

MILLIMAN REPORT

Family Assurance Friendly Society Limited

The Report of the Chief Actuary on the proposed merger with
Scottish Friendly Assurance Society Limited

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1 Introduction and purpose

BACKGROUND

- 1.1 It is proposed to merge Family Assurance Friendly Society Limited ("**OneFamily**") and Scottish Friendly Assurance Society Limited ("**Scottish Friendly**") (collectively the "**Societies**"). The merger will be carried out by means of a full Transfer of Engagements ("**the transfer**" or "**the merger**") from Scottish Friendly to OneFamily under Part VIII of the Friendly Societies Act 1992 ("**FSA92**").
- 1.2 OneFamily and Scottish Friendly are both mutual friendly societies incorporated in the UK. Both of the Societies are subject to full Prudential Regulation Authority ("**PRA**") Solvency UK regulation and full Financial Conduct Authority ("**FCA**") regulation.
- 1.3 The Transfer of Engagements will take place according to the terms of an Instrument of Transfer ("**IoT**") under the FSA92. The FSA92 sets out the processes required to effect the transfer, and confirmation (or not as the case may be) of the transfer falls to the PRA in consultation with the FCA.
- 1.4 If confirmed by the PRA in consultation with the FCA, the IoT is expected to take effect on 28 February 2027 (the "**Effective Date**").
- 1.5 This Report is written in my capacity as the Chief Actuary of OneFamily to advise the Board of Directors of OneFamily ("**the Board**") on the effects of the transfer and the IoT on the existing members and policyholders of OneFamily, and on the position of the enlarged OneFamily post-transfer. This Report will also be made available to the PRA, the FCA, the Independent Actuary, and to the members and policyholders of OneFamily.
- 1.6 The With-Profits Actuary of OneFamily has also produced a report setting out his views on the effects of the transfer on the with-profits policyholders of OneFamily.
- 1.7 For the avoidance of doubt, this Report contains various factual references as to how the various groups of Scottish Friendly members and policyholders will fall to be treated post-transfer, but the scope of this Report does not consider the effects of the transfer and the IoT on the members and policyholders of Scottish Friendly as compared with their current position.
- 1.8 Section 87 of the FSA92 requires the "appropriate actuary" to provide the PRA and the FCA with a report confirming that the transferee (i.e. OneFamily) will possess the required margin of solvency immediately after the transfer. I am the appropriate actuary in this case, and this Report incorporates this confirmation. I note that in this respect the FSA92 uses terminology which predates the current Solvency UK regime, and I have thus interpreted the FSA92 requirement according to the current Solvency UK regime.
- 1.9 Section 88 of the FSA92 provides for PRA/FCA to require a report from an independent actuary on the effects of the transfer on long-term policyholders. The PRA/FCA requires such a report in this case, and Mr Nick Ford FIA of Howden Insurance has been appointed as the Independent Actuary. I have read an advanced draft of his report and have noted his conclusions.
- 1.10 Throughout this Report, unless otherwise stated, "policyholder" can also be taken to refer to "member" and vice versa.
- 1.11 The terms "**Transferring Policies**" and "**Transferring Business**" are used in this Report to refer to the policies and business transferring from Scottish Friendly to OneFamily according to the context in question.
- 1.12 A block of long-term insurance business was recently transferred from FIL Life Insurance Limited ("**FIL Life**") to Scottish Friendly. FIL Life is a life insurer within the Fidelity International group. This transfer was known as Project Tahoe, and was effected by means of a Part VII transfer process under the Financial Services and Markets Act 2000 ("**FSMA 2000**"). The first of two necessary High Court hearings (known as the "**Directions Hearing**") was held on 27 March 2026, and the second (known as the "**Sanction Hearing**") took place on 8 September 2026, at which the High Court provided its sanction. The transfer will become effective on 30 September 2026. This transfer was subject to its own separate regulatory process, which included consideration by an Independent Expert whose report was submitted to the Directions Hearing and published on the companies' websites.
- 1.13 Given that the Project Tahoe transfer into Scottish Friendly has now been sanctioned by the High Court and will become effective on 30 September 2026, I have considered the post-merger position of OneFamily and the

effects of the transfer on its members and policyholders allowing for the effects of the Project Tahoe transfer into Scottish Friendly.

