distributes miscellaneous surplus to with-profits policyholders in the SFMF. Under this system, eligible policyholders participate in the financial success of Scottish Friendly as a whole (on top of that participation already provided by the with-profits structure). This benefit is paid as an enhancement to asset share. This is a discretionary annual enhancement, which could increase, decrease or not be paid at all in any given year.

Business lines

- 3.8 The majority of Scottish Friendly's business is UK-based, with a small number of policies originally sold in the EU (specifically Ireland, Germany and Belgium), Jersey and Guernsey. Scottish Friendly administers the EU-based policies from the UK under the run-off regimes in operation in the relevant countries.
- 3.9 Scottish Friendly's portfolio consists of with-profits business, unit-linked life and pensions business and non-profit protection business. The composition by sub-fund is as follows:
- SFMF: with-profits business (conventional ("CWP") and unitised ("UWP")), unit-linked business in the form of individual savings accounts ("ISAs") and pensions products, and non-profit business in the form of whole of life policies, term assurances and endowments.
 - SLL sub-fund: CWP and UWP business, as well as non-profit whole of life policies and term assurances, including a significant industrial branch book.
 - M&GM sub-fund: CWP and UWP business, together with a significant portfolio of immediate and flexible income annuities ("FIAs"), and unitised bond business originally sold by M&GM International.
 - Manulife sub-fund: predominantly North American-style with-profits whole of life business, along with a small amount of non-profit business, which includes annuities and whole of life policies.
- 3.10 Figure 2 below shows the policy count and best estimate liability ("BEL") (both gross and net of reinsurance) for each line of business as at 31 December 2025.

Figure 2: Breakdown of Scottish Friendly's insured policy count and BEL as at 31 December 2025

Line of business	Policy count	Gross BEL (£m)	Net BEL (£m)
SFMF			
CWP	61,849	79.5	79.5
UWP	72,356	191.4	191.4
Unit-linked life	108,467	609.0	609.0
Unit-linked pensions	62,248	1,760.7	1,480.1
Whole of life	429,905	333.6	82.5
Term assurance	394,694	135.6	36.1
Other	8,630	119.2	78.8
FIL Life	36,987	2,274.7	2,239.4
Total SFMF	1,175,136	5,503.7	4,796.7
Sub-funds			
SLL	113,734	56.2	56.2
M&GM	23,185	635.8	528.4
Manulife	6,850	77.6	77.6
Total sub-funds	143,769	769.6	662.2

Source: Scottish Friendly

- 3.11 The 'Other' business included in the SFMF above consists of non-profit endowments, annuities acquired from Canada Life (both in payment and deferred) and manual reserves held.
- 3.12 The Jersey business comprises 21 policies across a range of business lines, with a total BEL of £248k, all held in the SFMF. The Guernsey business comprises 47 policies across a range of business lines, with a total BEL of £737k, held across the SFMF and the SLL, M&GM and Manulife sub-funds.

Membership

- 3.13 Scottish Friendly Assurance Society Limited is an incorporated mutual friendly society owned by its members rather than shareholders. Under its rules, membership is generally conferred on individuals holding eligible insurance policies issued by the Society. Non-insurance products provided through its subsidiaries do not confer membership.
- 3.14 Members have governance rights under the Society's Rules, which are exercised through a delegate system. Under this structure, a relatively small number of elected delegates (a maximum of 30 and currently 25 in total) represent the wider membership at general meetings. As a result, most members do not participate directly in voting but are represented through this framework.
- 3.15 There is a high degree of alignment between member and policyholder interests, as the majority of members are long-term insurance policyholders. In addition to contractual benefits, eligible with-profits policyholders participate in the financial performance of the Society through discretionary distributions via the ProfitShare mechanism, providing an ongoing means of sharing in surplus.
- 3.16 Members do not have transferable ownership interests or an automatic entitlement to surplus, although they may benefit from discretionary distributions and from any residual surplus on a winding-up.

Management and governance

- 3.17 Scottish Friendly's Board is its primary governing body, responsible for the company's affairs and performance and the service that is provided to its members.
- 3.18 The Board is supported by the following sub-committees, whose responsibilities are outlined below:
- Risk Committee: responsible for providing support and advice on risk strategy and risk management. Reviews and approves the risk appetite methodology, and ensures appropriate processes are used to identify, monitor, manage and mitigate risks.

- **Nomination Committee:** ensures Board succession plans are in place, including confirming that Board appointments cover a range of skills, experience and knowledge.
- **Investment Committee:** has oversight of Scottish Friendly's investments and their performance. Ensures the investment strategy is implemented in line with relevant risk appetites and fund objectives.
- **Audit Committee:** responsible for reviewing internal control systems to ensure their ongoing appropriateness. Assesses the effectiveness of both internal and external audit processes.
- **With-Profits Committee:** provides advice and recommendations to the Board on the management of the with-profits funds, including ensuring compliance with the relevant Principles and Practices of Financial Management ("PPFM"). Advises the Board on the handling of conflicting interests of different classes of policyholders and stakeholders.
- **Remuneration Committee:** reviews the remuneration provided to the Chair and Non-Executive Directors and establishes appropriate levels of remuneration for Executive Management.
- **With-Profits Approval Committee:** approves the application of with-profits discretion based on agreed principles, e.g. changes in bonus rates and approaches to the distribution of surplus. Supports the Board with responsibilities relating to COBS 20.

- 3.19 The Board and each sub-committee have terms of reference which set out their purpose, membership, authority, duties and reporting procedures.
- 3.20 Scottish Friendly operates a delegate system to engage with and represent its members. Delegates are elected representatives of the membership. There are currently 25 delegates in total, aligned to geographical regions (Scotland, Northern Ireland, North of England, South of England & Wales and Republic of Ireland).
- 3.21 Scottish Friendly also follows the key principles set out in the Association of Financial Mutuals' Corporate Governance Code for Mutual Insurers.

Administration and servicing

- 3.22 Policy administration and servicing activities are predominantly performed in-house by Scottish Friendly from its Glasgow premises.
- 3.23 For certain blocks of business, Scottish Friendly outsources an element of policy management and administration including:
- Policy administration and servicing activities to Aegon, One Family Limited (via their acquisition of Beagle Street), Neilson Financial Services, Nucleus Financial, Guardian Financial Services, iCOM, Geo Underwriting Services Limited, Certua Group Limited, Hannover Reinsurance, M&G Wealth, Union Insurance Services and Unisure Limited;
 - Investment management activities, to Linedata, Bank of New York, Canada Life Limited, JP Morgan Chase & Co, Aberdeen plc, Schroders and Mobius Life Limited; and
 - IT services, to Database Service Provider Global Limited, Pulsant Limited and FMP Global Ltd.
- 3.24 Historically, business written via Beagle Street was underwritten by Scottish Friendly on a white-label basis. OneFamily acquired the brand and operating business of Beagle Street in November 2022. Beagle Street business sold after September 2023 is written by OneFamily. There was no transfer of past insurance liabilities as part of the acquisition of Beagle Street, therefore historical policies remain the contractual responsibility of Scottish Friendly.
- 3.25 All policy administration and servicing activities are undertaken by OneFamily in relation to Scottish Friendly's historical Beagle Street policies; this includes policyholder communications, premium collection and claims processing. Scottish Friendly's only involvement in the administration of this business is oversight of the outsourcing and some support relating to claims processing.
- 3.26 In addition to the outsourced contracts outlined above, Scottish Friendly has taken on the following outsourcing arrangements following the acquisition of the FIL Life business:

- An investment management contract with BlackRock Fund Managers Limited relating to the Section 32 pensions policies.
- Administration of the in-payment annuity business to Hannover Re (as part of the reinsurance contract), who in turn outsources the administration to Paymaster 1836 Limited.

Management of unit-linked business and unit-linked funds

Management

- 3.27 Scottish Friendly maintains a Unit-linked Funds Principles and Practices (“ULFPP”) document for its unit-linked funds setting out the principles and practices applied in their management.

Investment range

- 3.28 Scottish Friendly operates a range of unit-linked funds across different blocks of business, including those arising from previous acquisitions. These broadly fall into three categories:
- External fund links: these invest in underlying collective investment schemes, managed by Schroders Asset Management (“Schroders”). Investment decisions are made by Schroders, with Scottish Friendly calculating unit prices based on data provided, adjusted for differences such as fees, tax and launch dates.
 - Managed funds: Scottish Friendly sets the investment objectives and asset allocations. Unit prices are calculated on either a single priced basis (where one price is quoted for both allocating and surrendering units) or a dual priced basis (where separate prices are quoted for allocating and surrendering units). Most funds are valued daily using third-party market prices, with property assets valued monthly.
 - Reinsured funds: unitised group pension products sold by Mobius invest in funds provided via reinsurance. These funds are managed by Mobius, who provide unit pricing data to Scottish Friendly.
- 3.29 Under the transfer of business from FIL Life, Scottish Friendly maintains a range of funds originally offered by FIL Life and will maintain these for at least one year following the completion of the Part VII transfer. These are similar in nature to the above categories, with the most significant external funds by size managed by BlackRock rather than Schroders. The FIL Life reinsured funds are held with BlackRock Life Limited, BlackRock Investment Management (UK) Limited, Legal & General Assurance (Pensions Management) Limited, Prudential Pensions Limited and Schroder Pension Management Limited.

Governance of unit-linked funds

- 3.30 Governance of unit-linked fund management is provided through a number of committees, including:
- The Scottish Friendly Board, which has overall oversight;
 - The Board Risk Committee, responsible for risk exposure and ensuring risks are managed within risk appetite;
 - The Investment Committee, overseeing investment activity; and
 - The Unit-linked Funds Committee, which ensures adherence to relevant principles and practices, approves changes to fund management, and reports to other committees as appropriate.
- 3.31 Additional executive committees support more specific aspects of unit-linked fund management, including the Technical Review Committee, Customer & Conduct Committee, Product and Governance Committee and Outsourcing Committee.

Management of unit-linked funds

- 3.32 Scottish Friendly has established documented processes for managing its unit-linked business and underlying funds, which I consider to be consistent with common market practice. The following paragraphs summarise key areas where discretion may be applied.

- 3.33 Policy documents generally allow discretion in the rounding of unit prices.
- 3.34 Scottish Friendly can merge, subdivide or close unit-linked funds, subject to providing appropriate notice. Affected policyholders may switch to alternative funds, or failing instruction, be moved to a default fund selected to have a similar risk rating and no higher charges. Where external fund managers propose changes, Scottish Friendly undertakes due diligence and determines the appropriate course of action.
- 3.35 Policyholders are notified of material changes to a fund's objective, risk profile or investment strategy where required under policy terms.
- 3.36 Pricing of unit-linked funds may be delayed where necessary, e.g. due to delays in receiving underlying prices or on bank holidays.
- 3.37 Scottish Friendly operates limited box management for legacy business and in certain exceptional circumstances (e.g. for suspended funds) to reduce transaction costs. As at 31 December 2025, such holdings were not material relative to the overall business.

Management of with-profits business

- 3.38 Scottish Friendly operates four separate funds of with-profits business; the SFMF, the SLL sub-fund, the M&GM sub-fund, and the Manulife sub-fund.
- 3.39 The management of each of these with-profits funds is governed by the relevant PPFM document. The SFMF has two PPFMs, relating to the CWP and UWP business, respectively. The PPFMs outline the approach to be taken for all areas of discretion, including investment strategy, the management and use of the estate and how policy payouts are determined. The PPFMs also detail how asset shares are calculated, how regular and final bonuses are set, how smoothing is applied, how surrender values are determined and how and when market value adjustments are applied.
- 3.40 In addition, governance of the with-profits business is supported by the With-Profits Committee ("WPC") and the With-Profits Actuary ("WPA"). The WPC provides independent oversight and challenge in relation to the management of the with-profits funds, including the exercise of discretion and the fair treatment of policyholders. The WPA advises the Board on the exercise of discretion, including the setting of bonuses and the application of smoothing, and provides an independent opinion on whether policyholders are being treated fairly.
- 3.41 As mentioned in paragraph 3.7, Scottish Friendly operates a ProfitShare system for with-profits policyholders in the SFMF. Scottish Friendly maintains complete discretion over the payment of ProfitShare each year, both in respect of whether a ProfitShare payment is made at all, and over the level of ProfitShare paid if a payment is made.
- 3.42 The level of ProfitShare paid is determined such that the amount paid out to policyholders is expected to exhaust any identified surplus of the fund over the in-force lifetime of the eligible policyholders, subject to meeting regulatory capital requirements.
- 3.43 For with-profits funds that are closed to new business, management of the funds includes the development and maintenance of a formal run-off plan, consistent with regulatory expectations. This considers the use of the estate and the fair distribution of surplus over time. Following the transfer, the new SFAS sub-fund within OneFamily will similarly require a formal run-off plan to be established in line with these expectations.

Staff pension schemes

- 3.44 Scottish Friendly operates a defined contribution group personal pension staff scheme for its employees.
- 3.45 Scottish Friendly also sponsors a funded defined benefit scheme, the MGM Assurance Staff Pension Plan, which is closed to future accrual. The Trustees of this pension scheme entered into a buy-in agreement with Standard Life in 2023. A buy-out, and subsequent winding up of the Scheme, are expected to complete in Q4 2026, ahead of the transfer Effective Date. Should this not be the case, the IoT provides for the pension scheme, and all associated liabilities (including the costs of implementing the buyout), transferring to the M&GM sub-fund as it transfers to OneFamily.

Tax

- 3.46 For tax purposes, Scottish Friendly's business is classified as either Basic Life Assurance and General Annuity Business ("BLAGAB") or non-BLAGAB. This classification determines how tax is charged and the rate of tax charged. BLAGAB includes life assurance business written prior to 2013, certain types of life assurance business written after 2013 (e.g. investment bonds) and general annuity business. Non-BLAGAB includes pensions business, overseas life assurance business, ISAs and life assurance business written after 2013.
- 3.47 Non-BLAGAB is taxed at 0%. BLAGAB is taxed on an investment return minus expenses ("I minus E") basis, at a current rate of 20%. For with-profits business, a deduction for any applicable tax is allowed for in the calculation of asset shares.

Reinsurance

- 3.48 Scottish Friendly holds a number of reinsurance arrangements to manage its risk exposure across its in-payment annuities, critical illness, income protection, term assurance, unit-linked pensions and whole of life products. The most material arrangements are summarised in Figure 3 below.

Figure 3: Summary of Scottish Friendly's material reinsurance arrangements

Reinsurer	Business covered	Summary of arrangement
Gen Re	Death cover	90% or 100% quota share (depending on business line)
Hannover Re	Critical illness	90% or 100% quota share (depending on business line)
Hannover Re	Death cover	100% quota share
Hannover Re	FIL Life Annuity	100% in-payment annuity reinsurance arrangement
Mobius Life	Unit-linked pensions	100% unit-linked reinsurance arrangement
Munich Re	Income protection	Quota share with variable % retained
RGA	Annuities in payment	75% plus 100% of the floating leg of a longevity swap with Pac Life Re
RGA	Critical illness	100% quota share
RGA	Death cover	100% quota share
SCOR	Critical illness	100% quota share
SCOR	Death cover	100% quota share
Swiss Re	Death cover	Quota share with variable % retained (predominantly 100% ceded)
Swiss Re	Income protection	Quota share with variable % retained

Source: Scottish Friendly

- 3.49 Figure 4 below summarises the financial strength credit rating of each provider included in the summary above, using the rating provided by Standard & Poor's ("S&P").

Figure 4: Credit ratings of Scottish Friendly's reinsurers

Reinsurer ¹	S&P credit rating
Gen Re	AA+
Hannover Re	AA-
Munich Re	AA
RGA	AA-
SCOR	A+
Swiss Re	AA-

Source: Reinsurer websites

1: Mobius Life is not included in the table above as it does not have a publicly available rating from a major credit rating agency.

Assets

- 3.50 Figure 5 shows a high-level breakdown of Scottish Friendly's Society-level assets as at 31 December 2025 and reflects the significant volume of unit-linked business within the portfolio. The figures exclude approximately £2.3bn of FIL Life related assets subsequently added.

Figure 5: Scottish Friendly's asset portfolio as at 31 December 2025

Asset category	Asset value (£m)
Government bonds	345.3
Corporate bonds	73.3
Collateralised securities	2.3
Collective investment undertakings	814.2
Derivatives	4.5
Property	4.6
Assets held for index-linked and unit-linked contracts	2,096.1
Reinsurance recoverables	850.4
Insurance and intermediaries receivables	15.4
Reinsurance receivables	13.3
Receivables (trade, not insurance)	17.2
Undertakings holdings	5.1
Cash and cash equivalents	78.4
Total	4,320.2

Source: Scottish Friendly

Solvency UK regulatory approvals

- 3.51 Scottish Friendly uses the Standard Formula, as set out in the PRA Rulebook under the Solvency UK regime, to calculate its Solvency Capital Requirement ("SCR").
- 3.52 Scottish Friendly does not apply the Matching Adjustment ("MA"), the Volatility Adjustment ("VA"), the Transitional Measure on the Risk-Free Interest Rate or the Transitional Measure on Technical Provisions ("TMTP").

Risk profile

- 3.53 The most material risks to which Scottish Friendly is exposed, as measured by the regulatory balance sheet, are underwriting risk (specifically life underwriting risk) and market risk. This is illustrated in Figure 6, which shows the components of Scottish Friendly's SCR as at 31 December 2025, before any allowance for diversification effects. The position both excluding and including the FIL Life acquisition is shown.

Figure 6: Breakdown of Scottish Friendly's SCR as at 31 December 2025

Risk	Published (excluding FIL Life acquisition)		Including FIL Life acquisition	
	SCR (£m)	% of total SCR	SCR (£m)	% of total SCR
Market risk	42.1	31%	60.4	36%
Life underwriting risk	69.6	51%	84.7	50%
Health underwriting risk	1.1	1%	1.1	1%
Counterparty default risk	10.1	7%	10.3	6%
Operational risk	13.1	10%	13.1	8%
Total undiversified SCR	136.0	100%	169.6	100%

Source: Scottish Friendly

Financial position

- 3.54 Scottish Friendly's Solvency UK balance sheet as at 31 December 2025 is set out in Figure 7 below. This is the published position and therefore does not include the impact of the FIL Life acquisition (which is shown separately below).

Figure 7: Scottish Friendly's Solvency UK balance sheet as at 31 December 2025 (excluding FIL Life acquisition)

£m	SFMF	M&GM	Manulife	SLL	Entity
Assets (A)	3,428.2	728.6	79.2	71.5	4,307.5 ¹
Best estimate liabilities (B)	3,228.9	635.8	77.6	56.2	3,998.5
Risk margin (C)	10.5	2.2	-	0.1	12.9
Technical provisions (D = B + C)	3,239.4	638.1	77.6	56.3	4,011.4
Other liabilities (E)	65.9	7.7	1.6	5.1	80.4
Excess of assets over liabilities (F = A – D – E)	122.9	82.8	-	10.1	215.8
SCR (G)	60.6	2.9	-	0.9	64.4
Excess own funds (H = F – G)	62.3	80.0	-	9.2	151.4
Ring-fencing restriction (RFR) (I)	-	-	-	-	89.1
Own Funds after RFR (J = F – I)	122.9	82.8	-	10.1	126.6
Solvency coverage ratio (J / G)	203%	2,895%	N/A	1,130%	197%

Source: Scottish Friendly

¹ The entity-level asset value of £4,307.5m is different to the value of £4,320.2m shown in Figure 5 due to differences in the treatment of derivatives and pension scheme surplus. Figure 5 includes only the derivative asset value (with the derivative liability recorded separately) whereas Figure 7 presents the net asset value. The staff pension scheme surplus for the M&GM scheme is recorded as an asset in Figure 5 and a negative liability in Figure 7.

- 3.55 The overall solvency coverage ratio is 203% for the SFMF and 197% at entity level, which is in excess of the entity-level target of 150% set out in Scottish Friendly's Capital and Financial Management Framework (see 'Capital management' section below).
- 3.56 The Manulife sub-fund is a North American-style with-profits fund, with assets set equal to the liabilities. The sub-fund sets bonuses in such a way as to distribute all available assets and would expect to be able to do so under the stresses prescribed in the regulatory solvency regime. There is therefore no Own Funds or SCR.
- 3.57 'Other liabilities' includes outstanding claims, deferred tax liabilities and reinsurer collateral.
- 3.58 Solvency UK requires insurers to rank their Eligible Own Funds by their quality in relation to the ability to absorb losses, subordination to insurance liabilities and/or debtholders, and term. All of Scottish Friendly's Eligible Own Funds were classified as unrestricted Tier 1 Own Funds at 31 December 2025, which is the highest quality ranking and is made up of surplus funds and the reconciliation reserve.
- 3.59 Scottish Friendly's Solvency UK balance sheet as at 31 December 2025, including the impact of the FIL Life acquisition, is set out in Figure 8 below.

Figure 8: Scottish Friendly's Solvency UK balance sheet as at 31 December 2025 (including FIL Life acquisition)

£m	SFMF	M&GM	Manulife	SLL	Entity
Assets (A)	5,689.0	728.6	79.2	71.5	6,568.3
Best estimate liabilities (B)	5,468.3	635.8	77.6	56.2	6,237.9
Risk margin (C)	12.8	2.2	-	0.1	15.2
Technical provisions (D = B + C)	5,481.1	638.1	77.6	56.3	6,253.1
Other liabilities (E)	65.9	7.7	1.6	5.1	80.4
Excess of assets over liabilities (F = A – D – E)	141.9	82.8	-	10.1	234.8
SCR (G)	86.4	2.9	-	0.9	90.2
Excess own funds (H = F – G)	55.5	80.0	-	9.2	144.7
Ring-fencing restriction (RFR) (I)	0.0	0.0	-	0.0	89.1
Own Funds after RFR (J = F – I)	141.9	82.8	-	10.1	145.7
Solvency coverage ratio (J / G)	164%	2,895%	N/A	1,130%	162%

Source: Scottish Friendly

- 3.60 The addition of the FIL Life business increases SFMF (and hence entity) Own Funds, primarily driven by incremental annual management charge income (partially offset by expenses) on the unit-linked component of the FIL Life portfolio. This is offset by an associated increase in SCR. The overall effect is to reduce SFMF solvency coverage ratio from 203% to 164% and Entity solvency coverage ratio from 197% to 162%. However, the entity-level result remains in excess of the entity-level target of 150%.

Capital, risk and liquidity management

Capital management

- 3.61 Under its Capital and Financial Management Framework, Scottish Friendly operates target values for its regulatory Pillar 1 entity-level solvency coverage ratio, aiming to keep the ratio above 130% at a minimum, and carrying out a review of possible management actions if the ratio falls below 150%.
- 3.62 Scottish Friendly also maintains a Pillar 2 basis and associated targets. The Pillar 2 framework builds on Pillar 1 by providing a basis that more closely reflects the entity's specific characteristics, including its underlying economics and risk profile.
- 3.63 The management actions available to Scottish Friendly if the coverage ratio falls below the target range include changes to:
- Bonus policy and smoothing;
 - Asset share investment strategy;
 - Other assets investment strategy, including hedging;
 - Levels of new business;
 - Charges for guarantees;
 - Surplus distribution; and
 - Expense management.

Risk management

- 3.64 Scottish Friendly operates a 'three lines of defence' model in managing its risks as set out below:
- First line: Scottish Friendly's business areas that are responsible for identifying, managing, monitoring and reporting on risks within each area.
 - Second line: risk and compliance functions that maintain the policies and procedures to be followed.
 - Third line: the Internal Audit function.

- 3.65 Scottish Friendly identifies seven principal risk categories that it is exposed to, along with actions to manage and mitigate risks in these areas. Figure 9 below summarises these exposures and actions.

Figure 9: Scottish Friendly's principal risks and mitigation / management actions

Risk area	Mitigation / management action(s)
Strategic, business environment and reputation	- Operational controls are used to minimise the potential impact of events that could damage Scottish Friendly's reputation. - Scottish Friendly carries out continual investment in its people, systems and processes to build resilience to both internal and external events.
Market	- Scottish Friendly implements a relatively low risk investment strategy which provides a degree of protection against market risk. - ALM activities are carried out for certain blocks of liabilities, including the use of derivatives to hedge risk exposure. - Capital is held to protect the solvency position against market risk crystallisation.
Insurance	- Recent experience data is monitored to help identify indicators of change in long-term experience. - Reinsurance is used to partially mitigate insurance risk. - Capital is held to protect the solvency position against insurance risk crystallisation.
Liquidity	- Liquidity risk is mitigated by holding liquid resources, specifically holding cash and liquidating assets if cash levels fall below a pre-defined level. - Expected future liquidity needs are projected alongside expected future liquid resources to ensure sufficient access to liquid assets.
Operational	- Controls are operated across Scottish Friendly's business to manage operational risk, and key controls are assessed by each business function on a regular basis. - Capital is held to protect the solvency position against operational risk crystallisation.
Credit	- Scottish Friendly's largest credit exposures are to companies with high credit ratings. Collateral is used to help mitigate some of these large exposures. - Regular monitoring of key credit exposures is carried out to allow corrective action to be taken when needed. - Capital is held to protect the solvency position against credit risk crystallisation.
Conduct	- Mitigating measures on conduct risk are implemented throughout product lifecycles and customer experiences. - Capital is held (as part of the operational risk capital) to protect the solvency position against conduct risk crystallisation.

Source: Scottish Friendly Annual Report & Financial Statements 2024

- 3.66 Scottish Friendly also classifies its appetite to take on risk in each of the key risk categories as 'low' or 'medium'. A 'low' classification is given to areas which are viewed as key to supporting the operation of the business and providing positive outcomes to customers (specifically conduct risk, operational risk and liquidity risk). A medium rating is given to areas where controlled exposure to risk can provide value for Scottish Friendly's members (e.g. insurance risk, market risk and credit risk).

Stress and scenario testing

- 3.67 Scottish Friendly also carries out stress and scenario testing as part of its wider risk management framework in order to understand the impacts these have on its balance sheet and overall risk profile.
- 3.68 The stresses and scenarios that are assessed are chosen and parameterised with input from the Executive team and the Risk Committee, and are intended to represent severe but plausible events. Scottish Friendly assesses both quantitative and qualitative scenarios to capture effects on a wide range of areas such as the balance sheet, the liquidity position, the strategic approach, and operational considerations.
- 3.69 Reverse stress testing is also carried out to identify scenarios that would result in the coverage ratio falling below 100% in order to put in place a series of potential mitigants.

Liquidity management

- 3.70 Scottish Friendly manages its liquidity position by holding a sufficient ratio of liquid assets to meet anticipated outflows over defined periods (1 and 3 months). The ratio is monitored against a target value, with asset sales considered in the event this is not met.

Charges and expenses

- 3.71 The charges levied by Scottish Friendly vary by sub-fund and business type as set out below:
- Unit-linked policies are charged an Annual Management Charge (“AMC”) and other expenses, such as transaction charges and handling fees, are allowed for in the pricing of unit funds.
 - Deductions are taken from the asset shares of SFMF with-profits policies to allow for the cost of death and other risk benefits, tax, guarantees and expenses (including acquisition, investment and administration expenses).
 - For the SF RFFs, charges are made to individual policies to cover items such as life cover and the cost of guarantees. Charges are also made to the fund itself in relation to administration and investment management expenses.

Consumer Duty

- 3.72 Scottish Friendly has undertaken a comprehensive programme to implement and embed the requirements of the FCA’s Consumer Duty. This includes the establishment of a governance and monitoring framework centred on the delivery of good customer outcomes across the four Consumer Duty outcomes (Products and Services, Price and Value, Consumer Understanding and Consumer Support), supported by regular reporting of Good Customer Outcome (“GCO”) management information to the Board and relevant committees.
- 3.73 Based on the most recent Consumer Duty assessments and Board reporting, Scottish Friendly concludes that its strategy, governance framework and culture are aligned with delivering good outcomes for customers and that no material customer harm has been identified.
- 3.74 In particular, Scottish Friendly identifies that:
- The Products and Services and Price and Value outcomes are performing well, with products considered to meet the needs of target markets and to deliver fair value, supported by high claims acceptance rates and active product governance processes.
 - The Consumer Understanding outcome remains an area of focus, with ongoing enhancements to customer communications (including statements and key lifecycle communications) to ensure customers are consistently able to make informed decisions.
 - The Consumer Support outcome has improved over time. Further work is ongoing to strengthen certain operational areas, including back-office servicing and in relation to certain contact and claims metrics.
 - Targeted initiatives are in place to enhance identification of vulnerable customers and ensure more consistent and effective support for those individuals.
- 3.75 Overall, Scottish Friendly continues to meet its obligations under the Consumer Duty and is delivering good customer outcomes with no evidence of material harm, while maintaining clear and structured programmes to drive continuous improvement.