- 1.14 A glossary of terms is set out in Appendix A.

DISCLOSURES

- 1.15 I am a Fellow of the Institute & Faculty of Actuaries (“**IFoA**”), having qualified in 2009. I hold a Chief Actuary (Life) Practising Certificate issued by the IFoA.
- 1.16 I am a Principal at Milliman LLP and have held the Chief Actuary role for OneFamily since May 2026, by which time the preparations for the transfer were already underway. However, I received a thorough handover from my predecessor on the transfer and the work he had carried out in his capacity as Chief Actuary to prepare for the transfer. My role as Chief Actuary is carried out in accordance with an engagement letter between OneFamily and Milliman LLP.
- 1.17 I am not a member or policyholder of either OneFamily or Scottish Friendly. Neither I nor Milliman LLP is currently engaged in providing any services to Scottish Friendly.

RELIANCES AND LIMITATIONS

- 1.18 In preparing this Report, I have had access to certain documentary evidence and to various financial analyses provided by the Societies, with the key items listed in Appendix B. I have also had access to, and discussions with, senior management of OneFamily in my role as Chief Actuary. My conclusions depend on the substantive accuracy of the information I have received, and I have relied on this information without full independent verification. However, in the case of OneFamily, I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the UK life insurance and friendly society industries, and my ongoing role and knowledge of OneFamily. In relation to Scottish Friendly, I have relied without independent verification on information provided by Scottish Friendly in relation to its business and its financial position.
- 1.19 I have relied on the work of the external auditors of the Societies in gaining confidence in certain aspects of the financial information applicable to and provided by the Societies throughout this Report. I note that not all of the financial information is subject to external audit, and hence this reliance is limited to that information which is subject to external audit. Where the financial information has been subject to external audit, I consider this to mean that the relevant results are in compliance with applicable rules and guidance, in particular those in relation to Solvency UK.
- 1.20 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose.
- 1.21 This Report has been prepared in my capacity as Chief Actuary of OneFamily and must not be relied upon for any other purpose. No liability will be accepted by Milliman LLP, or me, for any application of this Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman LLP or me under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.22 This Report does not provide financial or any other advice to any of the members or policyholders of OneFamily or Scottish Friendly.
- 1.23 I and my team who worked on this Report are actuaries who specialise in the area of life insurance, and are not experts in law, taxation, or accounting. My advice is not, nor is it intended to be, a substitute for qualified legal, tax, or accounting advice.
- 1.24 The Report is based on information available to me as at 25 September 2026.
- 1.25 Figures presented in some of the tables in this Report may not be additive due to rounding.

COMPLIANCE WITH ACTUARIAL STANDARDS

- 1.26 The Financial Reporting Council issues Technical Actuarial Standards (“**TASs**”) and compliance with the relevant TASs is compulsory for members of the IFoA. This Report and the work carried out to produce this

Report is subject to the TASs on General Technical Actuarial Standards Version 2.0 ("**TAS 100**") as well as the Insurance TAS Version 2.0 ("**TAS 200**"). In my opinion, this Report complies with TAS 100 and TAS 200.

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

2 Executive Summary

INTRODUCTION

- 2.1 It is proposed to merge OneFamily and Scottish Friendly. Both firms are incorporated friendly societies authorised under the FSA92 and subject to regulation by the PRA and the FCA. If confirmed, the merger will be implemented by a Part VIII transfer under the FSA92 of all of the engagements of Scottish Friendly to OneFamily with an Effective Date of 28 February 2027.
- 2.2 The rationale for the merger is to create a larger mutual organisation better able to serve its current and future members, and better able to compete with other financial services firms (both mutual and proprietary).
- 2.3 At end-2025, OneFamily had assets under management of £6.2 billion and approximately 1.3 million members. Scottish Friendly had assets under management of £4.4 billion and approximately 0.9 million members.
- 2.4 I am the Chief Actuary of OneFamily and this is my Report on the proposed merger. I consider the effects of the proposed merger on OneFamily as an entity and on its current members and policyholders.
- 2.5 An Independent Actuary has been appointed by the Societies (with the PRA and FCA having confirmed that they have no objection to the appointment), to consider the effects of the merger on both the OneFamily and the Scottish Friendly members and policyholders.

CURRENT POSITIONS OF THE SOCIETIES

- 2.6 Both societies are open to new business and write a range of unit-linked, protection and annuity business. OneFamily has a non-profit fund ("**NPF**") and a single closed with-profits sub-fund but does not write any new with-profits business. Scottish Friendly has a Main Fund (the "**SF Main Fund**") and three closed with-profits sub-funds. Scottish Friendly also currently writes new with-profits business in the SF Main Fund, but this will cease upon the merger becoming effective.
- 2.7 Both societies carry out most of their policy servicing and administration in-house using their own staff and systems. Both societies make some use of external outsourcers for policy servicing and administration for some classes of business.
- 2.8 Both societies maintain capital management policies, and as at 31 December 2025 both societies met both their Pillar 1 and Pillar 2 capital requirements and the additional capital buffers required by their respective capital management policies (for OneFamily) and risk appetite statements (for Scottish Friendly). Both societies have governance and risk management practices (as required by regulation) to manage their risks and meet their capital requirements.
- 2.9 OneFamily has recently completed a project (known as Project Leaf) to convert the unit-linked business written in its non-insurance subsidiaries into unit-linked business written in OneFamily itself. The impacts and the additional risks arising from this have been allowed for in my analyses as at 31 December 2025.
- 2.10 Scottish Friendly has recently completed the acquisition of a book of mainly unit-linked business from the Fidelity International group (Project Tahoe). This business was acquired by means of a Part VII transfer under the relevant legislation. The transfer has been sanctioned by the High Court and will become effective on 30 September 2026. The impacts and the additional risks arising from this have been allowed for in my analyses as at 31 December 2025.
- 2.11 Both societies are subject to market risk (including equity risk, interest rate risk, and currency risk), insurance risk (including mortality risk, longevity risk, lapse risk, and expense risk), and operational risk. There is no material type of risk category to which one society has exposure while the other does not. This remains the case allowing for Project Leaf and Project Tahoe. Both societies have entered into appropriate reinsurance arrangements to manage their risks, including the impacts of Project Leaf and Project Tahoe.
- 2.12 Both societies continue to meet their Pillar 1 and Pillar 2 capital requirements as at 31 December 2025 after allowing on a pro forma basis for their respective recent projects (Project Leaf and Project Tahoe).

THE INSTRUMENT OF TRANSFER

- 2.13 The IoT is the legal means by which the business of Scottish Friendly will be transferred to OneFamily. The IoT will not give rise to any changes in the terms and conditions for any OneFamily (or any Scottish Friendly) policyholders.
- 2.14 Scottish Friendly has a profit-sharing mechanism called “ProfitShare” to distribute a share of the profits emerging from the SF Main Fund each year to eligible policyholders by means of enhancing the investment returns applied to asset shares. ProfitShare distributions are discretionary in nature and Scottish Friendly has the right to vary or stop the distributions in future. In practice the eligible policyholders are the with-profits policyholders in the SF Main Fund.
- 2.15 Under the IoT, the current Scottish Friendly with-profits business in the SF Main Fund will be moved into a new closed with-profits sub-fund (to be known as the SFAS sub-fund) within OneFamily. This new sub-fund will have additional assets allocated to it in respect of the Merger Allocation (see paragraphs 6.16 to 6.19 in Section 6 for further details on this), which will compensate these with-profits policies for the discontinuance post-merger of the ProfitShare distributions that they currently receive. An Initial Policy Uplift (see paragraph 6.18) will be applied to the asset shares of the SFAS sub-fund policies as at the Effective Date, with it being anticipated that the remainder of the Merger Allocation would be distributed to asset shares over time.
- 2.16 The other business and the balance of the assets in the SF Main Fund will be transferred to the OneFamily NPF.
- 2.17 The three existing Scottish Friendly closed with-profits sub-funds will transfer across to become equivalent closed with-profits sub-funds within OneFamily. The existing OneFamily with-profits sub-fund will remain as a separate sub-fund within OneFamily. The operation of all four existing with-profits sub-funds will be unchanged as compared with the pre-merger position.
- 2.18 The new SFAS sub-fund will enter into an expense arrangement with the OneFamily NPF, and the surplus of the SFAS sub-fund will be distributed to the with-profits policyholders in this sub-fund over time (as is the case for the other with-profits sub-funds). The SFAS sub-fund will be run in accordance with the overarching principle that it should maintain sufficient assets to meet its own capital requirements and should not require capital support from the NPF; however, a capital support facility will nevertheless apply should it be needed. There are arrangements for the SFAS sub-fund to cease and for the benefits to be converted into non-profit or unit-linked benefits in the NPF once the SFAS sub-fund declines to a sufficiently small size.
- 2.19 OneFamily currently has the option to close, merge or change the available range of its unit-linked funds, and the IoT contains provisions for OneFamily to continue doing so across the available range of unit-linked funds post-merger. Any such changes will, however, be subject to actuarial advice to the Board and to considerations of customer fairness.