4. Background to OneFamily

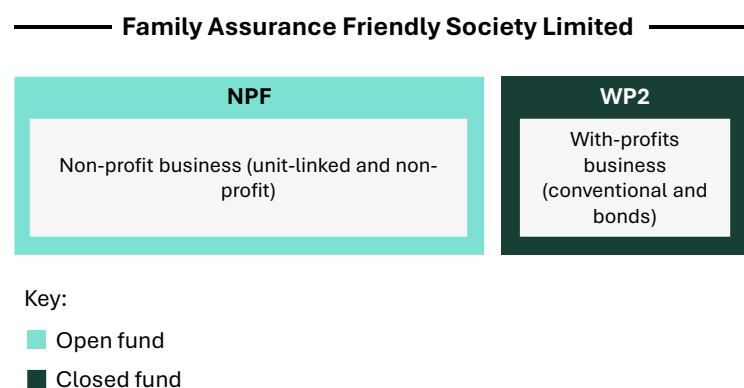
Background and history

- 4.1 In 1975, Family Assurance Society was founded. In July 1993 this was renamed Family Assurance Friendly Society Limited (“FAFSL”). The company subsequently completed several acquisitions as set out below:
- In October 1993, business was transferred to FAFSL from Moneywise Friendly Society.
 - In July 1995, business was transferred to FAFSL from Lancashire & Yorkshire Assurance Society.
 - In July 1995, business was transferred to FAFSL from The Holborn & Metropolitan Counties Society Limited.
 - In April 2002, business was transferred to FAFSL from POIS Assurance Limited. This business was subsequently sold to Foresters Friendly Society.
- 4.2 FAFSL was rebranded to Family Investments in 2004.
- 4.3 Homeowners Friendly Society Limited was established in 1980 and was rebranded as Engage Mutual Assurance in 2005. In 2015, Engage Mutual and Family Investments merged under the legal entity FAFSL, and took on the trading name OneFamily.
- 4.4 OneFamily acquired the brand and operating business of Beagle Street, a UK-based provider of term life insurance and critical illness cover, in 2022. New business continues to be written by OneFamily under the Beagle Street brand.

Society and fund structure

- 4.5 OneFamily is composed of FAFSL and its subsidiaries. It has recently undertaken an efficiency programme to simplify operations, centred on the transfer of most of the retail investment business of subsidiary entities into FAFSL and the transfer of lifetime mortgages to a third party. This has enabled certain subsidiary entities to be deauthorised with a view to winding up, including Engage Mutual Funds Limited and OneFamily Lifetime Mortgages Limited.
- 4.6 In addition, OneFamily Advice Limited is currently responsible for providing administration services for business historically sold by OneFamily and underwritten by Scottish Friendly (as discussed in paragraphs 3.24 and 3.25). Following the transfer, these services will no longer be required and it is expected that OneFamily Advice Limited will be wound up.
- 4.7 OneFamily operates a non-profit fund (“OFNPF”) and the ring-fenced with-profits fund, WP2, which was closed to new business in 2010. Figure 10 below summarises OneFamily’s fund structure.

Figure 10: Fund structure of OneFamily



Source: OneFamily

Business lines

- 4.8 The majority of OneFamily's business is UK-based, however there are a small number of policies (c.500 as of 31 December 2025) which were historically sold to individuals in Ireland. These policies are administered by OneFamily from the UK under a run-off regime agreement with the Central Bank of Ireland.
- 4.9 Along with the OFNPF and WP2 mentioned above, OneFamily previously operated another with-profits fund, WP1, however business in this fund was converted to non-profit business in 2024 and merged into the OFNPF. The business contained in each of the operating funds is summarised below:
- OFNPF: predominantly unit-linked business in the form of tax-exempt savings plans ("TESPs") and single premium bonds, along with some historical pensions business. Non-linked business includes Over 50s whole of life business and term and critical illness products, legacy term assurance and annuity business and business that was converted from the previous WP1 fund. The fund also contains bulk purchase annuity business relating to the buy-in of its staff pension schemes. Following the completion of the subsidiary consolidation element of the efficiency programme, the fund also contains material volumes of Child Trust Fund and ISA business.
 - WP2: conventional life and pensions business and with-profits bonds.
- 4.10 Figure 11 below shows the policy count and BEL (both gross and net of reinsurance) for each line of business as at 31 December 2025. The values shown exclude manual reserves.

Figure 11: Breakdown of OneFamily's society (FAFSL) policy count and BEL as at 31 December 2025

Line of business	Policy count	Gross BEL (£m)	Net BEL (£m)
Unit linked	339,983	1,504.9	1,504.9
Over 50s	161,282	86.3	(20.9)
Term & CI (Beagle Street)	47,721	(25.1)	(36.2)
Evita annuities	129	4.0	4.0
Legacy annuities	2,018	27.4	27.4
Bulk purchase annuities	453	41.4	41.4
Non-linked savings (ex-WP1)	6,257	27.7	27.7
With-profits (WP2)	2,006	17.0	17.0
Other protection	984	1.0	0.5
Total	560,833	1,684.6	1,565.8

Source: OneFamily

- 4.11 Included in Figure 11, within the 'unit linked' line of business, are c. 217,000 policies (with funds under management of c. £659m) that were transferred into the FAFSL entity prior to 31 December 2025, as a result of the subsidiary consolidation activity of the efficiency programme. The remaining phases of the subsidiary consolidation over 2026 added a further 680,000 policies and c. £2.6bn of funds under management.

Membership

- 4.12 OneFamily is an incorporated mutual friendly society owned by its members. Under its rules, membership is generally conferred on individuals holding an eligible policy or product issued by the Society. In contrast to Scottish Friendly, membership is also generally conferred in respect of non-insurance products provided through subsidiaries.
- 4.13 Members have governance rights under the Society's Rules, including the ability to vote directly on key matters. Unlike Scottish Friendly, OneFamily operates a direct voting structure, under which eligible members participate individually in member resolutions.
- 4.14 While many members are insurance policyholders, the alignment between member and insurance policyholder interests is less direct than in Scottish Friendly. A significant proportion of members hold

non-insurance savings and investment products, such as ISAs and Child Trust Funds, resulting in a broader and more diverse membership base.

- 4.15 In addition, OneFamily does not currently make discretionary distributions of surplus from its non-profit fund (OFNPF) in the normal course of business. Members therefore participate primarily through governance rights and contractual benefits, rather than through ongoing distributions of surplus. Members may share in residual surplus only in limited circumstances, such as on a winding-up.

Management and governance

- 4.16 The Board of OneFamily is responsible for the overall strategic direction and governance of the company. The Board is supported by various sub-committees as described below:
- Risk Committee: supports the Board in overseeing risk management across the company. Reviews risk management frameworks and risk appetites and is responsible for the ORSA process.
 - With-Profits Committee: oversees the management of the with-profits business in line with the PPFMs; ensures policyholders are treated fairly, specifically regarding bonuses, surrender values and paid-up values.
 - Audit Committee: has oversight of financial statements and regulatory returns; advises on the appointment of the external auditor and approves the internal audit plan.
 - Member, Customer & Culture Committee: ensures that OneFamily's values and culture are being implemented as expected; reviews plans and outcomes related to Consumer Duty; and encourages good governance in relation to customers, members and employees.
 - Remuneration Committee: oversees the implementation of the remuneration policy and ensures that executive directors' remuneration continues to remain appropriate.
 - Nominations Committee: ensures the Board consists of a collection of individuals with appropriate skills, knowledge, experience, diversity and independence and ensures succession plans for all directors and senior managers are appropriate.

Administration and servicing

- 4.17 The majority of policy administration and servicing activities are carried out in-house by OneFamily. Third parties are used to provide administration services on some legacy annuity business and bulk purchase annuity business.
- 4.18 OneFamily also outsources a range of functions related to the operation of its business, including:
- Actuarial reporting, to Willis Towers Watson.
 - The role of Chief Actuary, to Mr. Robert Bugg of Milliman LLP.
 - The role of With-Profits Actuary, to Mr. Thomas Michael of Willis Towers Watson.
 - Fund management, to State Street Investment Management, Insight Investment Management (Global) Limited, Legal & General Group plc, Barclays Bank PLC and Invesco.
 - Some elements of payroll processing, to RSM.
 - Document services, to MBA.
 - Pensions administration, to Lane Clark & Peacock LLP, Isio Group Limited and Broadstone Corporate Benefits Limited.
 - Systems development and IT support, to iPipeline, COR Financial Solutions, Capital Computers, 11:11, Opus Communications, Microsoft, Palo Alto Networks, ANS and AWS.

Management of unit-linked business and unit-linked funds

Management

- 4.19 OneFamily maintains a document setting out the principles and practices adhered to in the management of the unit-linked funds available to policyholders. This is a higher-level document compared to the Scottish Friendly ULFPP and is available for customers on OneFamily's website.

Investment range

- 4.20 OneFamily offers a number of funds to its policyholders, specifically:
- Internal funds: these funds are managed by OneFamily. Assets may include investment in other funds (internal or external) or direct holdings of investments.
 - External funds: these are managed by third party providers.
 - Deposit funds: for these funds, changes in the unit price are based on (among other things) the amount of interest earned by the assets in the fund.

Governance of unit-linked funds

- 4.21 Governance of the management of unit-linked funds is provided by:
- OneFamily's Board;
 - The Audit Committee;
 - The Risk Committee; and
 - The Executive Investment Committee.
- 4.22 Additionally, there is internal oversight through OneFamily's review and controls systems, as well as via the activities of the Compliance and Internal Audit functions. External oversight is provided by investment managers and custodians and OneFamily's auditors test certain internal financial controls as part of their work.

Management of unit-linked funds

- 4.23 OneFamily has established and documented processes for managing its unit-linked business and the underlying unit-linked funds. I have reviewed the processes employed by OneFamily and I consider that they are generally reflective of common market practice. The following paragraphs note areas where OneFamily may apply discretion in managing its unit-linked business.
- 4.24 If the price of an asset is unavailable due to extreme market conditions, OneFamily can instruct its investment managers to calculate a fair value price to be used as a proxy.
- 4.25 For single priced funds, unit prices do not make any allowance for dealing costs incurred in buying or selling the underlying assets and these costs are deducted from the fund itself as they are incurred. These costs are generally relatively small, so do not have a material impact on the value of policyholders' holdings. Where there is a significant movement of funds into or out of a fund, such that the dealing costs are material, OneFamily may pay a dilution levy into the fund to offset these costs and protect other investors in the fund.
- 4.26 OneFamily can close funds or merge funds with similar investment objectives at any time. Policyholders would typically be notified at least a month in advance where the change is expected to result in a significant impact to their investment strategy or charges.
- 4.27 In exceptional circumstances, OneFamily may suspend unit prices and / or temporarily delay processing transactions for up to one month. Transactions involving illiquid assets such as property can be delayed by up to six months.

Management of with-profits business

- 4.28 OneFamily exercises discretion in the management of its with-profits business, supported by advice from the With-Profits Actuary. The areas where this discretion is applied are detailed in the PPFM for the with-profits fund, and include:
- Bonus setting and smoothing

- Asset share methodology
- Investment strategy
- Surrender values and market value reductions

Staff pension schemes

- 4.29 OneFamily operates a defined contribution group personal pension staff scheme for its employees.
- 4.30 OneFamily also operates a defined benefit staff pension scheme, the Family Assurance Staff Pension Scheme, which was closed to future accrual on 31 December 2009. In 2024, OneFamily undertook a buy-in of the pension liabilities, meaning it is now both the sponsoring employer and the insurer for the scheme.

Tax

- 4.31 OneFamily holds a mix of BLAGAB and non-BLAGAB business and allows for applicable tax in the determination of asset shares for with-profits policies.
- 4.32 Non-BLAGAB business is taxed at 0%. BLAGAB business held by OneFamily includes taxable investment bonds, pre-2013 protection policies and general annuities. This business is taxed on an investment return minus expenses ("I minus E") basis, at a current rate of 20%. Due to brought forward excess "E", the tax charge is usually nil.

Reinsurance

- 4.33 OneFamily has a number of reinsurance contracts in place to manage its risk exposure. The details of these arrangements are set out in Figure 12 below.

Figure 12: Summary of OneFamily's reinsurance arrangements

Reinsurer	Business covered	Summary of arrangement
Hannover Re	Whole of life and term assurance business, written between February 2001 and February 2007	Pre-June 2002 business: covered on a net level premium basis, with 90% of the sum assured on death ceded. Post-June 2002 business: covered on an original terms basis, with 80% of the sum assured on death ceded.
Hannover Re	Standalone and accelerated CI business written after September 2023	Covered on a risk premium basis, with 80% of the sum assured on claim ceded.
Munich Re	Whole of life and Over 50s business written between February 2007 and October 2022	Pre-February 2010 business: covered on an original terms basis, with 80% of the sum assured on death ceded. Post-February 2010 business: covered on a risk premium basis, with 80% of the sum assured on death ceded.
Swiss Re	Whole of life assurance business written between January 1998 and April 2002	Covered on a net level premium basis, with 80% of the sum assured on death ceded.
Swiss Re	Over 50s business written after November 2022	Covered on a risk premium basis, with 80% of the sum assured on death ceded.
Swiss Re	'Assura Protect' branded term assurance with critical illness business sold from August 2023	100% reinsured.
Swiss Re	Term assurance business written after September 2023	Covered on a net level premium basis, with 90% of the sum assured on death ceded.
SCOR	Level and decreasing term assurances sold from June 2008 and distributed by 123.ie	Covered on an original terms basis, with 90% of the sum assured on death ceded.
SCOR	Investment business	Mass lapse treaty

Source: OneFamily

- 4.34 OneFamily also established a financial reinsurance arrangement with Munich Re in 2024 to support liquidity in relation to its term and critical illness business lines.
- 4.35 Figure 13 below summarises the financial strength credit rating of each provider included in the summary above, using the rating provided by Standard & Poor's ("S&P").

Figure 13: Credit ratings of OneFamily's reinsurers

Reinsurer	S&P credit rating
Hannover Re	AA-
Munich Re	AA
SCOR	A+
Swiss Re	AA-

Source: Reinsurer websites

Assets

- 4.36 Figure 14 below shows a breakdown of OneFamily's society (FAFSL) assets as at 31 December 2025, totalling £1.9bn, along with a reconciliation to the asset value at a OneFamily Group level of £6.3bn.

Figure 14: OneFamily's society (FAFSL) asset portfolio as at 31 December 2025

Asset category	Asset value (£m)
Property, plant & equipment held for own use	0.2
Property (other than for own use)	8.7
Holdings in related undertakings, including participations	15.1
Equities	0.6
Government bonds	97.3
Corporate bonds	57.3
Collective Investment Undertakings	15.6
Assets held for index-linked and unit-linked contracts	1,556.7
Loans and mortgages	0.1
Reinsurance recoverables	113.3
Insurance and intermediaries receivables	3.1
Reinsurance receivables	9.6
Receivables (trade, not insurance)	16.8
Cash and cash equivalents	22.8
Any other assets, not elsewhere shown	3.7
Total FAFSL assets	1,920.7
Impact of subsidiaries and consolidation adjustments	13.7
Assets held within authorised funds for off balance sheet investment products ¹	2,597.7
Assets held for Cash ISAs	1,799.9
Direct unit holders investment in authorised funds ²	9.8
Total OneFamily group assets	6,341.8

1. These assets have since been transferred into FAFSL as part of the efficiency programme referred to in paragraph 4.5
2. The policies that these assets relate to are being paid out as part of the efficiency programme referred to in paragraph 4.5 and are therefore not part of the FAFSL or Group assets following the completion of this programme.

Source: OneFamily SFCR 2025 and OneFamily

Financial position

- 4.37 OneFamily completed an efficiency programme in September 2026 to simplify operations, centred on the transfer of most of the retail investment business of subsidiary entities into FAFSL and transfer of lifetime mortgages to a third party. This has enabled certain subsidiary entities to be deauthorised with a view to wind up, including Engage Mutual Funds Limited and OneFamily Lifetime Mortgages Limited. This programme has delivered in stages over a period of time, with two phases of business transferring into FAFSL during 2025 and the final phases transferring in 2026. In addition, a mass lapse reinsurance treaty, relating to a sub-set of unit-linked business, was implemented in March 2026.
- 4.38 OneFamily's Solvency UK balance sheet as at 31 December 2025 is set out in Figure 15 below. This is the published position and therefore does not include the impact of the subsidiary consolidation activity or addition of mass lapse reinsurance completed in 2026 (which is shown separately below).

Figure 15: OneFamily's Solvency UK balance sheet as at 31 December 2025 (excluding subsidiary consolidation and mass lapse reinsurance activity in 2026)

£m	OFNPF	WP2	Entity
Assets (A)	1,897.0	23.7	1,920.7
Best estimate liabilities (B)	1,662.4	18.1	1,680.5
Risk margin (C)	8.1	0.0	8.2
Technical provisions (D = B + C)	1,670.6	18.1	1,688.6
Other liabilities (E)	69.4	1.5	70.9
Excess of assets over liabilities (F = A – D – E)	157.0	4.2	161.2
SCR (G)	76.1	0.4	76.5
Excess own funds (H = F – G)	81.0	3.7	84.7
Ring-fencing restriction (RFR) (I)	-	-	3.7
Own Funds after RFR (J = F – I)	157.0	4.2	157.5
Solvency coverage ratio (J / G)	206%	959%	206%

Source: OneFamily

- 4.39 The overall solvency coverage ratio is 206% at both OFNPF and entity level, reflecting a comfortably capitalised position. The entity position is in excess of the 150% target set out in OneFamily's capital management policy (see 'Capital management' section below).
- 4.40 The 'Other liabilities' shown above include insurance and intermediaries payables, trade payables, and accruals and deferred income.
- 4.41 OneFamily's Solvency UK balance sheet as at 31 December 2025, including the impact of the subsidiary consolidation activity and addition of mass lapse reinsurance completed since this date, is set out in Figure 16 below.

Figure 16: OneFamily's Solvency UK balance sheet as at 31 December 2025 (including subsidiary consolidation and mass lapse reinsurance completed in 2026)

£m	OFNPF	WP2	Entity
Assets (A)	4,486.1	23.7	4,509.8
Best estimate liabilities (B)	4,191.8	18.1	4,209.9
Risk margin (C)	10.1	0.0	10.1
Technical provisions (D = B + C)	4,201.9	18.1	4,220.0
Other liabilities (E)	69.4	1.5	70.9
Excess of assets over liabilities (F = A – D – E)	214.7	4.2	218.9
SCR (G)	115.8	0.4	116.2
Excess own funds (H = F – G)	98.9	3.7	102.7
Ring-fencing restriction (RFR) (I)	-	-	3.7
Own Funds after RFR (J = F – I)	214.7	4.2	215.2
Solvency coverage ratio (J / G)	185%	959%	185%

Source: OneFamily

- 4.42 The transfer of subsidiary business into FAFSL increases OFNPF (and hence Entity) Own Funds, through recognition of future unit-linked charge income. There is an associated increase in SCR, partially offset by the mass lapse reinsurance. The net effect is a reduction in both OFNPF solvency coverage ratio and entity solvency coverage ratio from 206% to 185%. The positions remain comfortably capitalised, and the entity position in excess of the 150% target set out in OneFamily's capital management policy.

Solvency UK regulatory approvals

- 4.43 OneFamily uses the Standard Formula, as set out in the PRA Rulebook under the Solvency UK regime, to calculate its SCR.
- 4.44 OneFamily obtained regulatory approval to apply the VA in 2024, to reduce the impact of short-term market volatility on its regulatory balance sheet. The VA is applied in the valuation of annuity (including bulk purchase annuity), Over 50s, legacy protection, and non-linked savings products.
- 4.45 OneFamily does not apply the MA, Transitional Measure on the Risk-Free Interest Rate or TMTP.

Risk profile

- 4.46 The key risks to which OneFamily is exposed are market risk and life underwriting risk. This is set out in Figure 17 below, which illustrates the breakdown of the SCR as at 31 December 2025, both before and after the implementation of the outstanding stages of the efficiency project, including the position both before and after the implementation of the mass lapse reinsurance treaty.

Figure 17: Breakdown of OneFamily's SCR as at 31 December 2025

	Published 31 December 2025		After remaining subsidiary consolidation		After additional mass lapse reinsurance	
Risk	SCR (£m)	% of total	SCR (£m)	% of total	SCR (£m)	% of total
Life underwriting risk	48.1	49%	74.0	46%	62.7	42%
Health underwriting risk	2.2	2%	2.2	1%	2.2	1%
Market risk	42.7	43%	74.6	47%	74.6	50%
Counterparty default risk	3.3	3%	3.7	2%	3.7	2%
Operational risk	2.8	3%	5.4	3%	5.4	4%
Total undiversified SCR	99.0	100%	159.9	100%	148.7	100%

Source: OneFamily

- 4.47 The market risk exposure arises predominantly from equity risk in relation to the unit-linked funds. The life underwriting risk exposure is largely driven by lapse risk on the unit-linked business.

Capital, risk and liquidity management

Capital management

- 4.48 OneFamily operates target ranges for its entity-level Pillar 1 solvency coverage ratio, aiming to keep the ratio above a target of 150% under normal circumstances and above a minimum of 137.5%. The target is intended to ensure that the regulatory capital requirement can continue to be met following a 1-in-20 year stress event.
- 4.49 The management actions available to OneFamily should the solvency coverage ratio fall below the target value include:
- Risk reduction:
 - Using derivatives or shorting to reduce volatility.
 - Reducing market risk by moving to an asset mix with lower risk capital requirements.
 - Reducing bond spread risk.
 - Making further use of reinsurance.
 - Expense options:
 - Reducing maintenance expenses such as staffing costs, supplier costs and overheads.
 - Reducing acquisition expenses such as marketing and commission.
 - Reducing development expenses such as development projects.
 - Capital options:
 - Raising Tier 2 debt.
 - Collateralising VIF.
 - Implementing unit matching of bond/equity risk.

Risk management

- 4.50 Similar to Scottish Friendly, OneFamily operates a “three lines of defence” model as part of its risk management approach. These consist of:
- First line: the identification, ownership and management of risks by business functions.
 - Second line: risk and compliance functions setting policies and providing independent oversight.
 - Third line: internal audit.
- 4.51 OneFamily also manages its risk using a Risk Management Framework. This framework includes details of OneFamily’s risk appetite, risk culture, risk governance and risk management processes.
- 4.52 OneFamily identifies several high-level risk categories, along with associated management and mitigations. These are summarised in Figure 18 below.

Figure 18: OneFamily key risks and management / mitigation actions

Risk category	Management / mitigation
Strategic	• Business planning cycle, including Board-level approval and monitoring. • Board-level approval and monitoring of major strategic initiatives. • Forward-looking assessment, including the impact of risks on the capital position through the ORSA process and stress and scenario testing. • Annual report discussing the approach to maintaining customer confidence and delivering value.
Insurance	• Reviewing lapse, longevity, morbidity and expense experience relative to expectations. • Reviewing experience against underwriting criteria to ensure underwriting footprint is consistent with expectations. • Use of pricing controls, avoiding risk concentration. • Use of risk transfer actions such as reinsurance.
Market	• Management of equity, currency and other market risks via investment policies. • Oversight of asset mix and performance. • Consideration of asset-liability (mis)matching by currency and term. • Use of risk transfer actions such as hedging. • Investment in approaches to measure and manage the climate impact of the market risk exposure.
Credit	• Preference for investment-grade bonds with lower levels of associated credit risk. • Regular monitoring of the level of counterparty credit risk exposure against risk limits. • Monitoring the financial strength of reinsurance counterparties. • Monitoring of exposure to insurance intermediaries, including monitoring indicators such as complaints and lapse levels. • Investment in approaches to measure and manage the climate impact of the counterparty risk exposure.
Liquidity	• Regular monitoring to ensure sufficient liquid assets are held to meet liabilities in both normal and stressed conditions. • Matching investment terms with expected timing of liability outflows. • Suspending the sale of new business or implementing fair value pricing in extreme market conditions. • Using financial reinsurance to provide additional liquidity, particularly for new business strain.
Pension	• Capture of market, credit and demographic risks within other risk categories.
Operational	• Use of various policies, controls and procedures for different areas of operational risk. • Monitoring of conduct risk indicators and reports.
Reputational	• Consideration of how business initiatives could impact reputation. • Quick redress for customers where required.
Artificial intelligence	• Audit and oversight of issues related to fairness, bias, accountability, transparency and the potential for AI systems to create or amplify existing inequalities. • Ability to clearly explain the decisions made by AI systems. • Inclusion of people in AI-driven systems such that human intervention can override or improve decisions made by AI. • Regular testing and training.

Source: OneFamily

Stress and scenario testing

- 4.53 Like Scottish Friendly, OneFamily carries out stress and scenario testing as part of its risk management processes in order to understand the impacts these have on its balance sheet and overall risk profile.
- 4.54 The stresses and scenarios to be applied are agreed by the Board and Board Risk Committee, along with expert judgement inputs on areas such as new business sales, lapses and expenses. OneFamily considers the impact of the stresses and scenarios on its capital and liquidity positions, both before and after the application of management actions. Scenarios are considered over the business plan period, not only over a one-year period.
- 4.55 Reverse stress testing is also carried out to identify scenarios that would cause critical issues to the business, namely causing the solvency coverage ratio to fall below 100%, causing reputational damage

such that OneFamily would be unable to continue its operations, or resulting in OneFamily being unable to meet liabilities as they arise.

Liquidity management

- 4.56 OneFamily manages its liquidity position by holding a sufficient ratio of liquid assets to meet anticipated outflows over defined periods (3, 6 and 12 months). The ratio is monitored against a series of targets.
- 4.57 If the liquidity ratio falls below these targets, the actions available to management to improve the position include:
- Use of financial reinsurance.
 - Asset sales.
 - Reducing new business sales.

Charges and expenses

- 4.58 The charges applied by OneFamily vary by type of business as set out below:
- Unit-linked business: AMCs vary by fund and are calculated and deducted from the fund on either a daily basis or a weekly basis. Product-specific charges are made to cover elements such as the cost of life cover. A bid-offer spread is charged when customers carry out transactions with dual-priced funds, to cover the dealing costs associated with buying or selling units.
 - With-profits business: the charges applied to policies in the WP2 fund are governed by a previous Instrument of Transfer relating to the transfer of business from Homeowners Friendly Society Limited. The expenses paid by the fund are based on the number of policies in the fund and the value of assets held by the fund.
- 4.59 The charges made to asset shares are consistent with the expenses incurred by the fund.

Consumer Duty

- 4.60 OneFamily has implemented and embedded the Consumer Duty across its business, supported by a well-developed governance framework, regular outcome monitoring and Board-level oversight through the Member, Customer & Culture Committee. The Consumer Duty has been applied across both open and closed books of business, with an emphasis on fair value assessments, product reviews and continuous monitoring of customer outcomes.
- 4.61 The 2025 Consumer Duty Annual Assessment, performed by OneFamily, concludes that the firm continues to deliver fair value and good customer outcomes across its products and services, with overall performance broadly aligned with Consumer Duty requirements and supported by strengthened management information and governance processes.
- 4.62 Key features of OneFamily's Consumer Duty position include:
- Products and Services / Price and Value outcomes are assessed as performing strongly, with all products delivering fair value, supported by regular reviews, monitoring and targeted improvements.
 - Consumer Understanding has been enhanced through significant investment in customer communications, including website redevelopment, CRM capability and improved documentation, with further enhancements in progress.
 - Consumer Support outcomes are assessed as strong and stable, with effective complaint handling, generally timely service delivery and proactive remediation where issues arise.
 - There is evidence of a mature and positive Consumer Duty culture, supported by robust oversight from second and third line teams and high levels of staff engagement and training.
- 4.63 While some areas for improvement have been identified, including system-related issues, data limitations in legacy platforms and certain process enhancements (e.g. in claims handling and complaints MI), these are not considered to have resulted in material customer detriment and are subject to active remediation plans.