FINANCIAL EFFECTS OF THE IOT

- 2.20 I have carried out an assessment of the financial effects of the IoT by developing estimates of the post-merger Pillar 1 and Pillar 2 financial positions of the enlarged OneFamily post-merger. The Pillar 2 assessments should be regarded as interim pending a full review post-merger of the enlarged OneFamily’s approach to Pillar 2.
- 2.21 In producing the post-merger financial positions I have made use of information and analyses received from Scottish Friendly, and I have relied without independent verification on this information. The post-merger financial positions include various adjustments and take account of the interactions arising upon the combination of the Societies’ respective capital requirements; these are described in more detail in Section 7.
- 2.22 Working in conjunction with the wider merger project teams at OneFamily and Scottish Friendly, I have incorporated into the post-merger financial positions an assessment of the future reductions in expenses (known as synergies) which are expected to arise from the merger. I have done this on an expected basis, where the post-merger position is based on the intended timing of the realisation of the synergies. However, I have also considered a scenario in which there are unplanned delays in the realisation of the synergies, resulting in a lower overall expense synergy benefit. I have also incorporated allowances for the one-off costs both of implementing the merger and of achieving the synergies.

- 2.23 In addition to consideration of the post-merger capital positions under Pillar 1 and Pillar 2, I have also given consideration to the post-merger position in relation to liquidity and the need for the enlarged OneFamily to maintain a satisfactory liquidity position, particularly in the immediate post-merger period.
- 2.24 Based on the analyses I have carried out, I am satisfied that post-merger OneFamily will meet its Pillar 1 and Pillar 2 capital requirements including maintaining the normal buffers under its capital management policies, and will possess adequate liquidity.

EFFECTS OF THE IOT ON ONEFAMILY POLICYHOLDERS

- 2.25 There will be no changes arising as a result of the IoT to how any benefits are determined for any of the current OneFamily policyholders in any of the policy classes (including with-profits). Any future changes in unit-linked fund options will be subject to customer fairness considerations, as is the case currently. I am satisfied that the merger will give rise to no material adverse effects on the benefit expectations of any of the OneFamily policyholders.
- 2.26 Given the outcome of my financial assessments as set out above, I am satisfied that the merger will give rise to no material adverse effects on the benefit security of any of the OneFamily policyholders.

OTHER CONSIDERATIONS

- 2.27 I note that, in order for the merger to proceed, a vote of the OneFamily members in favour of the merger is necessary under OneFamily's constitution, and this vote is being held on 18 November 2026.
- 2.28 I have reviewed and am satisfied with the proposed communications to the OneFamily policyholders and members in respect of the merger.
- 2.29 I note that the merger will result in no immediate changes post-merger to how the current OneFamily policies and policyholders are administered and serviced.
- 2.30 I note that, post-merger, OneFamily and its policyholders will continue to be subject to a comprehensive system of governance.
- 2.31 I note that, post-merger, the membership rights of the current OneFamily members will be unchanged and that, moreover, all members of the enlarged OneFamily will have equal voting rights. In the event of any future dissolution or other transaction which involves a distribution of OneFamily's net assets to its members, such distribution would be carried out on a basis which would be deemed to be fair at the time.

CONCLUSIONS

- 2.32 My full formal conclusions are set out in Section 10.

3 Rationale and approach for the merger

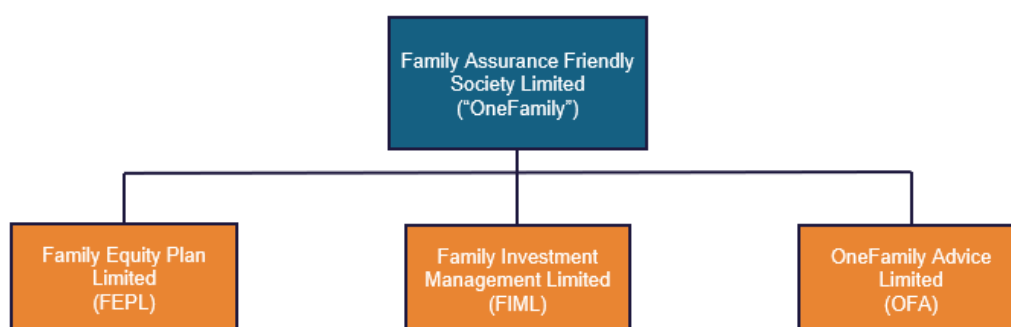
- 3.1 The Boards of OneFamily and Scottish Friendly have determined to merge the two societies in order to create a larger mutual organisation (still structured as an incorporated friendly society) with the following attributes:
- a greater ability to compete with larger financial services firms (both mutual and non-mutual) for the benefit of current members in both societies and for the benefit of future members of the enlarged society;
 - larger combined assets under management, which should drive greater cost-efficiency and investment opportunity, including with external asset managers;
 - retaining the key strengths and current businesses of both societies;
 - achieving synergies, both cost-related and generally, for the benefit of current members in both societies and for the benefit of future members of the enlarged society.
- 3.2 Under the FSA92, there are essentially two mechanisms which can be used to achieve a merger of two friendly societies. The first is called an “amalgamation”, which involves the creation of a new friendly society into which the two existing societies transfer. The two existing societies then cease to exist. The second is called a “transfer of engagements”, which involves transferring the engagements of one society to the other using an Instrument of Transfer. The receiving society is thus enlarged, and the transferring society ceases to exist.
- 3.3 The amalgamation process has been seldom used in practice, whereas the transfer of engagements process has been used on a number of occasions over past years. The merger between OneFamily and Scottish Friendly will thus be implemented by a full transfer of engagements from Scottish Friendly to OneFamily. This direction of transfer (as opposed to a transfer from OneFamily to Scottish Friendly) has been adopted for a number of reasons, including that the (enlarged) OneFamily structure will provide more flexibility for the enlarged society going forwards.
- 3.4 Details of the Instrument of Transfer and the post-merger structure are set out in Section 6 of this Report.

4 Overview of OneFamily

BACKGROUND

- 4.1 OneFamily is the trading name of Family Assurance Friendly Society Limited and its subsidiaries. Family Assurance Friendly Society Limited is an authorised mutual organisation incorporated in 1975 under the FSA92 and regulated by the PRA and the FCA. In 2014, Engage Mutual (which was another friendly society) and Family Investments (as it was then known) merged to become OneFamily. As a mutual organisation, OneFamily does not have any shareholders and is owned by its members.
- 4.2 OneFamily had assets under management of £6.2 billion and 1.3 million policyholders and members as at 31 December 2025. Some members have more than one policy.
- 4.3 A simplified organisational structure for OneFamily is shown in Figure 4.1 below.

FIGURE 4.1¹ CURRENT ONEFAMILY GROUP STRUCTURE



- 4.4 The functions of the other companies shown in Figure 4.1 are summarised below:
- Family Equity Plan Limited (“**FEPL**”) manages Child Trust Fund (“**CTF**”), Junior Individual Savings Account (“**ISA**”), Investment ISA, Lifetime ISA and Cash ISA business.
 - Family Investment Management Limited (“**FIML**”) manages investments for FEPL and EMFL.
 - OneFamily Advice Limited (“**OFA**”) carries out the administration of certain Term and Critical Illness business underwritten by Scottish Friendly under previous arrangements. These arrangements relate to policies written through Beagle Street prior to and shortly after the acquisition of the Beagle Street brand by OneFamily in 2022. Additionally, prior to September 2024, this subsidiary provided whole of market advice on lifetime mortgages (“**LTMs**”).
- 4.5 Over 2025 and 2026, OneFamily has carried out a project, called Project Leaf, to transfer almost all of the business of FEPL and all of the business of EMFL (which has subsequently been deauthorised) from these subsidiaries into OneFamily itself. As a result, FEPL now has a much-reduced function related only to the management of the Bank of Ireland Cash ISA business. EMFL is already deauthorised and FIML no longer has any function and will in due course become deauthorised and wound up.
- 4.6 OFA’s function now relates only to the administration of certain term life and critical illness business sold by OneFamily and underwritten by Scottish Friendly under previous arrangements. Once the merger becomes effective, the administration of this business will be carried out directly by OneFamily. As a result, OFA’s function will cease to be needed and it is expected that OFA will in due course be deauthorised and wound up.
- 4.7 OFLM no longer originates and services any LTMs, and it is now deauthorised and dormant.