- 4.64 Overall, OneFamily's Consumer Duty framework is well embedded and operating effectively, with the firm continuing to monitor and deliver improvements to ensure good customer outcomes.

5. Outline of the transfer

- 5.1 In this section, I summarise the rationale for the transfer, the key terms of the transfer as set out in the Instrument of Transfer (“IoT”), together with related actions and contingency arrangements should the transfer not proceed.

Rationale for the transfer

- 5.2 The transaction represents the combination of two broadly comparable mutual entities, rather than an acquisition of one by the other.
- 5.3 The transfer will create a larger, combined portfolio and business within OneFamily, supporting improved scale, competitiveness and operational efficiency for the benefit of members of both organisations and future members. In particular, the consolidation of the Scottish Friendly and OneFamily businesses is expected to support:
- a greater ability to compete for new business with larger financial services firms, including mutuals and non-mutuals;
 - increased assets under management and access to enhanced investment capability, including broader access to investment opportunities and improved investment diversification;
 - capital benefits, including greater diversification of risks and more efficient use of capital across the enlarged entity; and
 - expense synergies, through the integration and alignment of systems, processes and governance structures.
- 5.4 These benefits are not expected to be achievable to the same extent by either party on a standalone basis. The smaller scale of the businesses, if operated independently, would limit their ability to realise comparable efficiencies and diversification benefits over time.
- 5.5 As part of its broader considerations relating to the merger, Scottish Friendly also considered closure to new business as an alternative to the transfer, analysing the potential impact on its financial position and on policyholder outcomes. This analysis indicated that the transfer, and the associated benefits of increased scale and efficiency, are expected to result in more favourable outcomes for a majority of policyholders than those achievable under an independent run-off.

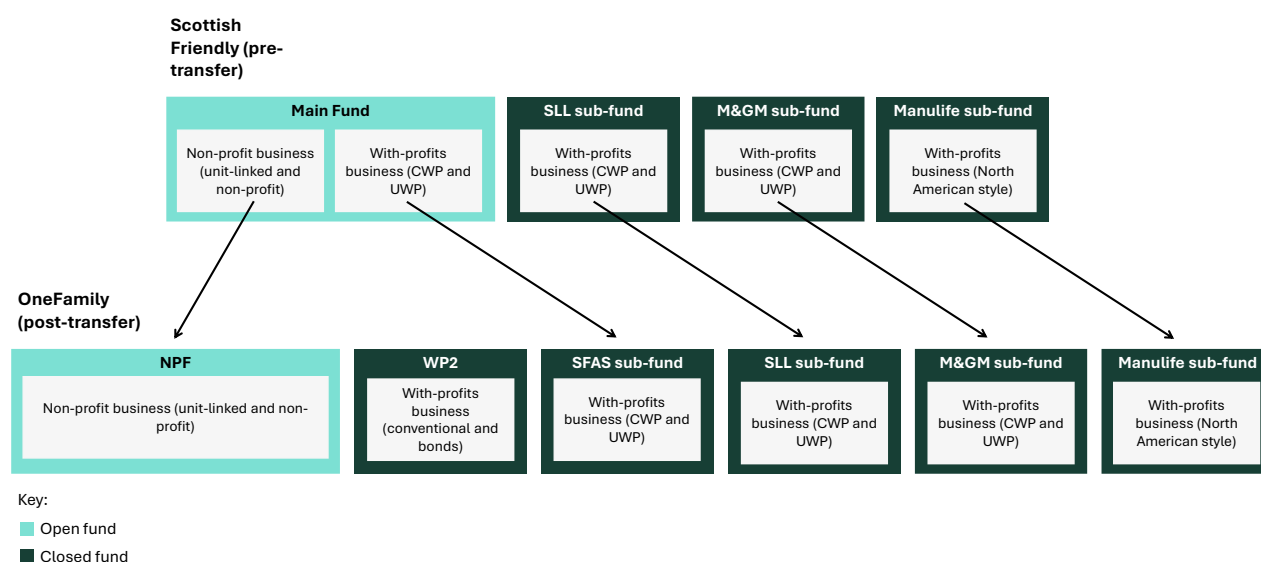
Provisions of the Instrument of Transfer

- 5.6 Under the IoT, all Scottish Friendly Transferring Policies will transfer to OneFamily on the “Effective Date” (currently intended to be 28 February 2027, but the IoT has the provision for this to potentially change). The transfer includes all associated assets, liabilities, rights and obligations. No policies are excluded from the scope of the transfer.
- 5.7 Transferring assets include those relating to the Transferring Policies and their administration, rights under transferring contracts (including reinsurance), all assets of the SFMF and its sub-funds (including undistributed surplus) and relevant systems, IT infrastructure and property.
- 5.8 Transferring liabilities include:
- liabilities under the Transferring Policies, assets and contracts;
 - any mis-selling liabilities and liabilities arising from historical administration errors; and
 - any judgements, settlements or tax liabilities relating to the transferring business.
- 5.9 The contractual rights and obligations of policyholders will be unaffected by the transfer.
- 5.10 Following the transfer, Scottish Friendly will be dissolved.

Fund structure

- 5.11 At the Effective Date, OneFamily will establish new ring-fenced sub-funds for the Scottish Friendly with-profits business, including:
- the SFAS sub-fund for the SFMF with-profits business (closed to new business on transfer, other than in respect of contractual increments); and
 - separate sub-funds corresponding to each of the SF RFFs.
- 5.12 All other business (including non-profit and unit-linked) will transfer to the OFNPF. Surplus in the SFMF (net of the Merger Allocation described below) will also transfer to the OFNPF.
- 5.13 Figure 19 below summarises the allocation of the Scottish Friendly business following the transfer.

Figure 19: OneFamily fund structure post-transfer



Source: OneFamily

Reinsurance and other third-party contracts

- 5.14 Reinsurance and other third-party contracts relating to the Transferring Policies will automatically transfer to OneFamily under the FS Act provisions, without amendment. References to Scottish Friendly in such contracts will, following the Effective Date, be understood to refer to OneFamily. In certain cases, e.g. in relation to material reinsurance agreements, Scottish Friendly will notify the relevant counterparties of the transfer and may also seek to formalise the position through an express novation.

Membership

- 5.15 Following the merger, members of Scottish Friendly will cease to be members of Scottish Friendly and will become members of OneFamily, in accordance with OneFamily's Rules, with no separate action required on their part. Their membership rights will align with those of existing OneFamily members, including participation in governance and voting processes. In particular, no distinct class of member will be created as a result of the merger, and all members, whether originating from Scottish Friendly or OneFamily, will participate on an equal basis in any future distribution of surplus or residual rights on a winding-up. Accordingly, the merger results in the continuation of membership on a consistent mutual basis within the enlarged Society, rather than any fundamental change in the nature of members' rights.

Unit-linked business

- 5.16 The approach to the management of unit-linked business will be unchanged by the transfer. The existing governance and oversight framework described in Sections 3 and 4 will continue to apply post-transfer, including Board accountability, relevant sub-committee oversight and the application of customer fairness principles. All existing administrative, investment management, insurance and reinsurance arrangements will be transferred unaltered. There will be no changes to terms or service level agreements with third parties.

Project costs

- 5.17 The costs incurred in preparing and bringing into effect the transfer will be met in accordance with the terms set out in the Framework Agreement between the two parties. Specifically, my fees, any fees associated with regulatory authorities, and the costs of placing notices in respect of the transfer will be split equally between Scottish Friendly and OneFamily. The costs of notifying policyholders and any other costs incurred in preparation for the transfer (e.g. legal fees) will be met by the party that incurs them.

Hybrid policies

- 5.18 Scottish Friendly has a number of 'hybrid' policies, which consist of a combination of both unit-linked and with-profits holdings. Each hybrid policy will remain a single policy following the transfer and will be allocated to the OFNPF. The unit-linked element of these policies will be transferred to the OFNPF and the with-profits element will be transferred to the SFAS sub-fund. Policyholders may continue to switch investments from the with-profits element into the unit-linked element. As the SFAS sub-fund will be closed to new business, switches from the unit-linked element into the unitised with-profits element will no longer be permitted. As this switching facility is not a contractual entitlement, policyholders' contractual rights will be unaffected.

SFAS sub-fund run-off and closure

- 5.19 A run-off plan will be developed to govern the orderly distribution of surplus as the SFAS sub-fund runs off.
- 5.20 The IoT permits merger of the SFAS sub-fund into the OFNPF once its assets fall below £50m (indexed annually from 31 December 2026 with CPI) or where the OneFamily Board determines that maintaining the SFAS sub-fund as a separate fund is materially adverse to the interests of OFNPF policyholders and not materially adverse to SFAS sub-fund policyholders. Merger is mandatory once assets fall below £25m (indexed with CPI).
- 5.21 On merger, surplus (net of a 'cessation charge') will be distributed to SFAS sub-fund policyholders. The cessation charge will cover closure costs and compensate the OFNPF for the additional transferring non-hedgeable capital requirements arising on transfer, as determined by the OneFamily Board and advised by the Chief Actuary and With-Profits Actuary.
- 5.22 With-profits policies may be converted to unit-linked or non-profit on or following merger.

SFAS sub-fund tax

- 5.23 Tax will be levied on the SFAS sub-fund as if it were a standalone entity. That is, the tax charged will be calculated to reflect a best estimate of the amount that would be charged if the sub-fund was the only long-term business fund of OneFamily.

Subsidiaries

- 5.24 All of the shares in issue in Scottish Friendly's subsidiaries will transfer to, and be held within, the OFNPF, consistent with OneFamily's existing approach.

Merger Allocation, Initial Policy Uplift and Residual Merger Allocation

- 5.25 Scottish Friendly with-profits policyholders currently share in the surplus of the SFMF through the ProfitShare mechanism. ProfitShare will not continue following the merger. In its place, a one-off Merger Allocation will be transferred to the new SFAS sub-fund. This Merger Allocation will be distributed to the SFAS sub-fund policyholders' policy values, partly through an Initial Policy Uplift applied at the Effective Date and partly through the distribution of the Residual Merger Allocation over time. The Merger Allocation is designed to maintain continuity by providing a value broadly equivalent to the share of SFMF surplus that policyholders might reasonably have expected to receive through future ProfitShare distributions in the absence of the merger and therefore supports policyholders' reasonable expectations.
- 5.26 Under the agreed terms of the IoT, the impact of the Initial Policy Uplift (in terms of the increase in BEL) is capped at 50% of the Merger Allocation.
- 5.27 The Merger Allocation will be subject to a true-up mechanism. It will initially be determined pre-transfer using asset share values available at that time and subsequently recalculated post-transfer using updated asset

share values as at the Effective Date. Any adjustment required will be settled via a payment between the OFNPF and SFAS sub-fund.

Expense rate card and investment expenses

- 5.28 Following the transfer, an expense rate card will be established between the OFNPF and the SFAS sub-fund. Under the arrangement, the SFAS sub-fund will bear the costs of its ongoing administration through an Operational Service Charge (“OSC”) payable to the OFNPF. The OSC is designed to reflect a fair allocation of costs incurred by OneFamily in servicing the SFAS sub-fund. The OSC comprises a per-policy charge, applied quarterly, calculated as the relevant per-policy cost (which varies by policy type), multiplied by the average number of policies in force over the period.
- 5.29 In addition, the SFAS sub-fund will also bear the costs of any:
- operational losses arising after the Effective Date that relate to with-profits policies in the SFAS sub-fund and are attributable to events, acts or omissions in the pre-transfer period;
 - project and one-off costs incurred for the benefit of the SFAS sub-fund, where the allocation is approved by the OneFamily Board, having regard to the advice of the With-Profits Actuary and With-Profits Committee; and
 - exceptional costs which were not reasonably foreseeable at the Effective Date but would have been allocated to the SFAS sub-fund had they been foreseeable, subject to taking account of policyholders’ reasonable expectations and the obligation to treat customers fairly.
- 5.30 The per-policy charges have been determined based on best estimate expense assumptions as at 31 December 2025, with an explicit margin of 5%. These charges will be maintained under an “evergreen” arrangement, applying for the duration of the SFAS sub-fund.
- 5.31 In addition to the OSC, the SFAS sub-fund will bear Investment Services Fees (“ISF”), representing a fair allocation of the actual costs incurred by OneFamily in managing the underlying assets. Where the charge exceeds 20 bps per annum, it will be subject to enhanced governance, requiring approval by the OneFamily Board following recommendation from the With-Profits Committee.

Governance

- 5.32 Governance of the new sub-funds will be provided by the OneFamily With-Profits Committee and Board, with advice provided by the With-Profits Actuary.
- 5.33 Capital support previously provided by the SFMF will be provided by the OFNPF. This includes any external capital support required by the M&GM, SLL and Manulife sub-funds, for which the OFNPF will replace the SFMF as the expected provider of support. Separately, the IoT also permits the SFAS sub-fund to provide financial assistance or support to another fund or sub-fund in limited circumstances and subject to certain safeguards. These safeguards include approval by the OneFamily Board and certification by the WPA that the terms of the support are no less favourable to the SFAS sub-fund than arm’s-length commercial terms and that the support will not have a material adverse effect on the reasonable expectations of policyholders in the SFAS sub-fund.
- 5.34 Capital support from the OFNPF to the SFAS sub-fund may be provided if a deficit arises in the SFAS sub-fund. It will be provided via a contingent loan, with interest charged at a rate no higher than the prevailing arm’s-length commercial rate, as determined by the OneFamily Board having regard to the advice of the WPA. Repayments can be partial, when the SFAS sub-fund comes out of a deficit position, until the point the loan is fully repaid.

Previous Schemes and Instruments of Transfer

- 5.35 Existing scheme and instrument provisions relating to the M&GM, SLL and Manulife sub-funds will continue, with references updated to OneFamily. Key arrangements, including expenses, tax, capital support and closure criteria, remain unchanged.

Overseas policyholders

- 5.36 The vast majority of Scottish Friendly's business is UK-based, with a small number of policies originally sold in the EU (specifically Ireland, Germany and Belgium), Jersey and Guernsey.
- 5.37 Scottish Friendly administers the EU-based policies from the UK under the run-off regimes in operation in the relevant countries. These EU policies will transfer under the IoT on the same basis as the UK-based business.
- 5.38 A small number of policies were written in, or constitute business carried on in, or from within Jersey and Guernsey. Following advice from Jersey and Guernsey counsel, it is proposed that the transfer of any business carried on in, or from within, Jersey by Scottish Friendly, and the transfer of any policies issued by Scottish Friendly to persons resident in Guernsey will be effected following the approval of separate schemes in Jersey and Guernsey.
- 5.39 These Schemes, pursuant to the relevant local law, will provide for the transfer of policies on substantially the same terms as the proposed transfer under the IoT. However, unlike the IoT process, in each of Jersey and Guernsey an application must be made to the relevant Court for approval of the relevant Scheme.
- 5.40 If either of the relevant Courts in Jersey and Guernsey does not sanction the transfer of any policies where requested to do so, or if either of the Jersey or Guernsey Schemes is sanctioned by the relevant Court but the transfer of any policy does not become effective by the intended effective date of the Schemes, then the broader transfer of business from Scottish Friendly to OneFamily under the FS Act shall not become effective.
- 5.41 There are also policies held by around 4,200 policyholders that were originally sold in the UK but whose policyholders have subsequently moved to a variety of countries overseas. These policies continue to be governed by the law of a UK jurisdiction, namely England and Wales, Scotland or Northern Ireland, and will transfer under the IoT on the same basis as policies held by UK-resident policyholders.

Other planned actions following the transfer

Volatility Adjustment

- 5.42 Following the transfer, OneFamily intends to apply the VA to certain Transferring Policies in its regulatory balance sheet. All else equal, this is expected to reduce BEL by around £4m.

Administration

- 5.43 No changes will be made to administration arrangements immediately following the transfer. Policies will continue to be administered using each party's existing administration systems and processes. In addition, no changes will be made to the applicable service standards.

Contingency for the transfer not proceeding

- 5.44 If the transfer is not implemented, the parties will seek to address the issues identified. Failing this, the transaction will not proceed and all business will remain with Scottish Friendly on unchanged terms.

6. Financial impacts of the transfer

6.1 In this section, I set out the financial impacts of the transfer on the Solvency UK balance sheets of Scottish Friendly and OneFamily as at 31 December 2025. I focus primarily on the impacts on the Pillar 1 balance sheets which reflect the regulatory reported position. I have also commented on the impact on the Pillar 2 balance sheets of the two parties.

Solvency UK regime

6.2 Under the Solvency UK regime, an insurer's financial position is assessed using a market-consistent balance sheet in which assets and liabilities (including best estimate liabilities and a risk margin) are valued on a regulatory basis. The excess of assets over liabilities represents Own Funds, which are available to absorb losses. Capital adequacy is measured by comparing Own Funds to the SCR, a risk-based measure of the capital required to withstand a severe but plausible (1-in-200 level) stress over a one-year horizon. This comparison is expressed through the solvency coverage ratio, i.e. Own Funds divided by SCR.

6.3 Changes to the structure of the business, such as the proposed transfer, can affect both Own Funds and the SCR, and therefore the overall solvency coverage ratio, including through changes in expense effects, capital diversification benefits and the recognition of loss-absorbing features.

Post-transfer capital management policy

6.4 Scottish Friendly and OneFamily currently operate separate capital management frameworks. Both are designed to maintain sufficient capital above regulatory and internal requirements and include defined solvency coverage thresholds: a target below which management actions would be considered, and a minimum tolerance below which the position would be outside risk appetite and management actions would be required to restore it. Although their detailed calibration approaches differ, both firms currently use 150% as their principal Pillar 1 capital target. Scottish Friendly operates a minimum threshold of 130%, while OneFamily operates a minimum threshold of 137.5%.

6.5 OneFamily has undertaken work to assess the appropriate calibration of the capital management policy for the enlarged entity following the transfer. This takes account of the expected post-transfer business mix and risk profile, including the effects of OneFamily's subsidiary consolidation and mass lapse reinsurance, and the transfer to the OFNPF of Scottish Friendly's non-profit business, including the acquired FIL Life business.

6.6 Consistent with the firms' current approaches, the analysis considers the capital required to withstand an event of approximately 1-in-20-year severity while continuing to meet the regulatory capital requirement. It is informed by individual sensitivities and combined stress and scenario testing, together with relevant commercial and strategic considerations.

6.7 The analysis supports the view that a Pillar 1 capital target of 150% would remain appropriate for the enlarged entity, taking account of its expected post-transfer business mix and risk profile and the calibration approach described above. For the purposes of my assessment, I have therefore assumed that a 150% capital target and a minimum tolerance of 137.5%, consistent with the levels currently applied by OneFamily, would apply following the merger.

6.8 The stress and scenario testing described in paragraph 6.45 provides evidence of how these thresholds would operate under adverse conditions. The post-transfer OFNPF solvency coverage ratio remains above 150% under the individual sensitivities considered. Under the more severe combined scenarios, it falls below 150%, such that management actions would be considered, but remains above 137.5%, before allowing for additional management actions. The analysis focuses on the OFNPF, as it represents the most significant element of the post-transfer capital position and risk profile. The other funds are either relatively small or strongly capitalised and are not expected to alter materially the conclusions drawn from the OFNPF analysis.

6.9 I have reviewed the methodology and analysis supporting the expected post-transfer approach. In my view, calibrating the capital thresholds by reference to the ability to continue meeting regulatory capital

requirements following an event of approximately 1-in-20-year severity is conceptually appropriate. It is broadly aligned with the range of targets typically observed across UK life insurers, supporting the view that it lies within accepted market practice. I consider that the methodology, the firms' existing capital frameworks and the analysis of the enlarged entity's expected business mix and risk profile provide a reasonable basis for the assumed target and minimum tolerance. The policy and associated risk appetite thresholds will be finalised following further consideration by the OneFamily Board immediately after the merger and are expected to be reviewed periodically thereafter.

Pillar 1 balance sheet impacts

6.10 The transfer takes effect as a single transaction at the Effective Date. However, to aid understanding of the resulting position, it is described below as a series of notional steps. These steps do not occur separately in practice and are presented only to illustrate how the final outcome is reached. They should therefore be considered collectively. The notional steps are as follows:

- The SFMF is notionally separated into its with-profits and non-profit components.
- The SFMF with-profits component transfers to OneFamily to become the new SFAS sub-fund.
- The SFMF non-profit component transfers to OneFamily and merges into the OFNPF.
- The SF RFFs transfer to OneFamily on a largely unchanged basis.

6.11 The existing OneFamily WP2 fund is unaffected by the transfer.

6.12 Each of these steps is set out in further detail below with the associated balance sheet movements.

Separation of the SFMF into with-profits and non-profit components

6.13 In order to understand the impact on the SFMF with-profits and non-profit policyholders, I have set out a notional separation of the SFMF into its with-profits and non-profit components, which are then transferred to the new SFAS sub-fund and OFNPF respectively, as shown in Figure 20 below.

Figure 20: SFMF - notional separation of with-profits and non-profit business as at 31 December 2025

£m	SFMF ¹	SFMF with-profits component	SFMF non-profit component	Separation impacts
Assets	5,689.0	276.1	5,412.9	-
- Reinsurance assets	778.3	-	778.3	-
- Linked assets	4,334.8	-	4,334.8	-
- Other assets	575.9	276.1	299.8	-
Liabilities	5,547.0	276.1	5,271.0	-
- BEL WP	271.0	271.0	-	-
- BEL NP annuity	33.3	-	33.3	-
- BEL NP other	556.4	-	556.4	-
- BEL UL linked	4,630.6	-	4,630.6	-
- BEL UL non-linked	(23.0)	-	(23.0)	-
- Risk margin	12.8	-	12.8	-
- Other liabilities	65.9	5.1	60.8	-
Own Funds	141.9	-	141.9	-
SCR	86.4	5.4	99.9	(18.8)
- Market risk	55.4	10.1	45.5	(0.2)
- Counterparty risk	9.7	-	9.7	-
- Life risk	74.6	4.5	70.6	(0.6)
- Health risk	1.1	-	1.1	-
- Diversification	(33.5)	(2.6)	(30.0)	(1.0)
- Operational risk	9.9	1.6	8.3	-
- LACDT	(5.3)	-	(5.3)	-
- LACTP	(25.4)	(8.3)	-	(17.1)
Solvency Coverage Ratio	164%	n/a	n/a	n/a

¹ Including FIL Life acquisition

Source: Scottish Friendly

- 6.14 The with-profits component comprises the with-profits liabilities, plus the other liabilities (outstanding claims provision) associated with the with-profits business, initially supported by a matching value of assets. The non-profit component comprises the remaining liabilities and assets.
- 6.15 The notional separation of the business results in an overall increase in SCR of £18.8m. A small part of this (£1.7m) arises from a reduction in diversification benefits. The majority (£17.1m) relates to a decrease in the value of the loss-absorbing capacity of technical provisions ("LACTP").
- 6.16 LACTP is a concept under Solvency UK regulations that reflects the ability of insurers, in stressed conditions, to take actions that reduce losses. For example, this may include reducing discretionary benefits, such as those payable under with-profits policies. The LACTP therefore represents the extent to which such management actions can mitigate the impact of stress.
- 6.17 However, the value of LACTP is subject to a constraint – that it cannot reduce the Basic SCR below zero. As a result, when the fund is separated, this constraint becomes more restrictive, leading to a lower recognised value of LACTP compared with the position prior to separation.
- 6.18 It is assumed for the purposes of this presentation that no Risk Margin is initially allocated to the with-profits component but is introduced in the subsequent SFAS sub-fund step.

Transferring the SFMF with-profits component to the new SFAS sub-fund

- 6.19 The SFMF with-profits component then moves to form the basis of the new SFAS sub-fund (see Figure 21 below). For the purpose of this analysis, and consistent with the terms of the IoT:
- a Merger Allocation of £35m is allocated to the SFAS sub-fund from the SFMF, increasing the value of SFAS sub-fund assets.

- 40% of this amount (£14.0m) is immediately applied as an Initial Policy Uplift to asset shares, increasing with-profits BEL.
- the margin payable by the SFAS sub-fund to the OFNPF under the rate-card arrangement increases 'Other liabilities' by £2.0m.
- the Risk Margin for the sub-fund is calculated at £0.7m.
- as a prudent simplification, the cost of guarantees is assumed not to change following the increase in asset shares.

6.20 The remaining assets contribute to Own Funds.

6.21 No allowance has been made for LACTP in calculating the SCR of the SFAS sub-fund, beyond that arising from the normal recalculation of bonus rates following the market risk stress. On this basis, the sub-fund has a solvency coverage ratio of 166%, exceeding the post-transfer entity target of 150%.

6.22 Overall, the fund is comfortably capitalised with Own Funds of £18.3m, SCR of £11.0m and a solvency coverage ratio of 166%.

Figure 21: Post-transfer SFAS sub-fund as at 31 December 2025

£m	SFMF with-profits component	SFAS Post-transfer	Transfer impacts
Assets	276.1	311.1	35.0
- Reinsurance assets	-	-	-
- Linked assets	-	-	-
- Other assets	276.1	311.1	35.0
Liabilities	276.1	292.8	16.7
- BEL WP	271.0	285.0	14.0
- BEL NP annuity	-	-	-
- BEL NP other	-	-	-
- BEL UL linked	-	-	-
- BEL UL non-linked	-	-	-
- Risk margin	-	0.7	0.7
- Other liabilities	5.1	7.1	2.0
Own Funds	-	18.3	18.3
SCR	5.4	11.0	5.6
- Market risk	10.1	8.4	(1.7)
- Counterparty risk	-	-	-
- Life risk	4.5	2.7	(1.8)
- Health risk	-	-	-
- Diversification	(2.6)	(1.6)	1.0
- Operational risk	1.6	1.6	-
- LACDT	-	-	-
- LACTP	(8.3)	-	8.3
Solvency Coverage Ratio	n/a	166%	n/a

Source: Scottish Friendly and OneFamily

6.23 The reduction in the market risk component of the SCR arises due to a fall in interest rate risk following the transfer. The Solvency UK regulations require an insurer to consider the impact of an increase in interest rates and a reduction in interest rates separately. Whichever of these two scenarios is more onerous is the one used in the calculation of the SCR. For SFMF, a reduction in interest rates was more onerous, which is typically the case for entities with significant with-profits business. In the notional split of the SFMF with-profits component, the direction of stress has not been changed. Post-transfer, the SFAS sub-fund interest rate risk is calculated using the direction that is most onerous for the entity, i.e. FAFSL. The more onerous

direction of stress for FAFSL is an increase in interest rates – both before and after the transfer. Due to this, lower interest rate risk capital is held in the Pillar 1 SCR for the SFAS sub-fund post-transfer.

- 6.24 The fall in the life risk component of the SCR is driven by a reduction in expense risk following the transfer. This arises from the implementation of the expense rate card between the SFAS sub-fund and the OFNPF.

Transferring the SFMF non-profit component to the OFNPF

- 6.25 The SFMF non-profit component is merged into the existing OFNPF (see Figure 22 below).

Figure 22: OFNPF pre- and post-transfer position as at 31 December 2025

£m	OFNPF pre-transfer	Plus SFMF non-profit component	Plus transfer impacts	OFNPF post-transfer
Assets	4,486.1	5,412.9	(52.0)	9,847.0
- Reinsurance assets	113.3	778.3	-	891.6
- Linked assets	4,145.8	4,334.8	-	8,480.6
- Other assets	227.0	299.8	(52.0)	474.8
Liabilities	4,271.3	5,271.0	(64.7)	9,477.6
- BEL WP	-	-	-	-
- BEL NP annuity	72.7	33.3	-	106.0
- BEL NP other	84.8	556.4	(4.0)	637.2
- BEL UL linked	4,145.8	4,630.6	-	8,776.4
- BEL UL non-linked	(111.5)	(23.0)	-	(134.4)
- Risk margin	10.1	12.8	3.0	25.9
- Other liabilities	69.4	60.8	(63.6)	66.6
Own Funds	214.7	141.9	12.8	369.4
SCR	115.8	99.9	(1.1)	214.6
- Market risk	74.3	45.5	2.2	122.0
- Counterparty risk	3.6	9.7	-	13.3
- Life risk	62.7	70.6	(1.5)	131.8
- Health risk	2.2	1.1	(0.4)	2.9
- Diversification	(32.3)	(30.0)	(1.4)	(63.7)
- Operational risk	5.4	8.3	-	13.7
- LACDT	-	(5.3)	-	(5.3)
- LACTP	-	-	-	-
Solvency Coverage Ratio	185%	n/a	n/a	172%

Source: Scottish Friendly and OneFamily

- 6.26 Adding the SFMF non-profit business increases OFNPF Own Funds by £141.9m with a corresponding increase in SCR of £99.9m.
- 6.27 There are then a series of impacts relating to the transfer itself, consistent with the terms of the IoT:
- Assets decrease by £52.0m, reflecting the deduction of the £35m Merger Allocation applied to the SFAS sub-fund and a provision for £17m of transaction costs expected to be incurred as a result of the merger.
 - Other liabilities reduce by £63.6m, comprising a £61.7m allowance for the present value of expected maintenance expense synergies associated with the merger (see 'Expense synergies' section below) and a £2m benefit from the rate-card arrangement with the SFAS sub-fund.
 - Non-profit BEL decreases by £4m, reflecting the assumed application of the OFNPF's Volatility Adjustment to the transferring business.
- 6.28 The increase in Risk Margin of £3.0m arises from the increase in the SCR for the non-profit portion of the SFMF, which is driven by the reduction in LACTP as described in paragraph 6.15.