¹ Figure 4.1 excludes OneFamily Lifetime Mortgages Limited (“**OFLM**”), which originated and serviced LTMs on behalf of third parties, and Engage Mutual Funds (limited (“**EMFL**”), which managed CTF business, as they are both deauthorised and dormant.

ONEFAMILY BUSINESS

- 4.8 OneFamily underwrites life insurance (including savings, and pension) contracts which fall under four different lines of business for the purposes of the Solvency UK insurance regulations as set out below:
- Insurance with-profit participation;
 - Index-linked and unit-linked insurance;
 - Other life insurance; and
 - Health insurance.
- 4.9 The vast majority of OneFamily's in-force business has been written in the UK, either by OneFamily directly or by other UK life insurance entities whose business has since been acquired by OneFamily. OneFamily has a very small amount of in-force business that was written in the Republic of Ireland but does not currently write new business outside of the UK.
- 4.10 OneFamily comprises a main non-profit fund ("**NPF**") and a small with-profits fund ("**WP2**"). The WP2 fund has previously written with-profits business but is now closed to new business. All other business resides within the NPF and all new business (which includes unit-linked, whole of life, term and critical illness business) is written into the NPF. A previous with-profits fund (known as "**WP1**") no longer exists, and the business of that fund has been converted to non-profit and transferred into the NPF.
- 4.11 OneFamily's business can be broken down further into a number of products, namely:
- Unit-linked (including Legacy Unit-Linked, Family Bonds, Junior Bonds, CTFs and ISAs)
 - Protection - Over 50s Whole of Life
 - Protection - Term and Critical Illness
 - Legacy Annuities
 - Legacy Protection
 - Bulk Purchase Annuities (BPAs)
 - Non-Linked Savings
 - With-Profits Business in WP2

SOLVENCY UK PILLAR 1 VALUATION RESULTS

- 4.12 OneFamily's Pillar 1 Solvency UK financial position at 31 December 2025 is summarised in Figure 4.2 below. These results are consistent with those published and include those parts of Project Leaf that had been implemented as at 31 December 2025.

FIGURE 4.2 ONEFAMILY PILLAR 1 FINANCIAL POSITION AS AT 31 DECEMBER 2025

31 DECEMBER 2025 (£M)	ONEFAMILY NPF	WP2	ENTITY
Assets (A)	1,897.0	23.7	1,920.7
<i>Comprising:</i>			
<i>Reinsurance Assets</i>	<i>113.3</i>	<i>-</i>	<i>113.3</i>
<i>Linked Assets</i>	<i>1,556.7</i>	<i>-</i>	<i>1,556.7</i>
<i>Other Assets</i>	<i>227.0</i>	<i>23.7</i>	<i>250.8</i>
Liabilities (B)	1,740.0	19.6	1,759.5
<i>Comprising:</i>			
<i>BEL – WP</i>	<i>-</i>	<i>18.1</i>	<i>18.1</i>
<i>BEL – NP – annuity</i>	<i>72.7</i>	<i>-</i>	<i>72.7</i>
<i>BEL – NP – other</i>	<i>84.8</i>	<i>-</i>	<i>84.8</i>
<i>BEL – UL – linked component</i>	<i>1,556.7</i>	<i>-</i>	<i>1,556.7</i>
<i>BEL – UL – non-linked component</i>	<i>-51.8</i>	<i>-</i>	<i>-51.8</i>
<i>Risk Margin</i>	<i>8.1</i>	<i>0.0</i>	<i>8.2</i>
<i>Other Liabilities</i>	<i>69.4</i>	<i>1.5</i>	<i>70.9</i>
Own Funds before RFF Restriction (C=A-B)	157.0	4.2	161.2
RFF Restriction (D)	-	-	3.7
Own Funds after RFF Restriction (E=C-D)	157.0	4.2	157.5
SCR (F)	76.1	0.4	76.5
Solvency Coverage Ratio (G=E/F)	206%	959%	206%