- 6.29 The transferred business increases the SCR by £99.9m before transfer effects. Incremental diversification benefits reduce the net increase by £1.1m.
- 6.30 Overall, while the coverage ratio of the OFNPF reduces following transfer from 185% to 172%, the post-transfer position remains comfortably capitalised and acceptable in the context of OneFamily's entity-level target of 150%, which I also consider to be a relevant reference point for the OFNPF.

SF RFFs

- 6.31 The SLL, M&GM and Manulife sub-funds will continue to operate largely in the same manner as before following the transfer. The impact on the solvency positions of each fund is set out in Figure 23 below.

Figure 23: SF RFFs pre- and post-transfer as at 31 December 2025

£m	M&GM Pre- and post-transfer	Manulife Pre- and post-transfer	SLL Pre- and post-transfer
Assets	728.6	79.2	71.5
- Reinsurance assets	107.4	-	-
- Linked assets	-	2.6	-
- Other assets	621.2	76.6	71.5
Liabilities	645.8	79.2	61.4
- BEL WP	472.1	72.0	47.6
- BEL NP annuity	158.8	1.8	-
- BEL NP other	5.0	1.1	8.6
- BEL UL linked	-	2.6	-
- BEL UL non-linked	-	0.0	-
- Risk margin	2.2	-	0.1
- Other liabilities	7.7	1.6	5.1
Own Funds	82.8	-	10.1
SCR	2.9	-	0.9
Solvency Coverage Ratio	2,895%	n/a	1,130%

Source: Scottish Friendly and OneFamily

- 6.32 There is no change in the M&GM solvency position. The SCR is equal to the operational risk component both pre and post-merger. All other risks are assumed to be absorbed through reductions in policyholders' discretionary benefits, reflected in the value of LACTP. The sub-fund remains strongly capitalised following the transfer.
- 6.33 The solvency position of the SLL sub-fund remains unchanged following the transfer. The SCR currently includes only partial allowance for loss absorption, therefore some residual risk in addition to operational risk is included. The sub-fund remains strongly capitalised following the transfer.
- 6.34 The Manulife fund is a North American-style with-profits fund and as such assets are set equal to liabilities. The fund therefore has nil Own Funds and SCR. This position is unchanged following transfer.

WP2 fund

- 6.35 The transfer itself has no impact on the WP2 fund and the fund remains comfortably capitalised following the transfer as shown in Figure 24 below.

Figure 24: WP2 pre- and post-transfer as at 31 December 2025

£m	WP2 fund Pre- and post- transfer
Assets	23.7
Liabilities	19.6
- BEL WP	18.1
- Risk margin	0.0
- Other liabilities	1.5
Own Funds	4.2
SCR	0.4
Solvency Coverage Ratio	959%

Source: Scottish Friendly and OneFamily

Entity level

- 6.36 The entity-level impacts of the transfer are summarised in Figure 25 and Figure 26 below. These reflect the position as at 31 December 2025, plus the impact of the subsidiary consolidation over 2026. Overall, the addition of the Scottish Friendly business increases Own Funds by £265.8m, of which £96.4m is held within ring-fenced funds and is therefore not available to support the solvency position at the entity level. This results in a net increase in Own Funds after applying the ring-fencing restriction of £169.4m.
- 6.37 The transfer also increases the SCR by £113.6m. Consequently, the entity-level solvency coverage ratio reduces from 185% to 167% but remains comfortably above OneFamily's current entity-level target of 150%, which is also expected to be the target following transfer.

Figure 25: OneFamily entity pre- and post-transfer as at 31 December 2025

£m	OneFamily Entity Pre-transfer ¹	Transfer impacts	OneFamily Entity Post-transfer
Assets	4,509.8	6,551.3	11,061.1
- Reinsurance assets	113.3	885.7	999.0
- Linked assets	4,145.8	4,337.4	8,483.2
- Other assets	250.8	1,328.1	1,578.9
Liabilities	4,290.9	6,285.5	10,576.4
- BEL WP	18.1	876.6	894.7
- BEL NP annuity	72.7	193.9	266.6
- BEL NP other	84.8	567.1	651.9
- BEL UL linked	4,145.8	4,633.2	8,779.0
- BEL UL non-linked	(111.5)	(22.9)	(134.4)
- Risk margin	10.1	18.9	29.0
- Other liabilities	70.9	18.7	89.6
Excess of assets over liabilities	218.9	265.8	484.7
Ring-fencing restriction (RFR)	3.7	96.4	100.1
Own Funds after RFR	215.2	169.4	384.6
SCR	116.2	113.6	229.8
Solvency Coverage Ratio	185%	n/a	167%

1. Including subsidiary consolidation and mass lapse reinsurance completed in 2026

Source: Scottish Friendly and OneFamily

Entity-level solvency

- 6.38 The overall entity-level solvency of OneFamily following the transfer is summarised in Figure 26 below.

Figure 26: OneFamily entity-level solvency position post-transfer as at 31 December 2025

£m	OFNPF	SFAS	M&GM	Manulife	SLL	WP2	Entity
Own Funds after RFR	369.4	18.3	82.8	-	10.1	4.2	384.6
SCR	214.6	11.0	2.9	-	0.9	0.4	229.8
Solvency Coverage Ratio	172%	166%	2,895%	n/a	1,130%	959%	167%

Source: Scottish Friendly and OneFamily

- 6.39 The entity-level solvency coverage ratio following transfer is expected to be 167%, in excess of OneFamily's current entity-level target of 150%, which is also expected to be the target following transfer.

Expense synergies

- 6.40 The financial analysis set out above includes an allowance of £61.7m for the present value of expected expense synergies. This reflects anticipated efficiencies arising from the integration of the two organisations and the alignment of operations and support activities. These efficiencies are expected to be realised principally during 2027 and 2028.
- 6.41 A detailed analysis has been undertaken by Scottish Friendly and OneFamily to support the estimation of these synergies. This involved a comprehensive review to identify areas of overlap between the two organisations and assess the extent to which costs could be deduplicated. The proportion of costs attributable to ongoing maintenance activities, as opposed to new business acquisition or other non-recurring costs, was then determined with reference to each party's existing cost allocations. The maintenance components for each product category were subsequently capitalised using duration-based annuity factors. This reflects the expectation that such costs would otherwise have been incurred annually over the full run-off period of the business.
- 6.42 The analysis produces a capitalised expense synergy of £63.2m before allowing for implementation timing, reducing to £61.7m after allowing for the expected phased realisation of the savings.
- 6.43 The OneFamily Chief Actuary has reviewed the expected savings and considers that the £61.7m allowance represents a reasonable approximation of the post-merger expense synergy, after allowing for the expected timing of implementation. A slower implementation sensitivity reduces the capitalised value to £55.2m.
- 6.44 I have reviewed the synergy analysis. While I have not undertaken a detailed assessment of each individual saving in the same manner as management, I am satisfied that the methodology applied is robust and comprehensive. I also consider the approach adopted by the OneFamily Chief Actuary in calculating the capitalised value of the expected expense synergy to be appropriate. In addition, to provide further assurance, I have conducted sensitivity analysis to assess the potential impact on the financial position if realised synergies fall short of the assumed £61.7m. This analysis considers a range of reasonably foreseeable adverse scenarios and is set out in Sections 8 and 10.

Stress and scenario testing

- 6.45 Indicative stress and scenario testing has been performed on the post-transfer OFNPF balance sheet. This includes individual sensitivities to increases and decreases of 10% in equity values, expenses and lapse assumptions, together with combined scenarios based on corresponding stress and scenario testing previously performed by Scottish Friendly and OneFamily through their respective ORSA processes. The results are calculated without allowance for additional management actions that may be available in response to the stresses and scenarios.
- 6.46 The analysis focuses on the OFNPF, as it represents the most significant element of the post-transfer capital position and risk profile. The other funds are either relatively small or strongly capitalised and are not expected to have a material effect on the aggregate post-transfer position or on the conclusions drawn from the OFNPF analysis. In particular, the SFAS sub-fund has a solvency coverage ratio of 166%, as shown in paragraph 6.38, calculated without recognising any LACTP, beyond that arising from the normal recalculation of bonus rates following the market risk stress. Under adverse conditions, an allowance for LACTP may be recognised, where supported by the applicable management actions and the remaining level

of discretionary benefits, which would mitigate the effect of those conditions on the SFAS sub-fund's solvency coverage ratio.

- 6.47 An increase in expenses is the most adverse of the individual sensitivities considered. A 10% increase in expenses reduces the indicative Pillar 1 solvency coverage ratio of the OFNPF from 171% to 161%. The other individual sensitivities are less onerous. In each case, the ratio remains above the indicative post-transfer Pillar 1 capital target of 150%.
- 6.48 Two combined scenarios have also been considered:
- a combined adverse economic and demographic scenario, including falls in equity markets and interest rates and increases in mortality and expenses; and
 - a mass lapse scenario relating in part to operational failures.
- 6.49 The scenarios reduce the indicative Pillar 1 solvency coverage ratio of the OFNPF from 170% to 148% and 145%, respectively. The mass lapse scenario is therefore the more onerous of the two. Under both scenarios, the Pillar 1 solvency coverage ratio falls below the indicative post-transfer target of 150% but remains above the indicative minimum tolerance of 137.5%, before allowing for additional management actions. This outcome is consistent with the intended operation of the capital management framework: a sufficiently severe adverse event may result in the target being breached and management actions being considered, while the solvency position remains above the minimum tolerance at which mandatory management action would be expected.
- 6.50 The results are indicative and involve simplifying assumptions. The individual sensitivities are based on the year-end 2025 post-merger balance sheet, whereas the combined scenarios draw on the firms' earlier ORSA testing and combine the results without allowing for all merger adjustments. Scottish Friendly calibrates its stress scenarios to be at least as severe as a 1-in-20 stress and OneFamily's stresses are broadly comparable to those applied by Scottish Friendly. The results therefore have different starting positions and do not reconcile exactly with each other or with the expected post-transfer OFNPF solvency coverage ratio of 172% set out elsewhere in this Report. I have taken these limitations into account and do not consider them material to my conclusions.
- 6.51 Overall, the results provide reasonable evidence of the resilience of the post-transfer OFNPF to the stresses and scenarios considered. The results are consistent with the intended operation of a post-transfer capital management framework comprising an indicative target of 150% and minimum tolerance of 137.5%. These levels are consistent with those currently applied by OneFamily. The detailed calibration and operation of the post-transfer capital management policy will be finalised following further consideration by the OneFamily Board immediately following the merger.

Pillar 2 balance sheet impacts

- 6.52 Pillar 1 provides a standardised regulatory measure of solvency. Pillar 2 frameworks build on this by establishing a basis that more closely reflects the specific characteristics of the entity, including its underlying economics and risk profile. As a result, Pillar 2 approaches may vary between firms.
- 6.53 OneFamily's Chief Actuary has developed an interim Pillar 2 basis for the combined entity. This is based on OneFamily's existing approach and incorporates selected elements of Scottish Friendly's methodology where these are considered to better reflect the nature and risks of the enlarged business.
- 6.54 Relative to Pillar 1, the Pillar 2 basis for the combined entity includes the following key features:
- Discount rates are consistent with those adopted under Pillar 1.
 - Pillar 1 stress calibrations are generally retained as the starting point for the assessment of capital requirements.
 - The Pillar 1 Risk Margin is removed.
 - Cashflows are projected over their full expected duration, without the limitations imposed by the Pillar 1 "contract boundaries" adjustment.

- The cost of with-profits guarantees under stress explicitly reflects sensitivity to changes in asset volatility, in addition to market level movements.
- The most onerous (“biting”) direction of interest rate and lapse stresses is assessed at the level of individual funds.
- A more realistic allowance is made for operational risk and for the diversification of operational risk with other risk categories.
- A look-through approach is applied to subsidiaries, such that underlying risks are stressed on a consistent basis with those of the parent entity.
- Allowance is made for the potential for fixed expenses to increase in relative terms as the business runs off. This has been extended to include the Scottish Friendly business, while also reflecting expected reductions in absolute costs arising from the anticipated expense synergies under the merger.

6.55 I have reviewed the proposed Pillar 2 approach and consider it to provide an appropriate basis for assessing the financial position of the combined entity, noting that it represents a development of the existing approaches previously adopted by the two firms.

6.56 While Pillar 2 results are not publicly disclosed, I have reviewed the balance sheets prepared on this basis and compared them with the corresponding Pillar 1 positions for the post-transfer OFNPF and each of the ring-fenced sub-funds. I am satisfied that, in each case, the solvency coverage ratios are satisfactory and consistent with OneFamily’s capital management policy.

Liquidity risk

6.57 I have examined Scottish Friendly’s and OneFamily’s approaches to monitoring liquidity risk. I am satisfied that the approaches adopted are broadly equivalent in terms of their overall objectives and effectiveness, with risk tolerance limits set based on each company’s expected cash outgoings plus a liquidity buffer.

6.58 Both firms actively monitor their current and projected positions: in Scottish Friendly’s case over 1 and 3 month horizons; and in OneFamily’s case, over 3, 6 and 12 month horizons. On this basis, the projected liquidity coverage position is satisfactory for both firms.

6.59 Immediately following transfer, the existing approaches will be maintained. Liquidity in respect of the ex-Scottish Friendly business (the SFAS sub-fund and ring-fenced sub-funds) will be monitored using the current approach applied by Scottish Friendly and OneFamily will continue to monitor liquidity in respect of the OFNPF and WP2 funds under its existing framework.

6.60 While the transfer does not result in any cash leaving the perimeter of the two entities, it is relevant to consider whether any movements between sub-funds could give rise to a material liquidity impact on a particular sub-fund. In this regard, I note that the OFNPF will incorporate the SFMF non-profit business, which will affect its liquidity position. However, the proportion of Own Funds supported by non-cash VIF will decrease as a result, providing an additional liquidity buffer.

6.61 In future, the parties may seek to integrate and harmonise their respective liquidity risk management approaches. Any such changes would be subject to appropriate analysis, internal governance and approval by the OneFamily Board.

7. Assessment criteria

- 7.1 Under the FS Act, and consistent with the guidance provided in its Statement of Policy and SUP 18.4, the PRA is required to confirm a proposed transfer of engagements only where, alongside other considerations, it is satisfied that the transfer is in the interests of the members of each participating friendly society.
- 7.2 In support of this, and consistent with section 88 of the FS Act, the PRA has requested that I consider and report on the terms of the proposed transfer and provide my opinion on the likely effects of the transfer on the members of both societies who are long-term policyholders.
- 7.3 Accordingly, in this section I set out my assessment criteria. I use these in Section 8 to analyse the likely impacts of the transfer on Scottish Friendly Transferring Policyholders and in Section 10 on the OneFamily Existing Policyholders.

Assessment approach – likely effects

- 7.4 In assessing the likely effects of the transfer and whether it is in the interests of members, I have adopted the following approach for each relevant policyholder or member group:
- identify the changes arising from the transfer;
 - identify the expected positive and adverse effects of those changes;
 - assess the nature, likelihood, magnitude and duration of each effect;
 - consider the protections, mitigants and governance arrangements relevant to any adverse effect;
 - determine whether any adverse effect is material; and
 - consider the overall balance of positive and adverse effects in reaching my conclusion as to whether the transfer is in the interests of members.
- 7.5 I do not regard the absence of a material adverse effect as establishing, by itself, that the transfer is in members' interests. My conclusion takes account of the full range of likely effects, including positive effects and adverse effects that I consider not to be material.
- 7.6 As one component of this broader assessment, I have considered whether the transfer is expected to have a "material adverse effect" on policyholders, including in relation to their benefit expectations and benefit security. I have used the material adverse effect framework as a reference point for assessing the significance of identified adverse effects. It does not replace the broader statutory assessment of whether the transfer is in the interests of the members of each participating society. I set out my definition of material adverse effect below.
- 7.7 Where I have identified an adverse effect that I consider not to be material, I explain the basis for that conclusion. This may include the limited nature, scale, duration or likelihood of the effect, the existence of contractual or governance protections, the availability of mitigating actions or the presence of offsetting benefits.
- 7.8 The statutory test for confirmation applies to the interests of members as a whole and is not limited to members who are long-term policyholders. Both Scottish Friendly and OneFamily include members arising through non-insurance activities, including those within subsidiary entities offering products such as ISAs and Child Trust Funds. I have therefore separately considered the likely effects of the transfer on these members, including through potential changes to group structure, governance and financial strength. This assessment is set out in Section 11 ('Other stakeholders').

Material adverse effect

- 7.9 My assessment of whether the transfer is likely to have a material adverse effect is ultimately a matter of judgement regarding the likelihood and impact of possible future events. In forming my views of what constitutes a material adverse effect, I have had regard to relevant legal principles and judicial guidance

concerning the assessment of adverse impacts in the context of insurance portfolio transfers and similar arrangements.

7.10 In particular, I have considered the guidance given by the Court of Appeal in its judgement relating to the transfer of a portfolio of annuities from The Prudential Assurance Company Limited to Rothesay Life Plc. That judgement clarified that an adverse effect will only be material if it is:

- a possibility that cannot sensibly be ignored given the nature and gravity of feared harm in the particular case;
- a consequence of the transaction in question; and
- material in the sense that there is the prospect of real or significant (as opposed to fanciful or insignificant) risk to the position of the stakeholder concerned.

7.11 Although this transfer does not require court approval, I consider this framework to provide an appropriate and well-established basis for my consideration of material adverse effects.

7.12 Accordingly, I have interpreted and defined “material adverse effect” for the purposes of my assessment of the proposed transfer using the following principles:

- The transfer will be considered to have a material adverse effect on policyholders if it is expected to have a material adverse effect on policyholder benefit expectations or on policyholder benefit security.
- A material adverse effect on benefit expectations would arise if the transfer was expected to result in a material reduction in expected payouts for a significant proportion of affected policyholders.
- A material adverse effect on benefit security would arise if the transfer was expected to result in a material reduction in the post-transfer solvency position of OneFamily, such that it was unable to adhere to its capital policy.

Assessment approach - factors

7.13 In reviewing the likely effects of the transfer on affected policyholders, including its reasonableness and fairness, I consider the positive and adverse effects arising in relation to each of the following factors and assess whether any identified adverse effect is material:

- Benefit expectations
- Benefit security
- Administration and service standards
- Project costs
- Governance and management
- Ongoing projects

7.14 For each factor, I consider the position before and after the transfer and identify positive, adverse and neutral effects, including adverse effects that I consider not to be material.

Consumer Duty

7.15 In forming my opinion on the transfer, I have considered not only whether the transfer would give rise to any material adverse effect on policyholders but also whether it could reasonably be expected to result in foreseeable harm or poorer outcomes for transferring policyholders when assessed in the context of the FCA's Consumer Duty.

7.16 This assessment has taken into account the current Consumer Duty frameworks, governance arrangements and customer outcome monitoring of both Scottish Friendly and OneFamily, as well as the expected position post-transfer.

- 7.17 In particular, I have considered whether the transfer could adversely affect the ability of the combined group to deliver fair value, clear communications, appropriate customer support, or products and services aligned to policyholders' needs.

8. Impact of the transfer on Scottish Friendly Transferring Policyholders

8.1 In this section, I consider the likely effects of the transfer on Scottish Friendly policyholders. Consistent with the approach set out in Section 7, I identify the principal positive and adverse effects for each relevant policyholder group, assess the nature and significance of those effects and consider the protections and mitigants that apply. Where I identify an adverse effect, I also assess whether it is material.

8.2 My assessment considers the following factors:

- Benefit expectations
- Benefit security
- Administration and service standards
- Project costs
- Governance and management
- Ongoing projects

8.3 I also consider whether the transfer could reasonably be expected to result in foreseeable harm or poorer outcomes for Scottish Friendly Transferring Policyholders when assessed in the context of the FCA's Consumer Duty.

8.4 The summary below identifies the principal effects arising from my assessment. The detailed analysis under the subsequent headings explains the basis for my assessment of each effect, including why I consider the identified adverse effects not to be material.

Summary of identified effects

8.5 The following summarises the principal positive and adverse effects I have identified for Scottish Friendly Transferring Policyholders across the assessment factors considered in this section. The detailed analysis under the relevant headings below explains the nature and significance of each effect, the protections and mitigants that apply and, for each adverse effect, the basis for my conclusion as to whether it is material.

- SFMF with-profits policyholders will cease to participate in future ProfitShare distributions and will therefore no longer participate in the potential upside or downside associated with future ProfitShare outcomes. This is an adverse change in the form of their discretionary participation. However, the Merger Allocation is intended to provide a value broadly equivalent to the future ProfitShare distributions that eligible policyholders might reasonably otherwise have expected to receive. Having regard to the methodology used to determine the Merger Allocation and the protections described below, I do not consider this adverse effect to be material.
- Eligible SFMF with-profits policyholders will receive greater certainty over the value attributed to their expectations of future ProfitShare. This is a positive effect arising from the commutation of uncertain future discretionary distributions into the Merger Allocation, delivered through the Initial Policy Uplift and the distribution of the Residual Merger Allocation over time.
- The SFAS sub-fund will benefit from a defined long-term expense arrangement, reducing its exposure to expense overruns and the fixed-cost risks associated with a declining closed book. This is a positive effect for the SFAS sub-fund policyholders. The SFAS sub-fund will bear a 5% service margin with annual increases based on CPI inflation plus 1%, but I consider these elements to be reasonable compensation for the expense risks assumed by the OFNPF and not materially adverse to SFAS sub-fund policyholders.

- Scottish Friendly non-profit policyholders will become supported by the larger and more diversified OFNPF. The post-transfer OFNPF remains above the applicable capital target. The increase in scale and diversification is a positive effect and does not expose these policyholders to any material new categories of risk, although the projected financial position depends to some extent on the achievement of anticipated expense synergies. I have reviewed the synergy analysis and consider the assumptions made to be reasonable. The OFNPF remains above the applicable capital target under the expense synergy sensitivities considered in paragraphs 8.95 to 8.97 below.
- The SFAS sub-fund is expected to be comfortably capitalised immediately following the transfer and will have access to capital support from the OFNPF if it enters into deficit, subject to the terms of the IoT. The strong capital position is a positive effect for SFMF with-profits policyholders, while the availability of capital support provides additional protection for their benefit security.
- Scottish Friendly members will cease to be represented through the delegate system and will instead be able to exercise direct voting rights as OneFamily members. Individual members may view this change differently. However, members will retain an effective means of participating in the governance of the mutual and will have membership rights equivalent to those of existing OneFamily members. On balance, I consider the effect of this change to be neutral.
- No immediate migration of the Scottish Friendly policy administration systems or material change to administration arrangements or service standards is planned. This preserves the existing position and is a neutral feature. Any future integration may create operational and execution risks, but these changes would be subject to OneFamily's established change governance, risk management and Consumer Duty frameworks. I do not consider these potential future risks to be materially adverse as a consequence of the transfer.
- In addition, the transfer does not change policyholders' contractual benefits, guarantees or policy terms. The existing ring-fenced sub-funds will continue on a substantially equivalent basis, and unit-linked funds will be mapped on a like-for-like basis at the Effective Date. These are neutral effects which provide continuity for Transferring Policyholders.

8.6 Taking these effects together, I consider that the overall balance of effects for Scottish Friendly Transferring Policyholders supports my overall conclusion that the transfer is in the interests of Scottish Friendly's members. For the reasons set out in the remainder of this section, I do not consider any of the identified adverse effects to be material.

Benefit expectations

8.7 This section considers the impact of the proposed transfer on the benefit expectations of Scottish Friendly policyholders.

8.8 Under the transfer, the SFMF will be separated: with-profits business will transfer to the newly created SFAS sub-fund and non-profit business will transfer to the OFNPF. The three existing SF RFFs (M&GM, SLL and Manulife) will be transferred and established as equivalent ring-fenced sub-funds within OneFamily.

8.9 The transfer impacts on each of these cohorts in different ways. I have therefore assessed the impact on benefit expectations separately for each.

8.10 The acquired FIL Life policies form part of the SFMF non-profit policyholder group. The impact of the transfer on these policies has therefore been assessed as part of the overall non-profit policyholder population, on a consistent basis, and I do not consider that the transfer gives rise to any distinct issues specific to that cohort.

8.11 A small number of policies were written in the EU, Jersey and Guernsey. The EU policies will transfer under the IoT on the same basis as the UK-based business. Following advice from Jersey and Guernsey counsel, the relevant Jersey and Guernsey policies will transfer under separate schemes requiring approval by the respective Royal Courts. I do not consider that the applicable transfer mechanism gives rise to any distinct policyholder impact. I have therefore assessed these policies alongside the relevant policyholder cohorts according to their fund and business type.

- 8.12 In forming my conclusions, I have considered the impacts on both contractual and discretionary benefits, taking into account policyholders' reasonable expectations with regard to past statements, disclosures, governance arrangements and historical practice. Where policyholders' benefits include an element of discretion, I have considered whether the proposed transfer impacts either the nature or the exercise of that discretion.
- 8.13 I have also considered whether the transfer gives rise to any foreseeable harm or poorer outcomes for transferring Scottish Friendly policyholders when assessed in the context of the FCA's Consumer Duty.

SFMF with-profits policyholders

- 8.14 In considering the SFMF with-profits policyholders, it is appropriate to distinguish between contractual guaranteed benefits and discretionary benefits. Guaranteed benefits are set out in policy terms and conditions. Discretionary benefits comprise the declaration of bonuses (both regular and final) determined in accordance with the PPFM and agreed distributions of surplus assets from the SFMF estate under the "ProfitShare" mechanism, as determined by the Scottish Friendly Board in accordance with established principles and practices.

Guaranteed benefits

- 8.15 There will be no change to SFMF with-profits policies' guaranteed benefits as a result of the transfer. Policy terms and conditions will remain unchanged and guarantees will continue to be determined on the same basis as before. The investment strategy applicable to with-profits assets will be maintained.
- 8.16 I am therefore satisfied that SFMF with-profits policyholders' guaranteed benefits are not materially adversely affected by the transfer.

Bonuses and discretionary benefits

- 8.17 With-profits policy benefits also include the addition of bonuses, comprising regular (annual) bonuses and final bonuses. The declaration of bonuses is a discretionary matter and is governed by the PPFM, while noting that once declared, regular bonuses form part of policyholders' guaranteed benefits.
- 8.18 Following the transfer, the key provisions of the existing PPFMs governing the SFMF with-profits business will continue to apply to the SFAS sub-fund, with appropriate additions to reflect the merger, including the Merger Allocation, Initial Policy Uplift and distribution of the Residual Merger Allocation over time. Therefore, the approach to setting regular and final bonuses will remain unchanged.
- 8.19 On this basis, I am satisfied that the transfer does not materially affect the nature or expected exercise of discretion in relation to bonuses and therefore does not give rise to a material adverse effect on policyholders' benefit expectations in this regard.

Rights and interests in surplus

- 8.20 The treatment of SFMF with-profits policyholders' rights and interests in surplus is a key consideration in assessing the transfer.
- 8.21 At present, SFMF with-profits and non-profit business are supported by a single, shared estate. Under the transfer, the business will be separated into distinct funds, with a determination required as to the appropriate apportionment of the estate to the with-profits policyholders, ahead of transferring to the new SFAS sub-fund. Any residual estate will transfer with the non-profit business to support solvency within the OFNPF.
- 8.22 In assessing the fairness of this apportionment, I have considered with-profits policyholders' reasonable expectations including past statements, disclosures and practices regarding the use and distribution of surplus.
- 8.23 Scottish Friendly has obtained legal advice on this matter from Pinsent Masons LLP, which I have reviewed.
- 8.24 The advice concludes that, under Scottish Friendly's Memorandum and Rules, and having regard to past statements and practice, with-profits policyholders do not have an unconditional entitlement to the entire surplus of the fund. Historically, surplus within the SFMF has been used for a variety of purposes including capital support and discretionary distributions determined by the Scottish Friendly Board.

- 8.25 The legal advice further concludes that policyholders' reasonable expectations ("PRE") in respect of surplus are limited to distributions of ProfitShare, as awarded by the Scottish Friendly Board from time to time.
- 8.26 The advice also acknowledges relevant FCA guidance, which indicates that, as a default position, surplus will often be regarded as belonging to with-profits policyholders but explicitly recognises that this position is firm-specific and dependent on the particular facts and circumstances.
- 8.27 Having reviewed this advice, I consider its conclusions to be reasonable and consistent with my own assessment of policyholders' reasonable expectations and the Society's established practices. In particular, I agree that with-profits policyholders would not appear to have an unconditional entitlement to the entirety of the surplus and that their reasonable expectations in respect of surplus are limited to distributions of ProfitShare.
- 8.28 I consider the proposed replacement for ProfitShare, the Merger Allocation, and its appropriateness and fairness, in further detail below.
- 8.29 The legal and regulatory context, and my assessment of the fairness of the transfer under potentially different interpretations of policyholders' rights and interests, are addressed in Section 9.

Merger Allocation

- 8.30 ProfitShare will not continue following the merger. In its place, a Merger Allocation will be made to the SFAS sub-fund, representing an amount broadly equivalent to the share of SFMF surplus that eligible policyholders might reasonably have expected to receive through future ProfitShare distributions in the absence of the merger. This is intended to maintain continuity and therefore supports policyholders' reasonable expectations.
- 8.31 Up to half of the Merger Allocation will be applied to policies as at the Effective Date through the Initial Policy Uplift, with the Residual Merger Allocation distributed over time.
- 8.32 Eligibility for the Initial Policy Uplift is restricted to policyholders invested in the with-profits fund at a cut-off date of 28 February 2026. Without this restriction, post-announcement switching into the with-profits fund could increase the amount allocated to the SFAS sub-fund and correspondingly reduce the residual estate transferred to the OFNPF. I consider the cut-off to be a reasonable mechanism for protecting policyholders against this risk and for providing certainty over the allocation.
- 8.33 The proposed Merger Allocation is £35m, assessed on the basis of conditions at year-end 2025. The supporting analysis performed by Scottish Friendly identifies a reasonable range of £32m to £37m around this recommendation, depending in large part on the valuation approach applied to the recently acquired FIL Life book, which I comment on further below.
- 8.34 The principal basis for determining the Merger Allocation is the present value of future ProfitShare distributions that the current generation of with-profits policyholders might reasonably have expected to receive on a business-as-usual basis were the transfer not to proceed. The projection is underpinned by the latest business plan including assumed future new business volumes and includes a solvency-based framework under which emerging profits are retained when solvency is lower and released when solvency is higher.
- 8.35 In order to assess what the with-profits policyholders might reasonably have expected to receive it is also appropriate to give some consideration to past distributions and any other policyholder communications that could have given rise to an expectation.
- 8.36 Based on the projections provided, it is clear to me that recent distributions of 1.5% to 2% are unlikely to be sustainable over the longer term and that no expectation has been established that the current levels would continue indefinitely. I have considered the PPFM and also concluded that this does not set an expectation on the level of distribution. One expectation that may have been set is with respect to the impact of the FIL Life acquisition. In a briefing pack to delegates at the September 2025 meeting, it was noted that the acquisition was "expected to generate an additional 0.5% per annum uplift to ProfitShare". In my view, this will have created some expectation of an increase due to the acquisition, but not relative to a specific base. However, at a minimum, policyholders could reasonably expect, based on this briefing pack, a 0.5% per annum ProfitShare.

- 8.37 The Merger Allocation analysis explicitly considers the value arising from the FIL Life acquisition. Two alternative treatments have been assessed.
- Embedded approach: the Own Funds generated from the acquisition are incorporated into the business-as-usual ProfitShare projections. In this case, the value is partially shared with future policyholders and is also subject to retention to support solvency, resulting in only a portion of the benefit accruing to the current cohort (Transferring Policyholders).
 - Explicit risk-adjusted approach: the value is excluded from the ProfitShare projections and added explicitly as a one-off value. The value added is based on the risk-adjusted value determined as part of the acquisition. Under this approach, the (lower) value is fully attributed to the current cohort and is not subject to dilution through future new business or solvency-driven retention.
- 8.38 Under both approaches a “certainty premium” has been deducted to reflect the value of the certainty delivered at transfer versus the uncertain future discretionary distributions.
- 8.39 In my view, it is appropriate to apply such an adjustment. The Merger Allocation represents a commutation of uncertain future discretionary benefits into a more certain value at the point of transfer. Under a business-as-usual scenario, future ProfitShare distributions would be inherently uncertain, depending on the future performance of the business and the exercise of Board discretion. The proposed approach therefore removes both the upside potential and the downside risk associated with future ProfitShare. While policyholders will no longer participate in the variability of these outcomes, they instead receive a defined value at the point of transfer. I consider it appropriate for this increase in certainty to be reflected in the assessment of the Merger Allocation.
- 8.40 Further validation of the level of the Merger Allocation has been provided by looking at alternative calculations. This included applying a certainty premium deduction to the full year-end 2025 fund surplus. This resulted in a similar Merger Allocation, providing me further comfort on the level proposed.
- 8.41 I have considered the sensitivity of expected future ProfitShare to reasonably foreseeable changes in the principal projection assumptions, including investment returns, discount rates, new business profits, expenses and lapse rates.
- 8.42 The analysis is not intended to identify a single correct value, as future ProfitShare is inherently uncertain and depends on future experience and the exercise of Board discretion. Rather, it assesses whether the proposed £35m Merger Allocation remains reasonable under plausible alternative assumptions and whether different reasonable judgements could produce a materially better outcome for policyholders.
- 8.43 Across the sensitivities considered, expected future ProfitShare ranges from approximately £26m to £42m, representing movements of around £8m below or above the central estimate. The effects are broadly symmetrical when the relevant assumptions are varied in opposite directions. This indicates that there is no systematic directional bias in the methodology towards either understating or overstating expected future ProfitShare.
- 8.44 Having considered these results and the greater certainty provided by the proposed arrangements, I am satisfied that the £35m Merger Allocation falls within a reasonable actuarial range and that there is no evidence that its determination is materially biased in either direction.
- 8.45 The IoT expresses the £35m Merger Allocation (as assessed at 31 December 2025) as a percentage of projected asset share for practical reasons. The total amount ultimately payable over the run-off will therefore vary in absolute monetary terms, reflecting the evolution of asset shares and underlying investment returns, but will remain proportionate to policy values.
- 8.46 In summary, I have reviewed the Merger Allocation methodology, key assumptions, the drivers of the range and the rationale for selection of the recommended estimate, to assess whether the approach is reasonable and appropriate for the purposes of the transfer, while noting that this does not represent a full model audit or independent rebuild. My review considered:
- the appropriateness of linking the Merger Allocation to the present value of BAU ProfitShare as a mechanism for supporting PRE;

- the reasonableness of the solvency-based corridor approach used to determine supportable distributions;
- the range of drivers including the certainty haircut and treatment of the FIL Life acquisition;
- the fairness rationale for the eligibility cut-off; and
- whether the potential policyholder reasonable expectation minimum of a 0.5% distribution is maintained for the majority of the projection, in line with expectations that may have been set by the acquisition of FIL Life.

8.47 I have also reviewed a detailed report produced by Scottish Friendly following an independent internal review of the Merger Allocation modelling, which I have relied upon to support my conclusions.

8.48 As noted in paragraph 5.5, Scottish Friendly also considered closure to new business as an alternative to the transfer. The analysis indicated that the transfer, and the associated benefits of increased scale and efficiency, are expected to result in more favourable outcomes for a majority of policyholders than those achievable under an independent run-off.

8.49 On the basis of my review, I am satisfied that the proposed Merger Allocation of £35m represents a reasonable estimate of the present value of future discretionary surplus distributions that would have been expected to accrue to eligible with-profits policyholders through ProfitShare under business-as-usual. Therefore, I am satisfied that the replacement of expected future ProfitShare by the Merger Allocation does not give rise to a material adverse effect. My assessment of whether the transfer is fair having regard to any wider rights or interests that policyholders may have in the SFMF inherited estate is set out separately in Section 9.

Expenses

8.50 Following the transfer, an expense rate card will be established between the OFNPF and the SFAS sub-fund. Under the arrangement, the SFAS sub-fund will bear the costs of its ongoing administration through an Operational Service Charge ("OSC") payable to the OFNPF. The OSC is designed to reflect a fair allocation of costs incurred by OneFamily in servicing the SFAS sub-fund.

8.51 As set out in detail in paragraph 5.28, the OSC will comprise a per-policy charge; post-transfer operational losses from SFAS sub-fund policies; project and one-off costs incurred for the benefit of the SFAS sub-fund; and other, appropriate, exceptional costs.

8.52 The per-policy charges are annual figures as at 31 December 2025 and are increased annually by the rate of CPI inflation plus 1%. I consider CPI inflation plus 1% to be a reasonable inflation escalation rate for a long-term operational services arrangement because it provides a transparent, objective basis for annual increases while allowing a modest additional margin to reflect that key operational cost drivers (notably wages, technology and regulatory change) can change differently from headline consumer prices. CPI-linked indexation is widely used in longer-term UK contracts to manage inflation risk, supporting the view that CPI plus a modest fixed margin is an accepted market approach where a service provider is taking on ongoing cost and inflation risk.

8.53 The initial per-policy charges have been set by reference to the costs currently incurred in managing the with-profits business, with an additional margin of 5% included. In my view, it is reasonable for the OFNPF to earn this margin because it is taking on the risk that operational costs (both the level and inflation) exceed the contractual rate card over time and the SFAS sub-fund is paying for increased cost certainty and protection against adverse expense experience as the fund runs off.

8.54 Margins on with-profits rate cards are commercially sensitive and therefore not commonly disclosed. In my experience, a 5% margin is on the lower end of market norms over the medium-term past but is consistent with recent market practice for such arrangements.

8.55 In addition to the OSC, the SFAS sub-fund will pay Investment Services Fees representing a fair allocation of actual investment service costs. Where the charge exceeds a cap equivalent to 20 bps per annum, it will be subject to enhanced governance, requiring approval by the OneFamily Board following recommendation

from the With-Profits Committee. This cap provides a further protection for with-profits policyholders in respect of investment-related expenses.

- 8.56 Overall, I do not consider the proposed expense arrangements to have a material adverse effect on with-profits policyholders' benefit expectations. The intention is that the expenses of the SFAS sub-fund remain broadly aligned with the current cost base and that the sub-fund pays an appropriate arm's-length margin to access protection against expense overrun risk and the effects of a declining policy count and associated fixed-cost traps during run-off.

Increments

- 8.57 Following the transfer, the SFAS sub-fund will be closed to new business other than in respect of contractual increments. Policyholders seeking to invest further non-contractual premiums (including those relating to hybrid policies) will instead be offered alternative unit-linked investment options within the OFNPF. These options are not expected to provide the same smoothing or guarantees as with-profits business. I am satisfied that this represents a reasonable approach in the context of the with-profits fund being closed to new business and does not affect policyholders' contractual rights.

Run-off and closure

- 8.58 As set out in paragraphs 5.19 to 5.22, the IoT permits OneFamily to merge the SFAS sub-fund with the OFNPF once its assets fall below £50m, and requires merger once assets fall below £25m, with both thresholds indexed in line with CPI from 31 December 2026. At the point of merger, a cessation charge will be deducted from the surplus distributed to the SFAS sub-fund policyholders to cover the costs incurred in closing the sub-fund and to compensate OFNPF policyholders for additional resulting non-hedgeable capital requirements.
- 8.59 There are various ways that the thresholds for merger can be set, e.g. relating to number of policies, the quantum of assets in the fund, or a mixture of both. I am satisfied that the thresholds set out above are reasonable and aligned with typical thresholds adopted in the market. Based on current projections, the £50m threshold (adjusted for indexation) is not expected to be breached for more than 10 years.
- 8.60 I am also satisfied that it is reasonable for the cessation charge to be deducted from the distributable surplus to ensure that OFNPF policyholders are not materially adversely affected by the merger of the SFAS sub-fund into the OFNPF.
- 8.61 The IoT allows for the possibility of conversion of SFAS sub-fund with-profits policies to either unit-linked or non-profit at the time of (or following) any merger. I am comfortable that the IoT allows for appropriate flexibility and does not over-prescribe the terms of a merger.

Tax

- 8.62 The tax charged to the SFAS sub-fund is determined based on the tax that would be charged were the sub-fund a standalone entity. I am satisfied that it is reasonable for the sub-fund to cover the tax OneFamily incurs through its operations.

SFMF non-profit policyholders

- 8.63 The acquired FIL Life policies form part of the SFMF non-profit policyholder group and the impact of the transfer on these policies has therefore been assessed as part of the overall non-profit policyholder population.
- 8.64 There will be no changes to the contractual terms and conditions of non-profit policies. All guarantees, benefits and policy features will continue unchanged following the transfer. This includes the FutureWise default investment strategy provided to ex-FIL Life unit-linked policyholders. Scottish Friendly has committed to maintaining the arrangement for at least 10 years from the effective date of the FIL Life Part VII transfer and maintaining the current self-select funds for at least one year from that date.
- 8.65 Policy administration processes will also remain substantially unchanged, with OneFamily operating the policies on a basis consistent with current practice.
- 8.66 I therefore conclude that non-profit policyholders' benefit expectations are preserved.

Unit-linked discretion

- 8.67 At the Effective Date, all Scottish Friendly unit-linked policies, including the acquired FIL Life unit-linked policies (and the unit-linked elements of any hybrid policies) will transfer into the OFNPF.
- 8.68 OneFamily will establish corresponding unit-linked funds within the OFNPF to receive the assets and liabilities of the Scottish Friendly unit-linked funds. The intention is that this mapping will be “like-for-like” at the point of transfer. The corresponding funds will initially have the same investment objectives, restrictions and policies as the existing Scottish Friendly funds, and transferring policyholders will hold the same number, value and classes of units immediately after the transfer as immediately before it.
- 8.69 The management of hybrid policies, in respect of existing contractual policy benefits, will not change as a result of the transfer.
- 8.70 The parties have confirmed there are no current plans to change the unit-linked fund arrangements of transferring policies and any future changes would be subject to OneFamily’s governance processes and its stated approach to fair customer outcomes. Therefore, I have considered OneFamily’s powers to make changes to unit-linked fund arrangements, e.g. merging, dividing or closing funds, or changing investment objectives and how these compare to Scottish Friendly’s current powers. Any significant changes could have an impact on the policyholders’ benefit expectations. When comparing the ability to close, merge or otherwise alter fund choices, the communications strategy for changes and the internal governance process that such changes would need to go through, I have not found any significant differences between the parties’ approaches. I therefore do not expect these provisions to have a material adverse impact on unit-linked policyholders’ benefit expectations.
- 8.71 I have also considered the approaches to the identification and rectification of unit pricing errors. Both Scottish Friendly and OneFamily maintain frameworks under which pricing and dealing errors are recorded, investigated and corrected as soon as reasonably practicable, with redress provided where policyholders have been materially impacted and with appropriate governance oversight. While detailed thresholds and categorisation criteria differ, the underlying principles and practical approach are materially similar. I therefore do not expect the transfer to have a material adverse effect on policyholders in this area.
- 8.72 Overall, given the like-for-like mapping at the point of transfer, the unchanged management of hybrid policies, and the broadly comparable governance frameworks for unit-linked fund operation and pricing error rectification, I am satisfied that the benefit expectations of Scottish Friendly unit-linked policyholders will not be materially adversely affected by the transfer.

Other with-profits sub-fund policyholders (M&GM, SLL and Manulife)

- 8.73 The M&GM, SLL and Manulife businesses are operated through existing ring-fenced sub-funds. Under the transfer, corresponding sub-funds will be established within OneFamily and the existing sub-funds will transfer on a “like-for-like” basis. The intention is that these sub-funds will continue to operate in the same manner as before, with the same ring-fencing features and the same basis for attributing assets, liabilities, income and expenses to the relevant policyholder group.
- 8.74 There will be no change to policies’ guaranteed benefits as a result of the transfer. Policy terms and conditions will remain unchanged and guarantees will continue to be determined on the same basis as before. The investment strategy applicable to with-profits assets will be maintained.
- 8.75 In relation to discretionary benefits - including bonuses, estate distributions and the investment strategy underpinning these - these are governed by the respective sub-fund PPFMs. Following transfer, the existing PPFMs will continue to apply to the newly established sub-funds. Therefore, the nature and expected exercise of discretion in relation to the sub-funds will remain unchanged.
- 8.76 Taking the above into account, I do not consider that the transfer is expected to have a material adverse effect on the benefit expectations of policyholders in the M&GM, SLL and Manulife sub-funds.

Conclusion

- 8.77 Taking the above into account, I am satisfied that the transfer is not expected to have a material adverse effect on the benefit expectations of Scottish Friendly Transferring Policyholders. I am also satisfied that the

expected level of benefits remains consistent with the delivery of fair value to policyholders and therefore aligned with the Consumer Duty requirements in relation to products and services and price and value.

Benefit security

8.78 This section considers the impact of the proposed transfer on the security of benefits payable to Scottish Friendly Transferring Policyholders. In line with my approach to benefit expectations, I recognise that the likely impacts on benefit security may differ between policyholder groups. I therefore consider each cohort separately below.

8.79 In assessing benefit security, I have had regard to projected solvency positions, risk profiles, dependencies on management actions and assumptions, and the post-transfer governance and capital management frameworks.

SFMF with-profits policyholders

Solvency position

8.80 Under the transfer, with-profits business will be isolated from the SFMF and transferred into the newly established SFAS sub-fund. Figure 27 below summarises the expected solvency position of the SFAS sub-fund immediately following the transfer, assuming the transfer took place at 31 December 2025 and including the expected impact of the FIL Life acquisition.

8.81 The solvency position of the SFMF prior to transfer is also shown as a comparator. This comparison is not strictly like-for-like since the fund's solvency is also impacted by the non-profit business contained within it.

Figure 27: SFMF with-profits policyholders' pre and post-transfer solvency position as at 31 December 2025

	Pre-transfer (SFMF)	Post-transfer (SFAS sub-fund)
Own Funds (£m)	141.9	18.3
SCR (£m)	86.4	11.0
Solvency Coverage Ratio	164%	166%

Source: Scottish Friendly and OneFamily

8.82 The separation of the with-profits business from the remainder of the SFMF removes diversification benefits previously available within the combined fund. In addition, no allowance has been made for LACTP in calculating the SCR of the SFAS sub-fund, beyond that arising from the normal recalculation of bonus rates following the market risk stress. Overall, the reported solvency coverage ratio increases from 164% to 166% and the SFAS sub-fund remains appropriately capitalised. An allowance for LACTP may be recognised in future, where appropriate, if adverse experience were to reduce the SFAS sub-fund's solvency coverage ratio.

8.83 In addition, under the IoT, while the SFAS sub-fund is expected to operate on a self-sufficient basis, capital support may be provided by the OFNPF (subject to its solvency) in the event that a deficit arises.

8.84 Should a deficit arise, the capital support will be provided from the OFNPF to the SFAS sub-fund in the form of a contingent loan, such that no asset arises in OFNPF and no liability arises in the SFAS sub-fund.

8.85 Interest on the loan will be charged at a rate no higher than the prevailing arm's-length commercial rate, as determined by the OneFamily Board having regard to the advice of the WPA. Capital support arrangements of this nature are commonly established on such terms. The commercial rate will operate as a ceiling, with the OneFamily Board retaining discretion to agree a lower rate where it considers this appropriate and fair to the affected policyholder groups.

8.86 A more prescriptive alternative would be to specify a base rate, with or without a fixed margin. However, given that the arrangement may remain in place for several years, such an approach would provide less flexibility to reflect prevailing market conditions and relevant fairness considerations when the loan is made. I am therefore satisfied that the approach set out in the IoT provides appropriate protection for the policyholders of both the OFNPF and the SFAS sub-fund.

8.87 The loan will be repaid when the SFAS sub-fund returns to a position where the assets of the fund are in excess of the liabilities. This allows for partial repayment (as frequently as quarterly) where the SFAS sub-fund is able to do so until the loan is fully repaid. Such repayments would only be made following appropriate actuarial advice. I am satisfied that this provides sufficient protection for the policyholders of both the OFNPF and the SFAS sub-fund as it enables the loan to be paid back in a timely manner, while the With-Profits Actuary protects the interests of the with-profits policyholders from actions that could be taken to repay the loan too quickly.

8.88 Overall, I am satisfied that the SFAS sub-fund will have a robust capital position immediately following the transfer and therefore SFMF with-profits policyholders' benefits will be well supported, with no material adverse effect on their security.

Risk profile

8.89 The transfer results in a change to the risk profile supporting with-profits business, reflecting the separation of with-profits and non-profit business and the removal of diversification benefits previously arising within the SFMF.

8.90 An indicative comparison of the SCR risk composition before and after the transfer is shown in Figure 28 below, along with the notional pre-transfer position of only the with-profits business in the SFMF.

Figure 28: SFMF with-profits policyholders' pre and post-transfer SCR breakdown as at 31 December 2025

	Pre-transfer (SFMF)	Notional pre-transfer (SFMF with-profits only)	Post-transfer (SFAS)
Market risk	55.4	10.1	8.4
Life underwriting risk	74.6	4.5	2.7
Health underwriting risk	1.1	-	-
Counterparty default risk	9.7	-	-
Diversification	(33.5)	(2.6)	(1.6)
Basic SCR	107.2	12.0	9.4
Operational risk	9.9	1.6	1.6
LACDT	(5.3)	-	-
LACTP	(25.4)	(8.3)	-
SCR	86.4	5.4	11.0

Source: Scottish Friendly and OneFamily

8.91 Post-transfer, the SFAS sub-fund SCR is dominated by market risk. This is expected following the removal of the non-profit business (as can be seen by the notional pre-transfer position of the with-profits business in the SFMF) and remains a risk profile that can be managed through established investment governance and, where appropriate, hedging. Overall, I do not consider the change in risk profile leads to a material adverse effect on SFMF with-profits policyholders.

SFMF non-profit policyholders

Solvency position

8.92 Under the transfer, non-profit business will be isolated from the SFMF and transferred into the OFNPF. Figure 29 below summarises the expected solvency position of the OFNPF immediately following the transfer as at 31 December 2025. A full explanation of the transfer impacts on OFNPF can be found at paragraph 6.25.

Figure 29: SFMF non-profit policyholders' pre and post-transfer solvency position as at 31 December 2025

	Pre-transfer (SFMF)	Post-transfer (OFNPF)
Own Funds (£m)	141.9	369.4
SCR (£m)	86.4	214.6
Solvency Coverage Ratio	164%	172%

Source: Scottish Friendly and OneFamily

8.93 The post-transfer solvency coverage ratio of the OFNPF is expected to remain materially above OneFamily's stated entity-level capital target of 150%.

8.94 Overall, I consider the resulting post-transfer pro forma solvency position to be strong and supportive of SFMF non-profit policyholders' benefit security, and I do not consider the transfer to result in a material adverse effect on the security of benefits for these policyholders.

Dependency on expense synergies

8.95 I have also considered the extent to which the post-transfer solvency position of the OFNPF, which supports the SFMF non-profit policyholders, depends on the realisation of the expected £61.7m of expense synergies relating to the merger. These are driven by reductions in senior staff and third-party costs.

8.96 Sensitivity analysis is set out in Figure 30 below, showing the impact on solvency coverage ratio if only a proportion of the expected synergies were achieved, based on reasonably foreseeable adverse scenarios. In each case, the reduction in synergy reduces Own Funds by the same amount. The impact on SCR has been approximated as 20% of the change in the expense synergy value as a (prudent) proxy for the relevant Standard Formula expense stress components and diversification impacts.

Figure 30: OFNPF post-transfer sensitivity to expense synergies as at 31 December 2025

	Post-transfer £61.7m expense synergies (expected)	Post-transfer £50m expense synergies	Post-transfer £40m expense synergies
Own Funds (£m)	369.4	357.7	347.7
SCR (£m)	214.6	216.9	218.9
Solvency Coverage Ratio	172%	165%	159%

Source: OneFamily and Howden analysis

8.97 The analysis indicates that under these scenarios, the OFNPF solvency coverage ratio would continue to remain above OneFamily's stated 150% entity-level capital target. This provides additional comfort that the solvency position supporting non-profit policyholders' benefits is robust to reasonably foreseeable adverse outcomes.

Dependency on Volatility Adjustment approval

8.98 As set out at paragraph 5.42, following the transfer, OneFamily intends to apply the Volatility Adjustment to certain Transferring Policies as part of its OFNPF balance sheet. All else equal, this is expected to reduce BEL by around £4m.

8.99 While I do not anticipate any specific challenges with extending the VA application to cover this block of business, I note that, should this not be possible for any reason, the financial impact would not be material to overall benefit security. Specifically, this would be expected to reduce the OFNPF solvency coverage ratio from 172% to 170%, i.e. a two percentage point reduction. It would therefore remain comfortably capitalised, including in the context of OneFamily's stated entity-level capital target of 150%.

Risk profile

8.100 The transfer also results in a change to the risk profile impacting the SFMF non-profit policyholders. An indicative comparison of SCR risk composition before and after the transfer is shown in Figure 31 below.

Figure 31: SFMF non-profit policyholders' pre and post-transfer SCR breakdown as at 31 December 2025

	Pre-transfer (SFMF)	Post-transfer (OFNPF)
Market risk	55.4	122.0
Life underwriting risk	74.6	131.8
Health underwriting risk	1.1	2.9
Counterparty default risk	9.7	13.3
Diversification	(33.5)	(63.7)
Basic SCR	107.2	206.3
Operational risk	9.9	13.7
LACDT	(5.3)	(5.3)
LACTP	(25.4)	-
SCR	86.4	214.6

Source: Scottish Friendly and OneFamily

- 8.101 The addition of the transferring SFMF non-profit business increases the overall scale of the OFNPF but with a materially similar mix of risks. As there is no with-profits business within OFNPF there is no associated benefit from with-profits management actions and, therefore, LACTP is zero.
- 8.102 Overall, I do not consider the change in risk profile leads to a material adverse effect on SFMF non-profit policyholders.

Other with-profits sub-fund policyholders (M&GM, SLL and Manulife)

- 8.103 The SLL, M&GM and Manulife sub-funds will continue to operate largely in the same manner as before following the transfer. The impact on the solvency positions of each fund is set out in Figure 32 below.

Figure 32: Other with-profits sub-funds pre- and post-transfer solvency position as at 31 December 2025

	Pre- and post-transfer		
	M&GM	SLL	Manulife
Own Funds (£m)	82.8	10.1	-
SCR (£m)	2.9	0.9	-
Solvency Coverage Ratio	2,895%	1,130%	-

Source: Scottish Friendly and OneFamily

- 8.104 There is no change in the M&GM solvency position. The SCR is equal to the operational risk component both pre and post-transfer. All other risks are assumed to be absorbed through reductions in policyholders' discretionary benefits via LACTP. The sub-fund remains strongly capitalised following the transfer.
- 8.105 The solvency position of the SLL sub-fund remains unchanged following the transfer. The SCR currently includes only partial allowance for loss absorption, therefore some residual risk in addition to operational risk is included. The sub-fund remains strongly capitalised following the transfer.
- 8.106 The Manulife fund is a North American-style with-profits fund and as such assets are set equal to liabilities. The sub-fund sets bonuses in such a way as to distribute all available assets and would expect to be able to do so under the stresses prescribed in the regulatory solvency regime. The fund therefore has nil Own Funds and SCR. This position is unchanged following transfer.
- 8.107 In the event that any of the sub-funds requires external capital support, I note that the existing capital support principles applicable to the sub-funds will be unchanged following transfer, other than that the OFNPF will replace the SFMF as the provider of any capital support required. The OFNPF is expected to be comfortably capitalised following transfer. As a result, I do not consider there to be any material adverse effect on the sub-fund policyholders in relation to contingent capital support.
- 8.108 Overall, I do not consider the transfer to result in a material adverse effect on the security of benefits for these policyholders.

Entity-level solvency

- 8.109 The overall entity-level solvency of OneFamily following the transfer is summarised in Figure 33 below.

Figure 33: OneFamily entity-level solvency position post-transfer as at 31 December 2025

£m	OFNPF	SFAS	M&GM	Manulife	SLL	WP2	Entity
Own Funds after RFR	369.4	18.3	82.8	-	10.1	4.2	384.6
SCR	214.6	11.0	2.9	-	0.9	0.4	229.8
Solvency Coverage Ratio	172%	166%	2,895%	n/a	1,130%	959%	167%

Source: Scottish Friendly and OneFamily

- 8.110 The entity-level solvency coverage ratio following transfer is expected to be 167%, in excess of OneFamily's entity-level target of 150%. This further supports the view that there is not expected to be a material adverse effect on the benefit security of Scottish Friendly Transferring Policyholders as a result of the transfer.
- 8.111 In relation to the appropriateness of the specific 150% risk appetite threshold, this is ultimately a matter for the OneFamily Board, reflecting its chosen risk appetite. However, I note that the methodology underpinning the 150% level - setting capital such that the 1-in-200 SCR can still be met following a 1-in-20 stress - is, in my view, conceptually sound and provides a coherent basis for calibration. I also note that this approach and the resulting 150% target is consistent with Scottish Friendly's current solvency target and is broadly aligned with the range of targets typically observed across UK life insurers, supporting the view that it lies within accepted market practice.

Quality of capital

- 8.112 The quality of Own Funds held is also relevant to the security of policyholder benefits. As at 31 December 2025, all Scottish Friendly and OneFamily Own Funds are categorised as Tier 1, the highest quality. The parties have advised that following the transfer, the combined Own Funds within OneFamily would continue to be categorised fully as Tier 1. I am therefore satisfied that the transfer should not have a material adverse effect on the quality of capital.

Liquidity

- 8.113 I have reviewed Scottish Friendly's and OneFamily's liquidity risk management frameworks, as set out at paragraph 6.57. I am satisfied that both firms operate appropriate and broadly equivalent approaches, with risk tolerances based on expected cash outgoings and active monitoring. The projected liquidity coverage is satisfactory in both cases.
- 8.114 Following the transfer, the existing frameworks will be maintained. I have considered whether the reallocation of business between sub-funds could give rise to material liquidity impacts. While the inclusion of the SFMF non-profit business within the OFNPF will affect its liquidity profile, this is mitigated by an increase in liquid assets relative to liabilities.
- 8.115 On that basis, I am satisfied that there is no material adverse effect on policyholders from the transfer.

Stress and scenario testing

- 8.116 I have reviewed Scottish Friendly's and OneFamily's approach to stress and scenario testing. Both firms have appropriate processes in place to identify and model stresses and scenarios that are relevant to their respective businesses. Both also consider them over an appropriate time horizon. It is expected that the OneFamily approach will be adopted following the transfer. Given the similarities in approach, I am satisfied that there will be no impact (positive or negative) on the Transferring Policyholders from this.

Conclusion

- 8.117 Taking the above into account, I am satisfied that the transfer is not expected to have a material adverse effect on the benefit security of Scottish Friendly Transferring Policyholders.

Administration and service standards

- 8.118 The parties have confirmed that immediately following transfer, no changes are proposed to the arrangements currently in place for key administration activities in respect of the Scottish Friendly policies. Policies will continue to be administered from Scottish Friendly's Glasgow premises using existing administration platforms and processes.
- 8.119 Further, no changes are proposed to the service standards that apply in relation to the administration of these policies. The post-transfer operating model is designed to ensure continuity of service delivery through established administration arrangements and governance oversight including routine monitoring of service metrics, complaints and operational incidents.
- 8.120 I have considered whether the transfer could lead to deterioration in administration standards through disruption, systems change or changes in outsourced arrangements. Based on the information provided, there is no indication that the transfer requires immediate changes to administration processes that would be expected to adversely affect policyholders.
- 8.121 For completeness, I note that the £61.7m present value of expense synergies that are expected to materialise over 2027-2028 do not encompass any changes relating to policyholder administration platforms. Where such changes may be contemplated in future, these would be expected to be managed through normal change governance and controls, with due regard to policyholder outcomes and treating customers fairly.
- 8.122 On this basis, I do not expect the transfer to have a material adverse effect on administration and service standards for Scottish Friendly Transferring Policyholders. I have also considered whether these arrangements meet the Consumer Duty expectations in relation to customer support, including the provision of timely and effective service, and do not consider that the transfer will result in any deterioration in this regard.

Project costs

- 8.123 The parties have set out how costs associated with implementing the transfer will be allocated between Scottish Friendly and OneFamily. Broadly, this includes:
- costs associated with the regulatory process (including required notifications and publications);
 - professional fees (including independent actuary/actuarial and other adviser costs); and
 - each party's own legal, operational and implementation costs incurred in delivering the transfer.
- 8.124 I have assessed the overall costs and consider them to be reasonable for a transaction of this type and scale. I have also considered the proposed allocation of costs between the parties and consider that these either directly relate to work undertaken by each party (e.g. legal advice specific to each party) or are otherwise shared equally and therefore reflect a fair allocation. I am therefore satisfied that the implementation costs of the transfer are not expected to result in a material adverse effect on the Scottish Friendly Transferring Policyholders.

Governance and management

- 8.125 OneFamily's governance structure is broadly comparable to Scottish Friendly's. Both have Boards supported by committees covering the key areas expected for Solvency UK firms including Audit, Risk, Remuneration and Nominations and both operate with-profits governance arrangements appropriate to the nature of the business. Scottish Friendly has additional committees reflecting its current governance model including an Investment Committee and a With-Profits Approval Committee, while OneFamily has a Member, Customer & Culture Committee. In my view these differences do not indicate weaker governance but reflect differences in organisational structure and governance approach. I note that OneFamily expects to introduce a Board Investment Committee, which will further align the governance approaches of the parties.
- 8.126 The Framework Deed provides that, following completion of the merger, the Board will comprise between eight and ten members, including two executive directors. Each party will also have the right to nominate up to four non-executive directors. These arrangements are subject to a Joint Governance Committee, established under the transfer, being satisfied that the Board collectively possesses the requisite skills and

experience to oversee the combined business, as well as any necessary regulatory approvals. In my view, this approach supports continuity in key decision-making and provides a balanced and structured representation of both parties' interests, while ensuring that the overall composition of the Board remains subject to appropriate governance and regulatory safeguards.

- 8.127 Both entities maintain the key Solvency UK governance functions including Internal Audit, Actuarial Function, Risk Management and Compliance. These functions provide continuing oversight of financial reporting, control environment, risk management and actuarial matters relevant to policyholder outcomes.
- 8.128 Following the transfer, members of Scottish Friendly will become members of OneFamily. This provides members with ongoing membership and voting rights within a mutual structure, which is broadly consistent with the mutual status and member rights that applied prior to the transfer. I note that the delegate system currently operated within Scottish Friendly will not continue following the transfer, so members will need to represent themselves rather than their views being represented by their elected delegates. I acknowledge that this could be viewed as a positive or negative change by different groups of policyholders. However, it is my view that the impact is ultimately neutral as policyholders retain the opportunity for their views to be represented.
- 8.129 In addition, the transfer documentation envisages continued operation of the transferred business within defined fund structures, supported by board-level oversight and defined governance processes including the governance applicable to with-profits matters and the determination of discretionary items. In my view, the governance arrangements described provide an appropriate framework to protect policyholder interests following the transfer.
- 8.130 On this basis, I consider the governance and management arrangements of OneFamily to be broadly comparable to those of Scottish Friendly and do not expect the transfer to have a material adverse effect on the governance and management of the Scottish Friendly Transferring Policyholders.

Ongoing projects

- 8.131 I have considered Scottish Friendly's ongoing project portfolio and business-as-usual ("BAU") improvement activities, including the nature and status of its more material programmes, and how the proposed transfer may affect their delivery.
- 8.132 Based on the information reviewed, the more material programmes include:
- the Customer Relationship Management (CRM) transformation programme;
 - the Unit Linked Fund Rationalisation ("ULFR") initiative;
 - ongoing product review and remediation activity;
 - preparation for the launch of Pensions Dashboard;
 - customer communications and statements enhancement work; and
 - remediation activity relating to legacy system issues.
- 8.133 In considering the impact of the transfer on these projects and BAU activities, I note that:
- Scottish Friendly has assessed these activities as part of its preparations for the transfer and concluded that it has sufficient capacity to continue delivery;
 - there are no changes to the project portfolio as a result of the transfer; and
 - these programmes sit within Scottish Friendly's established operational and governance framework, with appropriate oversight and remediation processes in place.
- 8.134 I have also considered whether the transfer could increase execution risk, for example through additional operational complexity or competing resource demands. Based on the available evidence, I have not identified any material projects or BAU activities for which delivery risk is expected to increase materially as a direct consequence of the transfer.

- 8.135 These activities are primarily focused on maintaining or improving service standards and customer outcomes, including through remediation of historical issues and enhancements to products and communications. I have not identified any programmes or activities that involve changes to contractual policy terms or charges. While operational challenges or delays may arise in practice, any impacts are likely to be temporary and limited to service levels.
- 8.136 Taking these factors into account, I am satisfied that ongoing project and BAU activity within Scottish Friendly is not expected to give rise to any material adverse effect on Transferring Policyholders.

Consumer Duty

- 8.137 In assessing the impact of the transfer on Scottish Friendly Transferring Policyholders in the context of the Consumer Duty, I have considered whether the transfer would affect the ability to continue to deliver good customer outcomes across the four Consumer Duty outcomes.
- 8.138 As noted at paragraph 3.75, based on the most recent Consumer Duty assessments and Board reporting, Scottish Friendly continues to meet its obligations under the Consumer Duty and is delivering good customer outcomes with no evidence of material harm, while maintaining clear and structured programmes to drive continuous improvement.
- 8.139 Following the transfer, the policies will be administered within OneFamily's Consumer Duty framework which, as noted at paragraph 4.64, I consider to be well embedded and operating effectively. It is supported by enhanced management information, governance and customer outcome monitoring. OneFamily's framework includes regular product reviews, fair value assessments and structured monitoring of customer outcomes, including a particular focus on vulnerable customers and early identification of potential harm.
- 8.140 There may be some practical alignment of processes, systems and monitoring approaches as the businesses are integrated. However, these changes are not expected to result in poorer outcomes; rather, they are expected to maintain or improve the consistency and quality of customer outcomes over time.
- 8.141 In summary, I do not consider that the transfer will give rise to poorer outcomes or foreseeable harm for Transferring Policyholders in the context of Consumer Duty. The transfer is expected to maintain, and potentially improve, the delivery of good customer outcomes.

9. Fairness of the transfer from the perspective of Scottish Friendly with-profits policyholders

Regulatory framework and scope of my assessment

- 9.1 The transfer changes the structure through which Scottish Friendly's with-profits policyholders participate in future surplus. In particular, future ProfitShare will be replaced by the Merger Allocation, the relevant policies will be allocated to the newly established ring-fenced SFAS sub-fund within OneFamily, and the transferring policyholders will cease to be members of Scottish Friendly and will instead become members of OneFamily.
- 9.2 Scottish Friendly's view, supported by legal advice, is that the proposals do not amount to a reattribution, as defined in the FCA Handbook. However, in view of the scope for differing interpretations of the term, Scottish Friendly has applied for a modification of COBS 20.1.2R to provide regulatory certainty in relation to the transfer process. If the requested modification of COBS 20.1.2R is approved in the form proposed and its conditions are satisfied, then, even if the transfer did amount to a reattribution, the reattribution process in COBS 20.2.42R to COBS 20.2.52G, including the appointment of a separate policyholder advocate, would not apply to the transfer.
- 9.3 The requirements of the proposed modification include:
- compliance with the applicable requirements of the Friendly Societies Act 1992 and Scottish Friendly's Rules, including approval of the transfer by special resolution;
 - the appointment of an Independent Actuary to report on the terms and likely effects of the transfer and its fairness from the perspective of Scottish Friendly's with-profits policyholders; and
 - a communications plan shared with the FCA under which affected with-profits policyholders will be informed about the effects of the transfer, any benefits they are expected to receive, any rights and interests they are expected to give up and the relevant actuarial opinions.
- 9.4 My terms of reference accordingly require me to report expressly on:
- the fairness of the transfer from the perspective of Scottish Friendly's with-profits policyholders;
 - the proposed allocation of assets under the transfer;
 - such credible alternatives to the transfer as are, in Scottish Friendly's reasonable view, reasonably available to Scottish Friendly; and
 - the benefits that relevant with-profits policyholders are likely to receive and any rights or interests that they are likely to give up pursuant to the transfer.
- 9.5 Under my terms of reference, Scottish Friendly is responsible for identifying the credible alternatives that it reasonably considers available and for providing me with the information and analysis that I reasonably require to assess them. I am not responsible for formulating the transfer or developing alternative transaction proposals. My role is to assess independently the alternatives identified by Scottish Friendly, including the reasonableness of their characterisation as credible and reasonably available, the methodology and assumptions underlying the analysis, and their likely effects on policyholders. However, if I considered that a material and readily apparent alternative had been omitted, or that the information provided was insufficient to support my fairness opinion, I would raise that matter with Scottish Friendly and, where appropriate, the PRA and FCA.

- 9.6 This section draws together my conclusions under that enhanced remit. The supporting analysis of the effects of the transfer on the different groups of Scottish Friendly policyholders is set out in Section 8 of this report, including details of the Merger Allocation valuation and resulting allocation of assets between the SFAS sub-fund and the OFNPF.

Legal and actuarial considerations

- 9.7 Scottish Friendly has obtained legal advice from Pinsent Masons LLP concerning the nature and extent of the rights and interests of its with-profits policyholders in the SFMF inherited estate and the application of the COBS 20 requirements relating to reattribution. I have reviewed that advice as part of the legal and factual context for my actuarial assessment. As I am not legally qualified, I do not express an independent legal opinion on the matters addressed by it.
- 9.8 The advice considers the relevant provisions of Scottish Friendly's Memorandum and Rules, the historical operation of the SFMF, the uses to which the estate has been put, and the development and operation of ProfitShare. It notes that Scottish Friendly is the legal and beneficial owner of the SFMF assets and that the fund has historically supported a range of business and corporate purposes, rather than being operated exclusively for its with-profits policyholders.
- 9.9 On the interpretation set out in the advice, with-profits policyholders do not have an exclusive or unconditional entitlement to the whole inherited estate or to a distribution of a particular amount at a particular time. The advice identifies their relevant rights and interests as including their contractual benefits, the fair exercise of relevant discretions, the consideration and, where appropriate, payment of ProfitShare, and the distribution of excess surplus where required under the applicable rules.
- 9.10 Applying that interpretation, the advice concludes that replacing expected future ProfitShare with an actuarially determined Merger Allocation, allocated to the ring-fenced SFAS sub-fund for the benefit of the transferring with-profits policies, would restructure and accelerate the satisfaction of the relevant interests rather than redefine them. Scottish Friendly accordingly maintains its legal position that the transfer does not constitute a reattribution.
- 9.11 There is recognised legal uncertainty concerning the nature and extent of with-profits policyholders' rights and interests in a mutual common fund. In particular, an absence of an express provision conferring an exclusive entitlement to the whole inherited estate does not, by itself, determine whether policyholders may have wider rights or interests in that estate for the purposes of COBS 20. Conversely, the existence of such wider rights or interests would not necessarily give policyholders an immediate or unconditional entitlement to require distribution of the whole estate.
- 9.12 Following regulatory consideration of the application of COBS 20, Scottish Friendly applied for a modification of COBS 20.1.2R in relation to the transfer. If the modification is approved in the form proposed and its conditions are satisfied, the reattribution process in COBS 20.2.42R to COBS 20.2.52G, including the appointment, to the extent that the transfer in fact constitutes a reattribution, of a separate policyholder advocate, would not apply. The proposed modification instead provides for alternative safeguards intended to be appropriate to the circumstances of the transfer. Scottish Friendly has confirmed its intention to align with the requirements of the proposed modification notwithstanding its view that the transfer does not constitute a reattribution.
- 9.13 The safeguards under the proposed modification include approval of the transfer by special resolution in accordance with the Friendly Societies Act 1992 and Scottish Friendly's Rules, an Independent Actuary's report with an enhanced scope (compared to the scope that would otherwise apply under the Friendly Societies Act 1992), and a communications plan shared with the FCA. My enhanced remit requires me to report expressly on the fairness of the transfer from the perspective of Scottish Friendly's with-profits policyholders, including the proposed allocation of assets and credible alternatives reasonably available to Scottish Friendly.
- 9.14 Neither the proposed modification nor my terms of reference require me, in my capacity as Independent Actuary, to determine the legal characterisation of the proposal or the precise legal extent of every right and interest that with-profits policyholders may have in the SFMF inherited estate.

- 9.15 In view of the acknowledged uncertainty, I have sought to avoid making my fairness conclusion dependent upon the adoption of any single legal interpretation. I have therefore considered the economic and actuarial consequences of the transfer by reference to:
- the interpretation reflected in Scottish Friendly's legal advice, under which the principal relevant economic interest of with-profits policyholders in future distributions from the SFMF inherited estate is represented by expected future ProfitShare, together with any distribution of excess surplus required under the applicable rules; and
 - potentially wider interpretations under which with-profits policyholders may have rights or interests in the wider SFMF inherited estate that are not fully represented by expected future ProfitShare.
- 9.16 Under both bases, I have considered:
- the actuarial value and allocation of the Merger Allocation;
 - the assets and capital required to support the transferring non-profit business;
 - the benefits and protections that with-profits policyholders will receive under the transfer;
 - the nature and potential economic significance of the with-profits policyholders' rights and interests that will be changed or given up;
 - the change from membership of Scottish Friendly to membership of OneFamily;
 - the treatment of surplus arising in the SFAS sub-fund; and
 - the outcomes that might arise under credible alternatives reasonably available to Scottish Friendly.
- 9.17 In assessing the fairness of the transfer, I have not treated membership of OneFamily as legally or economically equivalent to any rights and interests that policyholders currently possess through their policies and membership of Scottish Friendly, or as providing compensation for any rights and interests they will give up under the transfer. I have assessed the treatment of those existing rights and interests separately. Any value arising from membership of OneFamily has therefore been considered as an additional benefit of the transfer.
- 9.18 My fairness conclusion does not therefore depend on determining whether future ProfitShare exhausts all of the rights and interests that with-profits policyholders may have in the SFMF inherited estate. Nor does it depend upon concluding that any wider rights or interests amount to an immediate entitlement to distribution of the estate.
- 9.19 Rather, I have considered whether, taking account of the transaction as a whole and the range of reasonable interpretations, any material economic value attributable to with-profits policyholders would be removed under the transfer without fair compensation or corresponding protection. This provides, in my view, an appropriately robust basis on which to assess the fairness of the transfer notwithstanding the underlying legal uncertainty.

Rights and interests before and after the transfer

- 9.20 Scottish Friendly's with-profits policyholders currently possess contractual policy benefits, an expectation of fair treatment in the exercise of discretion, participation in future ProfitShare and rights as members of Scottish Friendly. Depending on the relevant legal interpretation, they may also be regarded as having wider rights or interests in the SFMF inherited estate.
- 9.21 Following the transfer, the contractual benefits under the transferring policies will continue unaffected. The policies will be allocated to and participate in the SFAS sub-fund in accordance with the IoT, the applicable PPFM and the other relevant governing documents. Surplus arising in the SFAS sub-fund will be available for the benefit of the policies allocated to it, subject to those terms.
- 9.22 The principal rights and interests being replaced or changed comprise:
- future participation in ProfitShare from the SFMF, which will cease and be replaced by the Merger Allocation;

- membership of Scottish Friendly, including the associated voting and other governance rights;
- any contingent right as a Scottish Friendly member to participate in residual surplus on a future winding-up or dissolution; and
- any wider rights or interests that policyholders may, depending on the relevant legal interpretation, currently possess in the SFMF inherited estate and that are not represented fully by future ProfitShare.

9.23 The principal benefits and protections provided under the transfer comprise:

- the Merger Allocation, which provides an earlier and more certain enhancement in place of uncertain future ProfitShare;
- continued participation in surplus through the ring-fenced SFAS Sub-fund;
- the protections governing the operation, management and distribution of surplus from the SFAS sub-fund;
- membership of OneFamily and the associated voting and other membership rights, including participation in any surplus distributions made from the OFNPF to members;
- with-profits policyholders will have the same entitlement as other OneFamily members to any residual surplus on a future winding-up or dissolution; and
- the expected benefits of the combination with OneFamily, including the benefits arising from increased scale and the relevant expense and other synergies.

9.24 I acknowledge that the legal nature of the rights and interests after the transfer is not identical to the position before it. I have therefore considered whether the value of the benefits and protections provided is fair relative to the rights and interests being replaced or changed.

9.25 I have not relied upon the new OneFamily membership rights as providing equivalent replacement value for existing Scottish Friendly rights. Rather, I have assessed whether the principal existing economic interest represented by future ProfitShare is fairly realised through the Merger Allocation and whether any other material economic interest is lost without compensation. Any potential future benefits from membership of OneFamily have been treated as additional contingent benefits.

Valuation and allocation of the Merger Allocation

9.26 My assessment of the amount and allocation of the Merger Allocation is described in paragraphs 8.30 to 8.49. Based on that work, I am satisfied that the Merger Allocation represents a fair actuarial valuation of the expected future ProfitShare that the relevant policies would otherwise receive.

9.27 The amount of future ProfitShare would be uncertain and would depend upon future experience, including investment performance, expenses, capital requirements, new business, management actions and the timing of the emergence and distribution of surplus. My analysis indicates that the potential for future ProfitShare to exceed or fall below the amount reflected in the Merger Allocation is broadly symmetrical.

9.28 The Merger Allocation replaces that uncertain stream of future benefits with an earlier and more certain enhancement. I regard that increased certainty as beneficial to policyholders.

9.29 I have considered the methodology and assumptions used to determine the Merger Allocation and the allocation of the Merger Allocation between relevant policies and policyholder groups. The proposed Initial Policy Uplift distributes part of the Merger Allocation across the wider current eligible population, reducing the risk of value becoming concentrated among fewer longer-duration policies, which will also remain eligible for the Residual Merger Allocation. I am satisfied that the methodology and proposed allocation are reasonable and do not create a material inequity between different classes or generations of with-profits policyholder.

Capitalisation and transfer of the non-profit business

- 9.30 The SFMF currently supports both with-profits and non-profit business. The transfer of the non-profit business to the OFNPF necessarily requires sufficient assets to be transferred to meet the associated liabilities and to provide an appropriate level of capital support, or capitalisation.
- 9.31 Under the transfer, the assets allocated to the OFNPF provide initial capitalisation for the transferring non-profit business equivalent to approximately 142% of its SCR, as shown in Figure 22. I have assessed this level of capitalisation against relevant market evidence for arm's-length transfers of comparable insurance business.
- 9.32 An acquirer would generally expect a transferred insurance portfolio to be capitalised at a level consistent with its target solvency coverage ratio, taking account of the nature and risk profile of the business. I have undertaken my own analysis of target solvency coverage ratios publicly disclosed by UK insurers and used this as an indicator of the level of capitalisation that might be expected for an acquired portfolio. Among the 15 firms identified as publicly disclosing the relevant information, the average target solvency coverage ratio was approximately 145%, with an interquartile range of 140% to 150%. The proposed capitalisation of approximately 142% therefore falls within the interquartile range and is close to its average. I consider it to be consistent with the level of capitalisation that could reasonably be expected in an arm's-length transaction.
- 9.33 In addition, it is common for insurance books to be sold at a discount to Own Funds (i.e. the acquirer will pay an amount less than the Own Funds in order to acquire it), reflecting factors including an acquirer's required return on capital, the risks and costs associated with assuming and administering the business, and the relative illiquidity of the future profits expected to emerge from the acquired portfolio. My analysis of insurance sector acquisitions completed in recent years in the UK and Europe indicates an average ratio of 'consideration paid' to 'Own Funds acquired' of approximately 0.92, with an interquartile range of approximately 0.80 to 1.00. Applying the average observed ratio to the transferring non-profit business indicates that an independent sale of the non-profit business could result in a reduction in Scottish Friendly's Own Funds of approximately 8%, equivalent to around £11 million. Transaction and implementation costs would be in addition to this amount. The proposed transfer avoids this potential loss of value, and I have taken that benefit into account when comparing the transfer with an independent sale.
- 9.34 Transferring a materially lower amount of assets, and therefore retaining more for the with-profits policyholders, would either leave the transferring non-profit business less well capitalised than would reasonably be expected in an arm's-length transaction or require OneFamily and its existing members to provide additional capital support. I do not consider either outcome to provide an appropriate basis for concluding that a larger amount should instead be allocated to the transferring with-profits policyholders.

Credible alternatives

- 9.35 Scottish Friendly has identified the following principal alternatives to the transfer as being credible and reasonably available:
- continuation on its existing basis;
 - an independent sale of the non-profit business; and
 - closure to new business and run-off.
- 9.36 In accordance with my terms of reference, Scottish Friendly is responsible for identifying the alternatives that it reasonably considers credible and reasonably available. I have assessed those alternatives independently, including the reasons why Scottish Friendly considers them available, the financial and operational assumptions applied and their likely effects on the relevant policyholder groups. I have also considered whether the analysis provided is sufficient for me to form my opinion on the fairness of the transfer.
- 9.37 Based on the information and analysis provided, I am satisfied that the alternatives identified by Scottish Friendly represent a reasonable set of credible alternatives available to it. Through my work, I have not become aware of another credible and reasonably available alternative that would be expected to provide a materially better overall outcome for Scottish Friendly's with-profits policyholders.

Continuation on the existing basis

- 9.38 Under continuation on the existing basis, Scottish Friendly's with-profits policyholders would be expected to receive broadly the same actuarial value of future ProfitShare as is represented by the Merger Allocation. As described in paragraphs 8.30 to 8.49, the Merger Allocation has been structured to seek to replace, on an actuarially equivalent basis, the value of the future ProfitShare distributions that those policyholders might reasonably have expected to receive if Scottish Friendly continued on its existing basis. They would, however, retain the uncertainty concerning the amount and timing of those distributions and would not receive the wider benefits arising from the combination with OneFamily.

Independent sale of the non-profit business

- 9.39 An independent sale of the non-profit business would require a broadly comparable amount of capital to accompany the business as under the transfer. Any such sale would also require a willing third-party acquirer and would not be within Scottish Friendly's gift to agree unilaterally. The price and other terms achievable would be subject to negotiation, due diligence, market conditions and the acquirer's commercial requirements. Scottish Friendly would also be expected to incur material costs in accessing the market and pursuing such a transaction, including adviser, due diligence, regulatory and implementation costs, without certainty that a transaction would ultimately complete. It would also be expected to result in a reduction in Own Funds as described in paragraph 9.33. I am therefore satisfied that an independent sale would not reasonably be expected to leave materially greater value available for Scottish Friendly's with-profits policyholders than the transfer.

Closure to new business and run-off

- 9.40 Closure to new business followed by run-off is technically possible and represents a credible alternative to the transfer. However, the outcomes under this alternative are subject to significant uncertainty over a long projection period. In particular, they depend on future experience in areas including expenses, investment returns, policyholder behaviour, the availability, timing and terms of any outsourcing arrangements, capital requirements and management actions.
- 9.41 The closure modelling shows a significant immediate deterioration in solvency coverage, principally reflecting the loss of economies of scale and the costs of operating and ultimately outsourcing a declining book. Solvency coverage is projected to recover over time as the business runs off, although the pace of recovery depends materially on assumptions concerning the availability, timing and cost of outsourcing. The more favourable outcomes assume that outsourcing can be achieved earlier and on terms that may not be available in practice. There can therefore be no assurance that the projected recovery in solvency coverage, or the subsequent resumption and level of surplus distributions, would emerge as modelled. Under the projections considered, distributions of surplus through ProfitShare would be expected to be suspended for a material period following closure.
- 9.42 The effect would vary between policyholder cohorts. Around 50% of the current with-profits book is expected to exit within seven years, generally before surplus distributions are projected to recommence, and would therefore be expected to receive materially lower benefits than under continuation on the existing basis. Around 20% is expected to exit between years seven and twelve and could be in a broadly neutral position. The remaining longer-duration policyholders could benefit disproportionately from the eventual release of capital but would remain exposed to significant tail risk. These outcomes are indicative rather than certain and could vary materially depending on the future experience of the fund, including the amount and timing of any distributable surplus. This distribution of outcomes creates material intergenerational fairness considerations and the potential for a tontine effect.
- 9.43 Therefore, I do not consider closure and run-off to necessarily produce a poorer outcome for every individual with-profits policyholder. However, having regard to the immediate reduction in solvency coverage, the likely suspension of surplus distributions, the inherent and material uncertainty associated with the projection as a whole, including the availability, timing and cost of outsourcing and the incidence of outcomes across policyholder cohorts, I do not consider it reasonably likely to provide a materially better overall outcome for the current with-profits policyholder population than the transfer.

Conclusion on credible alternatives

- 9.44 As part of my assessment of the terms of the transfer, I have considered whether the information and analysis provided by Scottish Friendly indicates that a materially higher Merger Allocation could reasonably be supported. Absent another source of value, any material increase in the Merger Allocation would require a reduction in the assets supporting the transferring non-profit business or some other contribution from OneFamily's existing resources.
- 9.45 I have not identified a credible alternative allocation that would materially improve the position of Scottish Friendly's with-profits policyholders without departing from appropriate capitalisation of the non-profit business or requiring a subsidy from another stakeholder group which would adversely affect the security or reasonable expectations of other policyholders.

Wider inherited-estate interests

- 9.46 I have considered the position both on the basis that Scottish Friendly's with-profits policyholders' relevant economic interests are substantially represented by future ProfitShare and on the basis of a potentially wider interest in the SFMF inherited estate.
- 9.47 Even under the latter basis, it does not follow that all assets within the SFMF are immediately distributable. Appropriate allowance must be made for the assets required to meet policyholder liabilities, provide capital support for the non-profit business, meet other legitimate costs and risks of operating the fund and otherwise comply with its obligations under its rules.
- 9.48 After allowing for those requirements and considering the complete transaction value, I have not identified additional material economic value attributable to Scottish Friendly's with-profits policyholders that is removed under the transfer without corresponding value or protection being provided.

Membership and winding-up rights

- 9.49 Under the transfer, Scottish Friendly's with-profits policyholders will cease to be members of Scottish Friendly and will instead become members of OneFamily. Their membership rights will therefore change rather than continue in identical form. I have considered separately the effect of this change on:
- voting and other governance rights; and
 - any entitlement to participate in residual surplus on a future winding-up or dissolution of Scottish Friendly.
- 9.50 Membership of Scottish Friendly gives policyholders a say in how the Society is run. Due to the delegate system, this is not a right to vote directly but rather a right to be represented by delegates who vote on members' behalf. These rights are important as a way for members to participate in and hold Scottish Friendly to account. However, they cannot be sold or exchanged for cash and they do not give each member a defined share of Scottish Friendly's assets. I therefore do not consider the loss of these rights to have a material financial value and note that, following the transfer, policyholders will be able to exercise similar rights as individual voting members of OneFamily.
- 9.51 If Scottish Friendly were wound up in the future, its members might be entitled to share in any money remaining after all policy benefits, amounts owed to creditors, winding-up expenses and other obligations had been met. This is not the same as having a current right to receive a share of the inherited estate. It is uncertain whether there would be any money left, how much it might be or when any payment might be made. An individual member cannot ask for this potential value to be paid or require Scottish Friendly to be wound up simply to release it. In addition, the run-off analysis indicates that maintaining Scottish Friendly solely to preserve the possibility of a future winding-up distribution would expose the estate to increasing expenses and reduced solvency coverage. Although some longer-duration policyholders could benefit disproportionately under particular run-off outcomes, closure and run-off would not be expected to produce a materially better overall outcome for the current with-profits policyholder population. I also note that, following the transfer, with-profits policyholders will retain similar rights, as they will have the same entitlement as other OneFamily members to participate in any residual surplus arising on a future winding-up or dissolution of OneFamily.

9.52 For these reasons, I do not consider that the changes to Scottish Friendly membership or to any potential payment on a future winding-up create a material financial loss for which an additional amount should be included in the Merger Allocation. The change in membership is nevertheless a significant non-financial change and should be explained clearly in the communications issued to affected policyholders.

Overall conclusions

9.53 Taking the matters above together, I am satisfied that:

- the Merger Allocation represents a fair actuarial valuation of expected future ProfitShare;
- the Merger Allocation provides valuable certainty in place of an uncertain stream of future distributions;
- the methodology used to allocate the Merger Allocation between relevant policies and policyholder groups is fair;
- the assets allocated to the OFNPF are consistent with the resources that would be required to transfer the non-profit business on arm's-length market terms;
- the transfer avoids a material loss in value that would be expected to arise on an independent sale;
- the benefits that Scottish Friendly's with-profits policyholders are likely to receive, including the Merger Allocation and the post-transfer protections applying to the SFAS sub-fund, are fair having regard to the nature and economic value of the rights and interests that are being replaced or changed;
- the transfer is expected to produce an outcome for Scottish Friendly's with-profits policyholders that is broadly comparable to, and potentially more favourable than, continuation on the existing basis and a materially more favourable overall outcome for the current with-profits policyholder population than closure and run-off;
- based on the credible alternatives identified by Scottish Friendly and independently assessed by me, I have not become aware of a credible alternative reasonably available to Scottish Friendly that would provide a materially better outcome for its with-profits policyholders without adversely affecting another group of policyholders or members; and
- viewed in the round, the terms of the transfer are fair to Scottish Friendly's with-profits policyholders.

9.54 These conclusions recognise that the legal form of certain rights and interests changes under the transfer. They do not depend upon concluding that those rights are legally identical before and after the transfer. My conclusion is that, viewed in actuarial and economic terms, the changes do not result in a material detriment to Scottish Friendly's with-profits policyholders and that the terms of the transfer are fair to them.

10. Impact of the transfer on OneFamily Existing Policyholders

- 10.1 In this section, I assess the likely effects of the transfer on OneFamily Existing Policyholders. Consistent with the approach set out in Section 7, I identify the principal positive and adverse effects, assess the nature and significance of those effects and consider the protections and mitigants that apply. Where I identify an adverse effect, I also assess whether it is material.
- 10.2 My assessment considers the following factors:
- Benefit expectations
 - Benefit security
 - Administration and service standards
 - Project costs
 - Governance and management
 - Ongoing projects
- 10.3 The principal mechanism by which OneFamily Existing Policyholders could be impacted is through changes to the financial position and risk profile of the relevant OneFamily funds, particularly the OFNPF, arising from the receipt of the transferring Scottish Friendly non-profit, unit-linked and ring-fenced business. I have therefore considered the effects on the benefit expectations and benefit security of OneFamily Existing Policyholders in particular detail.
- 10.4 I have also considered whether the transfer gives rise to any foreseeable harm or poorer outcomes for OneFamily Existing Policyholders when assessed in the context of the FCA's Consumer Duty.
- 10.5 A small number of Existing Policies were written in Ireland. I do not consider that the transfer gives rise to any distinct issues specific to this group, relative to the UK-based policies, and have therefore assessed them together as part of my overall analysis of the impact on Existing Policies.

Summary of identified effects

- 10.6 The following summarises the principal positive and adverse effects I have identified for OneFamily Existing Policyholders across the assessment factors considered in this section. The detailed analysis under the relevant headings below explains the nature and significance of each effect, the protections and mitigants that apply and, for each adverse effect, the basis for my conclusion as to whether it is material.
- The OFNPF solvency coverage ratio is expected to reduce from 185% to 172% following the transfer. This is an adverse effect on the reported solvency position supporting OneFamily Existing Policyholders. However, the OFNPF is expected to remain comfortably above the applicable 150% capital target, to retain only Tier 1 Own Funds and to remain resilient under the expense synergy and Volatility Adjustment sensitivities considered in paragraphs 10.23 to 10.25. I therefore do not consider this adverse effect to be material.
 - The enlarged OFNPF is expected to benefit from increased scale and diversification, the addition of Scottish Friendly surplus assets and anticipated expense efficiencies. These are positive effects for OneFamily Existing Policyholders and the transfer does not expose them to any material new categories of risk. Although the expense benefits are subject to execution risk, I consider the assumptions made to be reasonable. The OFNPF also remains above the applicable capital target under the expense synergy sensitivities considered in paragraphs 10.23 to 10.24.
 - The OFNPF will assume responsibility for providing capital support to the transferred ring-fenced sub-funds where this is required under the terms of the IoT. This creates an additional contingent

exposure for the OFNPF and is therefore an adverse effect. However, the relevant sub-funds are expected to be strongly capitalised, the circumstances in which support may be provided are subject to the restrictions and safeguards in the IoT, and the OFNPF is expected to remain comfortably capitalised following the transfer. I therefore do not consider this adverse effect to be material.

- The OFNPF will receive an explicit margin for servicing the SFAS sub-fund and assuming defined expense overrun risks under the long-term expense arrangement. As the margin represents fair compensation for those costs and risks, I consider the arrangement to be neutral for OFNPF policyholders.
- The transfer will not change the contractual benefits, guarantees, charges, policy terms or existing administration arrangements of OneFamily Existing Policyholders. Nor will it directly change their unit-linked fund options or the basis on which unit prices are calculated. These are neutral effects which provide continuity for Existing Policyholders.
- No immediate material change to the administration systems or service standards applicable to OneFamily Existing Policyholders is planned. This preserves the existing position and is a neutral feature. Future integration activity may create operational and execution risks, but any such changes will be subject to OneFamily's established change governance, risk management and Consumer Duty frameworks. I do not consider these potential risks to be materially adverse as a consequence of the transfer.
- OneFamily will continue to operate under its existing governance framework, with the addition of Scottish Friendly representation on the post-transfer Board and the proposed establishment of a Board Investment Committee. These arrangements provide continuity and may enhance the oversight of the enlarged business.

10.7 Taking these effects together, I consider that the balance of effects for OneFamily Existing Policyholders supports my overall conclusion that the transfer is in the interests of OneFamily's members. The reduction in the OFNPF solvency coverage ratio and the assumption of additional contingent capital support exposure are adverse effects, but neither is material in the context of the post-transfer capital position and the protections that apply. The transfer also provides positive effects through increased scale and diversification and anticipated expense efficiencies. The margin payable to the OFNPF for servicing the SFAS sub-fund provides fair compensation for the associated costs and risks and therefore has a neutral effect.

Benefit expectations

Terms and conditions

10.8 The transfer does not change the contractual terms and conditions of policies held by existing OneFamily policyholders. Benefits, guarantees, and policy features remain unchanged as a result of the transfer. Existing Policies will continue to be administered in accordance with their existing terms and OneFamily's established administration practices. I therefore do not expect the transfer to have a material adverse effect on the benefit expectations of OneFamily Existing Policyholders in respect of contractual benefits.

Charges and expenses

10.9 I have considered whether the transfer could adversely affect OneFamily Existing Policyholders through changes to the level or allocation of expenses within OneFamily. The combined business plan assumes that operational efficiencies will be achieved following the transfer. To the extent these efficiencies are realised, they are supportive of benefit expectations for OneFamily Existing Policyholders, as they improve the sustainability of the cost base.

10.10 I also note that the post-transfer operating model includes a servicing arrangement under which the new Scottish Friendly with-profits fund pays an Operational Service Charge to the OFNPF, including an explicit margin, in return for the OFNPF bearing certain expense overrun risks (see paragraph 5.30). This arrangement is not expected to disadvantage OneFamily Existing Policyholders; rather, it provides compensation to the OFNPF for taking on servicing risk and therefore supports the fair treatment of

OneFamily Existing Policyholders. I am satisfied that the margin of 5% applied is consistent with arm's-length market terms.

- 10.11 Overall, I do not expect the transfer to materially adversely affect benefit expectations for OneFamily Existing Policyholders in respect of charges and expenses.

Unit-linked arrangements

- 10.12 Where OneFamily Existing Policyholders hold unit-linked policies, the transfer does not directly change their unit-linked fund options or the basis on which their unit prices are calculated. OneFamily's existing governance framework for operating unit-linked funds (including principles for fund changes and error rectification) will continue to apply. I therefore do not consider that the transfer creates a material adverse effect on the unit-linked benefit expectations of OneFamily Existing Policyholders.

Discretion

- 10.13 For any OneFamily Existing Policies where OneFamily exercises discretion (for example, within contractual limits), the transfer does not introduce new discretions or remove existing protections. Any discretion will continue to be exercised within OneFamily's governance framework and regulatory obligations. I do not therefore expect a material adverse effect on benefit expectations arising from discretion.

Conclusion

- 10.14 Taking the above into account, I am satisfied that the transfer is not expected to have a material adverse effect on the benefit expectations of OneFamily Existing Policyholders. The transfer does not change their contractual benefits, charges or existing protections, while the anticipated expense efficiencies and the margin payable to the OFNPF for servicing the SFAS sub-fund provide potential positive effects.

Benefit security

Solvency position

- 10.15 The key benefit security consideration for OneFamily Existing Policyholders is the solvency position of the relevant fund, in particular the OFNPF. I have considered the pre and post-transfer Own Funds, SCR and solvency coverage ratio as set out in Figure 34 below.

Figure 34: OFNPF pre- and post-transfer solvency position as at 31 December 2025

	Pre-transfer (OFNPF)	Post-transfer (OFNPF)	Impact
Own Funds (£m)	214.7	369.4	154.7
SCR (£m)	115.8	214.6	98.8
Solvency Coverage Ratio	185%	172%	(13pp)

Source: Scottish Friendly and OneFamily

- 10.16 Post-transfer, the OFNPF remains materially above OneFamily's stated capital target of 150%, notwithstanding that the solvency coverage ratio reduces relative to the pre-transfer position due to the increase in capital requirements as the OFNPF absorbs the transferring SFMF non-profit business.
- 10.17 The £154.7m increase in Own Funds primarily reflects the addition of the SFMF surplus assets (c. £142m) and allowance for expected maintenance expense synergies (c. £61.7m), partly offset by the Merger Allocation (£35m), transaction costs (£17m) and addition of incremental Risk Margin (c. £3m). Additionally, there are smaller benefits from the rate-card profit loading (c. £2m) and the assumed application of the OFNPF's Volatility Adjustment to the transferring business (c. £4m).
- 10.18 The £98.8m increase in SCR arises because the OFNPF becomes materially larger and assumes the capital requirements associated with the transferred non-profit and unit-linked business. The increase reflects additional market and insurance risk capital associated with the enlarged balance sheet, together with the combined entity's aggregation and diversification effects.
- 10.19 Overall, while the coverage ratio reduces, the OFNPF remains comfortably capitalised and I consider the post-transfer solvency position to be supportive of OneFamily Existing Policyholders' benefit security. I also

note that the increase in Own Funds, particularly that arising from merger synergies, provides additional resources to the combined entity to support the broader business for the benefit of members.

Risk profile

- 10.20 The transfer also results in a change to the risk profile of the OFNPF. A comparison of SCR risk composition before and after the transfer is shown in Figure 35 below.

Figure 35: OFNPF SCR breakdown pre- and post-transfer as at 31 December 2025

	Pre-transfer OFNPF	Post-transfer OFNPF	Change
Market risk	74.3	122.0	47.7
Life underwriting risk	62.7	131.8	69.1
Health underwriting risk	2.2	2.9	0.7
Counterparty default risk	3.6	13.3	9.7
Diversification	(32.3)	(63.7)	(31.4)
Basic SCR	110.4	206.3	95.9
Operational risk	5.4	13.7	8.3
LACDT	-	(5.3)	(5.3)
LACTP	-	-	-
SCR	115.8	214.6	98.8

Source: OneFamily

- 10.21 The transfer results in a change to the risk profile of the OFNPF because it becomes materially larger and absorbs the risks associated with the transferring SFMF non-profit business. In broad terms, the post-transfer SCR includes increased market risk and life underwriting risk in absolute terms (relating mainly to lapses and expenses) consistent with the enlarged scale of the fund, with diversification effects also changing as the combined portfolio is assessed on a consolidated basis. There is a modest decrease in market risk on a relative basis and a corresponding increase in life underwriting risk but the overall risk profile is materially unchanged.
- 10.22 I do not consider the resulting risk profile to be inappropriate for the enlarged OFNPF, and I note that OneFamily will continue to manage these risks within its established risk management and investment governance frameworks.

Dependency on expense synergies

- 10.23 I have also considered the extent to which the post-transfer solvency position depends on the realisation of expense synergies. Sensitivity analysis (see paragraph 8.96) indicates that even if only a proportion of the assumed expense synergies were achieved, the OFNPF would continue to maintain a comfortable solvency coverage ratio above OneFamily's target and regulatory minimum requirements.
- 10.24 These sensitivities provide additional comfort that the benefit security of OneFamily Existing Policyholders is robust to reasonably foreseeable adverse outcomes.

Dependency on Volatility Adjustment approval

- 10.25 Following the transfer, OneFamily intends to apply the Volatility Adjustment to certain Transferring Policies, which is expected to reduce BEL in the OFNPF by around £4m. While no issues are anticipated in obtaining approval, any delay or non-approval would not materially affect benefit security. In such a scenario, the OFNPF solvency coverage ratio would decrease slightly from 172% to 170%, remaining comfortably capitalised, including in the context of OneFamily's 150% capital target.

WP2 Fund

- 10.26 The transfer does not affect the WP2 fund directly. The fund remains comfortably capitalised following the transfer as shown in Figure 36 below.

Figure 36: WP2 fund pre- and post-transfer solvency position as at 31 December 2025

Pre- and post-transfer	
Own Funds (£m)	4.2
SCR (£m)	0.4
Solvency Coverage Ratio	959%

Source: OneFamily

- 10.27 In the event that capital support was required, the WP2 fund would rely on the OFNPF. I consider the likelihood of the WP2 fund requiring this support to be low given its level of capitalisation. I also note that the OFNPF remains well above the target solvency coverage ratio following the transfer.
- 10.28 I am therefore satisfied that there is no material adverse effect on the benefit security of WP2 fund policyholders as a result of the transfer.

Entity-level solvency

- 10.29 The overall entity-level solvency of OneFamily following the transfer is summarised in Figure 37 below.

Figure 37: OneFamily entity-level solvency position post-transfer as at 31 December 2025

£m	OFNPF	SFAS	M&GM	Manulife	SLL	WP2	Entity
Own Funds after RFR	369.4	18.3	82.8	-	10.1	4.2	384.6
SCR	214.6	11.0	2.9	-	0.9	0.4	229.8
Solvency Coverage Ratio	172%	166%	2,895%	n/a	1,130%	959%	167%

Source: Scottish Friendly and OneFamily

- 10.30 The entity-level solvency coverage ratio following transfer is expected to be 167%, in excess of OneFamily's entity-level target of 150%. This further supports the view that there is not expected to be a material adverse effect on the benefit security of OneFamily Existing Policyholders as a result of the transfer.

Quality of capital

- 10.31 The quality of Own Funds held is also relevant to the security of policyholder benefits. As at 31 December 2025, all Scottish Friendly and OneFamily Own Funds were categorised as Tier 1, the highest quality. The parties have advised that following the transfer, the combined Own Funds within OneFamily would continue to be categorised fully as Tier 1. I am therefore satisfied that the transfer should not have a material adverse effect on the quality of capital.

Liquidity

- 10.32 My assessment of liquidity impacts on Scottish Friendly Transferring Policyholders is set out at paragraph 8.113. The same assessment and conclusion apply to OneFamily Existing Policyholders and are not repeated here.

Conclusion

- 10.33 Taking all factors into account, I am satisfied that the transfer is not expected to have a material adverse effect on the security of benefits for OneFamily Existing Policyholders. Although the OFNPF solvency coverage ratio reduces and the fund assumes additional contingent exposures, it remains comfortably capitalised and resilient under the sensitivities considered. The increased scale, diversification and Own Funds of the enlarged OFNPF provide positive effects for financial resilience.

Administration and service standards

- 10.34 The parties have confirmed that, in the short to medium term, no changes are intended to the SLAs currently in place for key administration activities. I have considered whether the transfer could adversely affect service standards through disruption or operational change. Based on the information provided, and noting that any future changes would be subject to appropriate change governance and operational controls, I do

not expect the transfer to have a material adverse effect on administration and service standards for OneFamily Existing Policyholders.

Project costs

- 10.35 The parties have outlined the implementation costs including regulatory, professional and internal project costs and the proposed allocation of these between the parties. I have assessed these and consider them to be reasonable in scale and fairly allocated between the parties. I am therefore satisfied that there is no material adverse effect on OneFamily Existing Policyholders in relation to project costs.

Governance and management

- 10.36 OneFamily will continue to operate with its established governance arrangements following the transfer, including Board committees and the key Solvency UK governance functions (Internal Audit, Risk Management, Compliance and the Actuarial Function). I have considered whether the transfer could strain governance capacity. Based on the information provided, I consider that OneFamily's governance and control framework is appropriate for the enlarged group, noting also that OneFamily intends to introduce a Board Investment Committee. In addition, the post-transfer Board of OneFamily will include substantial Scottish Friendly representation which is expected to help ensure that business management aspects specific to Scottish Friendly continue to benefit from informed oversight.
- 10.37 In addition, existing policyholders of OneFamily will retain their current membership and voting rights following the transfer.
- 10.38 Noting my comments above, I am therefore satisfied that governance and management will not give rise to a material adverse risk for existing policyholders, and that policyholders may benefit from the additional oversight provided by the introduction of the Investment Committee.

Ongoing projects

- 10.39 I have considered OneFamily's ongoing project portfolio, including the nature and status of its more material programmes, and how the proposed transfer may affect their delivery.
- 10.40 Based on the information reviewed, the more material programmes include:
- Cloud IT migration.
 - Actuarial function insourcing.
 - Developments to the protection business proposition.
- 10.41 In considering the impact of the transfer on these projects, I note that:
- OneFamily has reassessed each project as part of its preparations for the transfer and concluded that it has sufficient capacity to continue delivery;
 - there are no changes to the project portfolio as a result of the transfer; and
 - these programmes sit within OneFamily's established operational and governance framework, supported by appropriate oversight and remediation processes.
- 10.42 I have also considered whether the transfer could increase execution risk, for example through additional operational complexity or competing resource demands. Based on the available evidence, I have not identified any material projects for which delivery risk is expected to increase materially as a direct consequence of the transfer.
- 10.43 These activities are primarily focused on maintaining or improving service standards and customer outcomes. I have not identified any projects that involve changes to contractual policy terms or charges. While operational challenges or delays may arise in practice, any impacts are likely to be temporary and limited to service levels.
- 10.44 Taking these factors into account, I am satisfied that ongoing project activity within OneFamily is not expected to give rise to any material adverse effect on Existing Policyholders.

Consumer Duty

- 10.45 In assessing the impact of the transfer on OneFamily Existing Policyholders, I have considered whether the integration of the transferring business could adversely affect OneFamily's ability to deliver good customer outcomes in accordance with the Consumer Duty.
- 10.46 OneFamily currently demonstrates a well-embedded Consumer Duty framework, with comprehensive governance, oversight and management information supporting the delivery of fair value and good outcomes across its business. The addition of the Scottish Friendly Transferring Policies is not expected to materially alter the nature or scale of OneFamily's operations in a way that would compromise this framework.
- 10.47 While the integration process may involve operational changes, system migrations and the alignment of policies and processes, these activities are subject to established governance and risk management frameworks, including oversight of customer outcomes and the identification and mitigation of potential harm. The experience of both firms in managing closed books and undertaking transformation activity provides further comfort that such changes can be implemented without detriment to customers. I note that any changes made as a result of the integration process will be intended to maintain or improve customer outcomes.
- 10.48 There is also no indication that the transfer would dilute the quality of service, value or support provided to Existing Policyholders.
- 10.49 In summary, I do not consider that the transfer is likely to give rise to any foreseeable harm or poorer outcomes for OneFamily Existing Policyholders when assessed against the requirements of the Consumer Duty, and in fact policyholders may see improved outcomes.

11. Other stakeholders

- 11.1 I have considered the impact of the transfer on other stakeholders including members who are not long-term policyholders, non-members, reinsurers and members of staff pension schemes. My considerations and conclusions for these groups are set out below.

Members who are not long-term policyholders

- 11.2 Consistent with section 88 of the FS Act, my report has focused on the likely effects of the transfer on members who are long-term policyholders. However, the statutory test for confirmation applies to the interests of members more broadly.
- 11.3 OneFamily includes members whose relationship with the society arises other than through long-term insurance policies (such as ISAs and Child Trust Funds) originally written through subsidiary entities, but which confer membership under the applicable rules.
- 11.4 I have considered whether the transfer could have any material adverse effect on these members, including through changes to group structure or financial strength. Their policy terms and benefits will be unaffected by the transfer and will remain within the OFNPF. The OFNPF is expected to remain comfortably capitalised following the transfer. On that basis, I do not consider that the transfer will have a material adverse effect on these members.

Non-members

- 11.5 Not all policyholders of Scottish Friendly and OneFamily are members, in particular where products are issued by subsidiary entities or otherwise do not confer membership rights under each firm's applicable rules.
- 11.6 Within Scottish Friendly, this includes certain ISA and Child Trust Fund policyholders whose products are written through the Scottish Friendly Asset Managers Ltd (SFAM) subsidiary. Following the transfer, SFAM will become a subsidiary of the OFNPF. There will be no changes to policy terms or benefits, and the existing contingent parental support will continue, with OFNPF replacing Scottish Friendly as the provider of that support. OFNPF is expected to have sufficient capital following the merger to provide such support if required.
- 11.7 Similarly, within OneFamily, certain policyholders of OFNPF do not qualify as members, as their products do not confer membership rights under the applicable rules. These policies will remain within OFNPF following the transfer, with no change to policy terms or benefits. OFNPF is expected to remain comfortably capitalised following the transfer.
- 11.8 Taking the above into account, I do not consider that the transfer will have a material adverse effect on these non-member policyholders.

Reinsurers

- 11.9 Reinsurance arrangements will transfer with no change to their terms or effectiveness.
- 11.10 Additionally, as the reinsurance treaties are combined within one entity, there is a potential risk that reinsurer counterparty concentration limits may be breached within OneFamily. Analysis has been performed by the OneFamily Chief Actuary which shows that the concentration limits are not breached post transfer, assuming all reinsurance treaties are novated.
- 11.11 Overall, I am satisfied that there is no material adverse effect on reinsurer counterparties.

Staff pension schemes

- 11.12 As noted in paragraph 3.45, Scottish Friendly sponsors a defined benefit pension scheme, the MGM Assurance Staff Pension Plan. The scheme is currently progressing a buy-out arrangement and subsequent wind-up. This is expected to complete before the Effective Date, failing which, under the IoT, the pension

scheme will transfer to OneFamily and remain a liability of the M&GM sub-fund. This sub-fund is expected to be strongly capitalised following transfer (as set out at paragraph 8.104) and so no material adverse impact on scheme members is expected.

Overall conclusions

11.13 I am therefore satisfied that there is not expected to be a material adverse effect on other stakeholders.

12. Policyholder communications

12.1 Scottish Friendly and OneFamily have set out their proposed approach to notifying policyholders of the transfer. In this section, I summarise the regulatory requirements relating to policyholder communications under a transfer of engagements, together with the proposed approach and my assessment of that approach.

Regulatory context

12.2 The proposed transfer is governed by the Friendly Societies Act 1992 (“FS Act”), which requires that a transfer of engagements is approved by special resolution and confirmed by the PRA, following consultation with the FCA. A special resolution requires at least 75% of votes cast to be in favour.

12.3 Prior to such approval, the FS Act requires that voting members are provided with a Schedule 15 statement. This is intended to provide sufficient information to enable members to consider the proposed transfer and determine how to vote.

12.4 The Schedule 15 statement includes:

- details of the transfer;
- a summary of the respective financial positions of the parties;
- the expected effects on policyholders;
- a summary of the Independent Actuary’s report;
- details of how to request a copy of the full Independent Actuary’s report; and
- dates by which representations should be made.

12.5 The Schedule 15 statement must be approved by the PRA before it is issued to members.

Voting arrangements and communication approach

12.6 Consistent with the regulatory requirements, Scottish Friendly and OneFamily have jointly developed a communication plan setting out how they will inform their respective memberships.

12.7 The parties’ different governance structures have influenced their approaches:

- **OneFamily:** Members will vote directly at a Special General Meeting (“SGM”) scheduled to take place on 18 November 2026. Approval requires at least 75% of those voting to be in favour. Communications are designed to inform and support direct member voting.
- **Scottish Friendly:** Operates a delegate model under which members are represented by delegates (currently 25 in total) who will vote at an SGM scheduled to take place on 20 November 2026. Approval requires at least 75% of delegates voting to be in favour. Communications are designed to inform members and provide mechanisms for their views to be captured and represented, including via website functionality enabling members to submit representations to delegates.

12.8 The communications strategy is designed to ensure that members understand the proposed transfer, are able to engage with the process and (where applicable) participate in the vote, while enabling Scottish Friendly delegates to effectively represent members’ views.

12.9 I consider this differentiated approach to be appropriate given the differing governance structures.

Structure and content of the communications

12.10 Both parties have developed a range of communication materials to be issued ahead of their respective SGMs. These include Annual General Meeting (“AGM”) communications, press notices, direct mailings, supporting website content and dedicated telephone support. The approach is designed to maximise reach,

accessibility and engagement across the membership. Further detail on each of these aspects is set out below.

AGM communications

- 12.11 Both parties have undertaken awareness-raising activities at their respective AGMs (Scottish Friendly in April 2026 and OneFamily in June 2026), at which members and delegates were provided with an overview of the proposed transfer, its rationale and expected benefits.

Press advertising

- 12.12 Legal notice of the SGMs will be published in national newspapers, informing interested parties of their right to make representations in relation to the proposed transfer.

Mailings

- 12.13 OneFamily will issue a comprehensive mailing pack to members, including:
- a covering letter;
 - information on the transfer;
 - notice of the SGM and voting arrangements;
 - a proxy voting form;
 - a Q&A document; and
 - the Schedule 15 statement.
- 12.14 OneFamily has approximately 1.2 million members, of whom around 0.9 million are aged 18 or over and are therefore eligible to vote under the Society's rules. The default communication method will be email, where a valid email address is held and the member has consented to being communicated with in this way. Otherwise, the pack will be issued by post.
- 12.15 Scottish Friendly will issue two forms of communication:
- **Delegates:** comprehensive mailing packs consistent with those issued by OneFamily; and
 - **Non-voting members:** summary letters directing members to further information via an online information hub and providing mechanisms for queries and feedback. Any feedback received will be shared with delegates in advance of the SGM.
- 12.16 The letters to non-voting members vary by cohort, reflecting both regulatory requirements and proportionality principles:
- With-profits policyholders across the SFMF and SF RFFs will receive a specialist letter and supporting information, reflecting the more significant impact of the transaction on them relative to other cohorts. The communication will include details of proposed PPFM changes. It will also, consistent with the communications plan contemplated by the proposed modification to COBS 20.1.2R, set out: (a) the impact of the transfer on transferring with-profits policies; (b) an explanation of any benefits they are likely to receive and any rights and interests that they are likely to be asked to give up pursuant to the transfer; and (c) my views and the views of Scottish Friendly's With-Profits Actuary on the benefits relevant policyholders are likely to receive and any rights and interests that they are likely to be asked to give up.
 - Tailored communications will be shared with ex-FIL Life policyholders, referencing the acquisition, Part VII process and recent associated communications. A specific delegate will be assigned to represent the interests of these members at the SGM.
 - Non-profit policyholders, whose policy terms and benefits are unchanged as a result of the transfer and are therefore not directly impacted by the transfer, will receive a summary letter, included as an insert within existing scheduled mailings.

- For customers where Scottish Friendly does not hold the primary relationship, e.g. policies administered by third parties, communications will be delivered indirectly via partners.

- 12.17 Industrial Branch policies will not receive direct communications. These are legacy policies sold many years ago via door-to-door sales agents, for which no reliable name and address data is held.
- 12.18 I consider the overall mailing approach to be appropriate and proportionate. I consider the position of policyholder cohorts not directly contacted further below.

Gone-aways

- 12.19 Both parties operate established frameworks for identifying and managing gone-away policyholders, aligned with FCA expectations and relevant industry guidance. These frameworks incorporate preventative measures to maintain accurate contact details and structured processes for identifying and addressing uncontactable policyholders.
- 12.20 OneFamily adopts a proportionate approach involving attempts to re-establish contact using alternative communication channels (such as telephone, email, SMS and digital customer portals) where existing contact details are held, and, where these are unsuccessful, targeted third-party tracing. Approximately 8% of its customer base is classified as gone-away.
- 12.21 Scottish Friendly operates a comparable framework, including formal governance, defined trigger events (such as returned mail) and structured tracing processes supported by internal data matching and external providers. This includes a staged approach to tracing and reconnection, supported by enhanced tracing techniques using multiple data sources, including electoral register, mortality screening and credit reference data. Approximately 5% of its customer base is classified as gone-away.
- 12.22 In addition to these business-as-usual approaches, both firms have undertaken further targeted tracing activity in advance of the proposed transfer and related communications. This includes enhanced tracing of gone-away customers eligible to engage in the transfer process, using both internal data matching and external tracing providers, with the aim of maximising customer contactability and engagement. As a result of this additional activity, the firms identified potential new addresses for approximately 13,000 policyholders and have progressed attempts to re-establish contact with those policyholders.
- 12.23 I consider the approach taken by both firms to be proportionate and consistent with industry practice. In particular, the combination of established frameworks and additional targeted tracing activity supports the objective of maximising member awareness and engagement in the transfer process.

Websites and supporting materials

- 12.24 Both parties will maintain dedicated webpages providing information on the transfer, including detailed Q&A content and supporting materials. This report will be made available on both websites, with printed copies available free of charge on request.
- 12.25 Draft communications have been subject to customer testing, with outputs used to refine the materials ahead of issue in line with Consumer Duty expectations.
- 12.26 I have reviewed draft versions of the mailing materials and website content. These contain the information I would typically expect to be provided in connection with a transfer of this nature, and the language used is appropriate for the intended audience. In particular, the communications distinguish clearly between aspects of the proposal that will change and those that will remain unchanged, including confirmation that policy benefits will not be affected.
- 12.27 Overall, I consider the materials to be appropriate, proportionate and sufficient to enable members and their representatives to take an informed view of the proposed transfer.

Telephone support

- 12.28 Both parties will provide dedicated telephone support channels to respond to customer enquiries arising from the proposed transfer, supported by specialist customer service teams.

- 12.29 These teams are supported by additional resources to meet expected demand and training on merger-related matters, escalation processes and complaint handling, supported by scripts and Q&A materials to promote consistency and accuracy.
- 12.30 Monitoring will be in place to track call volumes and service levels, with feedback analysed for common themes and escalation processes in place to enable prompt action where required.
- 12.31 Overall, in my view the proposed approach is consistent with industry practice and should support appropriate customer outcomes.

Vulnerable customers

- 12.32 The approach to communications has been aligned with FCA guidance and Consumer Duty requirements, including the use of clear language, multiple communication channels and the availability of alternative formats such as large print, audio and alternative languages.
- 12.33 Processes are in place to identify and support vulnerable customers, including staff training, escalation routes and consistent handling approaches across communication channels.
- 12.34 I am satisfied that appropriate steps have been taken to support vulnerable customers.

Policyholder queries and monitoring

- 12.35 In summary, members will be able to submit queries via online channels, email and telephone. Feedback provided by Scottish Friendly members will also be shared with their delegate representatives.
- 12.36 Communications and customer responses will be monitored and shared with the PRA, the FCA and myself. In respect of the Jersey Scheme, they will also be shared with the Jersey Financial Services Commission and the Royal Court of Jersey. In respect of the Guernsey Scheme, they will also be shared with the Guernsey Financial Services Commission and the Royal Court of Guernsey. I will review the feedback and report on any material themes in a Supplementary Report where appropriate.
- 12.37 I consider the overall approach to customer support and operational readiness to be appropriate and consistent with industry practice.

Policyholders not being contacted

- 12.38 Scottish Friendly does not intend to directly contact:
- holders of policies administered by third parties; and
 - holders of Industrial Branch policies.
- 12.39 A proportion of policyholders of both parties may also not be contactable due to outdated contact details and where tracing undertaken on such policies has not been successful.

Third party administered policies

- 12.40 For policies administered by third parties, those parties are responsible for customer communications. Scottish Friendly will support these parties as appropriate.
- 12.41 I consider this approach to be reasonable given Scottish Friendly does not hold the primary customer relationship.

Industrial Branch policies

- 12.42 Scottish Friendly does not intend to make direct notification of the proposed transfer to the holders of "Industrial Branch" policies. These are historical policies which were sold by door-to-door sales agents many years ago, and as a result Scottish Friendly does not hold reliable name or address details for these policyholders.
- 12.43 The vast majority of these policyholders would be aged over 100 (if they are still alive). Scottish Friendly therefore considers it an inefficient use of policyholder funds to attempt to carry out tracing on the holders of these policies, noting also that the quality of data available would not be supportive of such activity.

- 12.44 As at 31 December 2025, there were c.267,000 Industrial Branch policies. It is likely that any attempts to trace these customers would come at significant cost with a small associated likelihood of success.
- 12.45 I therefore agree that Scottish Friendly's approach to not attempt to trace these policyholders is reasonable. I also note that notification of the transfer will be publicised in the press and on the parties' websites. While such methods may have limited reach in practice for this particular cohort, they represent a proportionate and practical approach under the circumstances.

The Jersey and Guernsey Schemes

- 12.46 Different requirements apply to the Jersey and Guernsey Schemes. In respect of these Schemes, a cover letter and information pack will be sent to Scottish Friendly policyholders only with current addresses in Jersey and Guernsey, which include:
- details of the Schemes and the relevant Court hearings;
 - how to object in Jersey and Guernsey;
 - a summary of the Schemes;
 - a summary of the Independent Actuary's report; and
 - details of how to request copies of full documents.

- 12.47 It is not intended that communications relating specifically to the Jersey and Guernsey Schemes will be issued to OneFamily members. However, the OneFamily mailing pack will include a brief reference to the Schemes.

Conclusion

- 12.48 I am satisfied that the communication approach appropriately reflects differences in impact across policyholder groups, with more detailed communications provided where the effects are more significant and proportionate communications elsewhere.
- 12.49 I am satisfied that voting members and delegates will receive sufficient information to make an informed decision, and that Scottish Friendly members are provided with a reasonable opportunity to be informed and to have their views represented.
- 12.50 I do not consider that the proposed communication approach gives rise to any material risk of members being unable to understand the proposal or exercise their voting or representation rights.
- 12.51 Overall, I consider the communication approach to be appropriate and consistent with the requirements of the FS Act and established industry practice.
- 12.52 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 is appropriate for policyholders.
- 12.53 Overall, I am satisfied that the proposed communications are consistent with the requirements of the Consumer Duty and are unlikely to result in any foreseeable harm arising from poor understanding or lack of appropriate customer support.

13. Conclusions

- 13.1 Based on the considerations set out in the preceding sections of this report, in my opinion the proposed transfer of long-term insurance business from Scottish Friendly to OneFamily is expected to be in the interests of the members of both societies.
- 13.2 In reaching this conclusion, I have considered the full range of likely effects of the transfer, including its positive and adverse effects. I have considered the nature and significance of those effects, the protections and mitigants that apply, and their implications for the interests of each relevant group of members.
- 13.3 In particular, I have considered:
- the assessment approach described in Section 7, including the identification of relevant positive and adverse effects and the assessment of whether any adverse effects are material;
 - the likely effects of the proposed transfer on the benefit expectations, benefit security, administration and servicing standards, and governance and management of Scottish Friendly Transferring Policyholders, as set out in Section 8;
 - the likely effects of the proposed transfer on the benefit expectations, benefit security, administration and servicing standards, and governance and management of OneFamily Existing Policyholders, as set out in Section 10; and
 - the likely effects of the proposed transfer on other key stakeholders, including members who are not long-term policyholders, as set out in Section 11.
- 13.4 I have also considered the fairness of the transfer specifically from the perspective of Scottish Friendly's with-profits policyholders, including by reference to the proposed allocation of assets and the credible alternatives reasonably available to Scottish Friendly. I have also considered the benefits those policyholders are likely to receive and any rights and interests they are likely to be asked to give up pursuant to the transfer. Having regard to those matters, I am satisfied that the proposed allocation of assets is fair, that I have not identified a credible alternative reasonably available to Scottish Friendly that would be expected to provide a materially better overall outcome for those policyholders, and that the proposed transfer is fair from their perspective, as set out in Section 9.
- 13.5 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 as relevant to member communications, as set out in Section 12. 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.
- 13.6 I also conclude that the transfer is not expected to give rise to foreseeable harm or poorer outcomes for policyholders when assessed in the context of the FCA's Consumer Duty.
- 13.7 Prior to regulatory confirmation, I will prepare a Supplementary Report, if required, reflecting any developments affecting the proposed transfer and whether these affect my conclusions. This will include:
- an up-to-date assessment of the financial positions of the affected funds;
 - any feedback received on the transfer proposals from policyholders; and
 - the outcome of Scottish Friendly's application for a modification of COBS 20.1.2R, including any implications for my assessment and conclusions if the modification is not approved or is approved in a materially different form from that proposed.

A handwritten signature in dark ink, appearing to read 'N Ford'.

Nick Ford FIA

Independent Actuary

For and on behalf of Barnett Waddingham LLP, part of Howden

September 2026

Appendix A Abbreviations

Abbreviation	Definition
AGM	Annual General Meeting
AI	Artificial Intelligence
AMC	Annual Management Charge
BAU	Business as usual
BEL	Best estimate liabilities
BLAGAB	Basic Life Assurance and General Annuity Business
CI	Critical illness
COBS	Conduct of Business Sourcebook
CPI	Consumer Prices Index
CWP	Conventional with-profits
DB	Defined benefit
FCA	Financial Conduct Authority
FIA	Flexible Income Annuity
FIL Life	FIL Life Insurance Limited
FS Act	Friendly Societies Act 1992
IFoA	Institute and Faculty of Actuaries
IoT	Instrument of Transfer
ISA	Individual Savings Account
LACTP	Loss-absorbing capacity of technical provisions
LANMAS	London Aberdeen & Northern Mutual Assurance Society
M&GM	Marine & General Mutual Life Assurance Society
OFNPF	OneFamily non-profit fund
OneFamily	Family Assurance Friendly Society Limited
ORSA	Own Risk and Solvency Assessment
OSC	Operational Service Charge
PLC	Public Limited Company
PPFM	Principles and practices of financial management
PRA	Prudential Regulation Authority
Scottish Friendly	Scottish Friendly Assurance Society Limited
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SFMM	Scottish Friendly Main Fund
SLA	Service Level Agreement
SLL	Scottish Legal Life Assurance Society Limited
TESP	Tax-exempt savings plan
ULFPP	Unit Linked Funds Principles and Practices
UWP	Unitised with-profits
VA	Volatility Adjustment
VIF	Value of in-force business
WPA	With-profits Actuary
WPC	With-profits Committee
WPF	With-profits Fund

Appendix B Glossary

Term	Definition
Annuity	A contract of insurance under which an insurer pays a regular income, usually until the death of the insured.
Asset share	This is a term applicable to with-profits business, and in its simplest form, represents the share of an insurer's assets that are attributable to a policy which is used to determine the payouts allocated to that policy. Each insurer has its own methodology for calculating the asset share, which will generally be outlined in its PPFM. The calculation is generally formulaic in nature, taking into account premiums paid, investment returns earned on these premiums, benefits paid, as well as other allocations such as expenses, taxation, and cost of capital.
Basic SCR	Under Solvency UK, the component of the Solvency Capital Requirement that reflects the aggregated capital requirements for the core risk modules (including market, life, health and counterparty default risk), allowing for diversification between them, but before the addition of operational risk and before adjustments for the loss-absorbing capacity of technical provisions (LACTP) and deferred taxes (LACDT).
Best Estimate Liabilities	In Solvency UK, the best-estimate valuation of liabilities refers to the discounted value (i.e. in today's terms) of expected future obligations that an insurer expects to have to pay. The cash flows underlying the valuation are "best-estimate" in the sense of being "expected". They may therefore be considered to be neither pessimistic nor optimistic.
BLAGAB	In the context of taxation, this refers to a method of taxation applied to certain types of long-term insurance business. This business is "Basic Life Assurance and General Annuity Business" (which gives rise to the term BLAGAB), and it is taxed on an 'I minus E' basis where 'I' denotes investment income (including chargeable gains) and 'E' denotes expenses. Eligibility for this form of taxation depends on the nature of the insurance contracts, the details of which can be found in UK tax legislation.
Bonus	In the context of a with-profits policy, this is an addition to the policy's value, which may be declared throughout a policy's term, as a regular bonus, or at the point of claim, as a final bonus. Once declared, regular bonuses become part of the policy's guaranteed benefits.
Collateralised securities	Securities (including bonds, shares or options) which are secured against assets.
Collective investment schemes	Funds managed by professional managers which invest in a range of underlying assets. Individual investors buy (or are allocated) shares (or units) in the fund, with their money being pooled together with that of other investors and spread over all the assets held in the fund.
Collective investment undertakings	See definition of collective investment schemes above.
Conventional with-profits	A conventional with-profits policy has a guaranteed cash benefit (or sum assured) which is payable to the policyholder on a fixed date or event (e.g. death). This guaranteed cash benefit may be increased by the addition of bonuses.
Critical illness	A form of, or benefit on a, life insurance product that usually pays a lump sum amount to the policyholder upon diagnosis of certain (and usually serious) illnesses, disabilities, or diseases. The illnesses, disabilities and diseases covered will be set out in policy terms and conditions.
Deferred tax liability	Items on a company's balance sheet that record tax owed but not due to be paid until a future date.
Defined benefit	In the context of an employer-sponsored pension plan, this refers to the situation where benefits are calculated using a formula considering length of service, accrual rate and salary history. The employer is responsible for investment and the risks of the plan.
Defined contribution	In the context of an occupational pension scheme, this refers to the situation where employee and employer contributions are invested into a "money purchase" pot, the proceeds from which can be used to buy a pension or other benefits at retirement. The employee bears all of the risks associated with the arrangement.
Diversification	The reduction in risk (and therefore capital requirements) that results from an expectation that adverse outcomes from one risk can be offset by more favourable outcomes from others. This arises from not all risks being expected to occur (or to occur at the same degree of severity) at the same time.
Effective Date	The date on which the transfer will take effect, which is expected to be 28 February 2027, but may change.
Excess own funds	An insurer's own funds less its SCR.
Existing Policies	Policies insured by OneFamily that were already written by (or transferred to) OneFamily prior to the Effective Date.

Term	Definition
Income protection	An insurance policy that provides the policyholder with a regular income if they become unable to work due to illness or injury. The conditions for the commencement of payments will be defined in the policy terms and conditions, but broadly cover scenarios where the individual is no longer able to carry out the responsibilities of defined types of employment due to illness or injury.
Index-linked	Policies under which the benefits are wholly or partly determined by reference to the value of or fluctuations in an index.
Inherited estate	The assets of a with-profits fund in excess of the amounts required to meet its liabilities to policyholders and other obligations. The inherited estate has generally accumulated over time from past business and is available to support the fund, including by providing capital, meeting risks and costs, supporting new business and, where appropriate, making distributions to policyholders.
Initial Policy Uplift	The proportion of the Merger Allocation (see definition below) applied to eligible policyholders' policy values at the Effective Date.
Liquidity buffer	An amount of liquid capital held in addition to the assets required to meet expected outflows, such that Scottish Friendly or OneFamily is expected to be able to meet all cash flows over the next year under pre-determined stresses.
Loss-absorbing capacity of technical provisions	A mechanism that allows insurers to recognise in the calculation of their SCR that, in stressed conditions, discretionary benefit levels can be reduced.
Market value reduction	An adjustment that may be deducted from the value of a with-profits policy at the point of claim.
Mass lapse	A scenario where there is a significant fall in the number of in-force policies over a short period due to extreme scenarios, e.g. natural disaster or pandemic event.
Matching Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the "basic risk-free rate", which is a prescribed discount rate based on swap yields. For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The value of the Matching Adjustment is derived from the difference between the yields on the assets held by the insurer to back the relevant business (adjusted for default and downgrade risks) and the basic risk-free rate.
Merger Allocation	The amount transferred to the new SFAS sub-fund in the place of future ProfitShare distributions.
Non-profit	Insurance products where the premiums and benefits are prescribed in the policy terms and conditions. Non-profit policies do not participate in the insurer's profits.
Open-ended investment vehicle	Pooled investment funds based in the UK which are structured as a company in their own right.
Own Funds	The total of the excess of assets over technical provisions and other liabilities, according to the regulatory balance sheet, and subordinated liabilities.
Own Risk and Solvency Assessment	A process that insurers are required by regulation to carry out on a regular basis to identify and assess the risks to which they are exposed, and the capital required to support their risk profiles, approved risk tolerance limits, and their business strategies.
Principles and Practices of Financial Management	A document which sets out the high-level principles and lower-level practices employed by an insurer in managing a particular type of fund or business.
ProfitShare	The mechanism used by Scottish Friendly to distribute surplus to SFMF with-profits policyholders.
Protection	Insurance designed to provide cover for the policyholder and their loved ones in the event of an insured person's death or illness.
Quota share	A type of reinsurance contract under which the reinsurer is entitled to receive a specified proportion of all premiums received by the cedant from a portfolio of insurance contracts, in exchange for the reinsurer paying the same proportion of all claims incurred on the portfolio.
Regulatory balance sheet	A balance sheet showing assets and liabilities recognised and valued in accordance with the Solvency UK regulations.
Reinsurance	Insurance protection taken out by an insurer to manage its exposure to risks on its balance sheet, usually those arising from direct insurance contracts.
Reinsurer	The entity providing reinsurance.
Residual Merger Allocation	The remainder of the Merger Allocation amount above the Initial Policy Uplift amount, which will be distributed to policyholders over time.

Term	Definition
Ring-fencing restriction	A restriction on the Own Funds that reflects the fact that certain pools of assets can only be used for certain policyholders / types of business and cannot be used to meet liabilities elsewhere in the company. Here, the restrictions relate to the ring-fenced with-profits funds within both companies.
Risk appetite	For different risks, an insurer may wish to increase exposure, maintain exposure, decrease exposure, or eliminate exposure entirely, depending on its appetite for such risks.
Risk appetite framework	A framework used by an insurer within which it makes decisions and takes actions to manage its risk profile.
Risk Margin	This is an addition to the Solvency UK best-estimate liabilities. Its calculation is prescribed by the Solvency UK rules, and it is intended to represent the amount in excess of the best-estimate liabilities that would have to be paid to another insurer in order for it to agree to take on the underlying insurance obligations.
Smoothing	A management framework which imposes limits on how much with-profits policy payouts can change at each review of bonus rates.
Solvency II	The name given to the regulatory regime in the EU implemented on 1 January 2016. It has very similar requirements to those set out in the definition of Solvency UK below.
Solvency UK	The name given to the regulatory regime in the UK. The regime is very similar to that with which insurers in the EU are required to comply. Solvency UK imposes quantitative requirements on insurers, for example relating to how assets and liabilities are measured, and how much capital insurers are required to hold. Solvency UK imposes qualitative requirements, for example relating to governance and risk management processes and controls. Solvency UK also places disclosure requirements on insurers, relating to what and to whom insurers must report on their financial health.
Solvency Capital Requirement	Under Solvency UK, insurers are required to hold a Solvency Capital Requirement. The Solvency Capital Requirement is specific to each insurer and is calculated based on the risks that each insurer faces. It aims to ensure that an insurer holds enough Own Funds to withstand certain stress events.
Solvency coverage ratio	This is a measure of financial strength of an insurer, calculated as the value of its Own Funds divided by its Solvency Capital Requirement.
Standard Formula	A prescribed approach to calculating the Solvency Capital Requirement which insurers must use unless they have regulatory approval to use their own internal model.
Subordinated debt	A debt owed to an unsecured creditor that in the event of a liquidation can only be paid after the claims of secured creditors have been met.
Subordinated liabilities	A term used interchangeably with subordinated debt.
Technical provisions	Liabilities held on the regulatory balance sheet in respect of future benefit payments under contracts of insurance and the expenses of administering those contracts. Usually calculated as the sum of the Best estimate liabilities and the Risk Margin.
Term assurance	A type of life insurance policy that provides defined cover, usually against death but sometimes also against being diagnosed with certain critical illnesses, for a specified period of time.
Tontine	The risk that, during the run-off of a with-profits fund, surplus is retained for an extended period and ultimately distributed among a smaller number of remaining policyholders. This may result in later-exiting policyholders receiving disproportionately greater benefits than earlier-exiting policyholders, creating potential unfairness between different generations or groups of policyholders.
Transferring Assets	This term is fully defined in the Instrument of Transfer, but in essence it means all of Scottish Friendly's assets at the Effective Date.
Transferring Liabilities	This term is fully defined in the Instrument of Transfer, but in essence it means all of Scottish Friendly's Liabilities at the Effective Date.
Transferring Policies	This term is fully defined in the Instrument of Transfer, but in essence it means all of Scottish Friendly's policies that remain in force at the Effective Date.
Transitional Measure on Technical Provisions	A deduction from the Technical Provisions for insurance contracts written before Solvency II came into effect, based on the difference between the Technical Provisions calculated in accordance with Solvency II and those calculated in accordance with the previous regulatory regime.
Unitised with-profits	A form of with-profits policy where the investor buys units which increase in value in line with any declared regular bonuses and to which a final bonus may be added when the units are cashed in.
Unit-linked	A type of insurance product where the policy value is linked to the value of the units held in underlying assets or investment funds.
Volatility Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. Insurers may apply for regulatory approval to add a Volatility Adjustment to the basic risk-free rate.

Term	Definition
Whole of life	A type of life insurance policy that provides defined cover, usually against death, for the lifetime of the policyholder.
With-profits	Insurance products which give policyholders the right to participate in certain profits of the insurance company, usually applied as bonuses. Other common features include guarantees and the smoothing of investment returns.

Appendix C Documents considered

The principal documents reviewed in preparing this report are set out below.

- Scottish Friendly Solvency and Financial Condition Report 2025
- Scottish Friendly Annual Report & Financial Statements 2025
- Scottish Friendly's PPFM for Conventional with-profits Business (effective January 2026)
- Scottish Friendly's PPFM for Unitised Ordinary Branch With-profits Business (effective January 2026)
- Scottish Friendly's PPFM for With-profits Business transferred from SLL (effective January 2026)
- Scottish Friendly's PPFM for With-profits Business transferred from M&GM (effective January 2026)
- Scottish Friendly's PPFM for With-profits Business transferred from Canada Life Limited – The Manulife sub-fund (effective January 2026)
- OneFamily Solvency and Financial Condition Report 2025
- OneFamily Annual Report and Consolidated Financial Statements 2025
- PPFM for the OneFamily With-profits fund
- PPFM for the ex-Ecclesiastical Life Limited With-profits fund of OneFamily
- Agreed form Instrument of Transfer
- External legal advice relating to the transfer
- OneFamily Chief Actuary's report on the transfer
- Documents from both parties containing responses to my questions
- Detailed financial results and analyses, pre-transfer and post-transfer, provided by both parties, including detailed SCR breakdowns and estimates of solvency positions
- Details of Scottish Friendly's reinsurance contracts
- Details of OneFamily's reinsurance contracts
- Documents outlining the approach to and content of Scottish Friendly's and OneFamily's communications in relation to the transfer
- Documents relating to the proposed Jersey and Guernsey Schemes
- Post-transfer risk appetite and stress and scenario testing analysis
- ProfitShare sensitivity analysis

The Howden logo is displayed in a bold, blue, sans-serif typeface. The letters are closely spaced, and the 'H' and 'D' are particularly prominent. The logo is positioned on the left side of the page, centered vertically within a light blue rectangular area that is part of a larger geometric design.