Source: OneFamily

PROJECT LEAF

- 4.13 As previously noted, OneFamily has carried out Project Leaf in order to transfer most of the non-insurance investment business in its subsidiaries to become insurance-based investment business in OneFamily itself. This project has resulted in a more straightforward and unified structure providing long-term operational efficiencies. That part of Project Leaf which had not been completed as at 31 December 2025 has now been completed.
- 4.14 Figure 4.3 below thus sets out the OneFamily Pillar 1 Solvency UK balance sheet as at 31 December 2025 on a pro forma basis, as if the remaining part of Project Leaf had been implemented at 31 December 2025.

FIGURE 4.3 ONEFAMILY PILLAR 1 FINANCIAL POSITION AS AT 31 DECEMBER 2025 (AFTER REMAINING PROJECT LEAF)

31 DECEMBER 2025 (£M)	ONEFAMILY NPF	WP2	ENTITY
Assets (A)	4,486.1	23.7	4,509.8
<i>Comprising:</i>			
<i>Reinsurance Assets</i>	<i>113.3</i>	<i>-</i>	<i>113.3</i>
<i>Linked Assets</i>	<i>4,145.8</i>	<i>-</i>	<i>4,145.8</i>
<i>Other Assets</i>	<i>227.0</i>	<i>23.7</i>	<i>250.8</i>
Liabilities (B)	4,271.3	19.6	4,290.9
<i>Comprising:</i>			
<i>BEL – WP</i>	<i>-</i>	<i>18.1</i>	<i>18.1</i>
<i>BEL – NP – annuity</i>	<i>72.7</i>	<i>-</i>	<i>72.7</i>
<i>BEL – NP – other</i>	<i>84.8</i>	<i>-</i>	<i>84.8</i>
<i>BEL – UL – linked component</i>	<i>4,145.8</i>	<i>-</i>	<i>4,145.8</i>
<i>BEL – UL – non-linked component</i>	<i>-111.5</i>	<i>-</i>	<i>-111.5</i>
<i>Risk Margin</i>	<i>10.1</i>	<i>0.0</i>	<i>10.1</i>
<i>Other Liabilities</i>	<i>69.4</i>	<i>1.5</i>	<i>70.9</i>
Own Funds before RFF Restriction (C=A-B)	214.7	4.2	218.9
RFF Restriction (D)	-	-	3.7
Own Funds after RFF Restriction (E=C-D)	214.7	4.2	215.2
SCR (F)	115.8	0.4	116.2
Solvency Coverage Ratio (G=E/F)	185%	959%	185%

Source: OneFamily/Milliman

- 4.15 Prior to Project Leaf, OneFamily's equity holding in its subsidiaries were recognised as an asset whereas, post-Project Leaf, the assets and liabilities of the subsidiaries have been transferred directly onto OneFamily's balance sheet. However, pre-Project Leaf, the value of OneFamily's interests in its subsidiaries did not recognise any value from future net charge income on the investment business held within those subsidiaries. By contrast, post-Project Leaf, OneFamily's financial position under Solvency UK is permitted to recognise the value of such future net charge income on the investment contracts transferred to OneFamily (within the non-linked component of the unit-linked BEL).
- 4.16 Hence, after allowing for the remaining areas of Project Leaf, the OneFamily NPF's Own Funds increase materially from £157.0 million to £214.7 million. The NPF and entity Pillar 1 solvency coverage ratios as at 31 December 2025 reduce from 206% to 185%. This reduction in solvency coverage ratio from the reported position as set out above is as a result of the increase in SCR as a result of the Leaf transfer outweighing the corresponding increase in Own Funds, but the capital position is still in line with OneFamily's capital management policy (see below).

REINSURANCE

- 4.17 OneFamily has the following reinsurance arrangements in place in order to manage its risks:
- Hannover Re: Net level premium reinsurance and original terms reinsurance on whole of life business, risk premium reinsurance on critical illness business.
 - Munich Re: Original terms reinsurance and risk premium reinsurance on whole of life and Over 50s whole of life business, and financial reinsurance.
 - Swiss Re: Risk premium reinsurance on Over 50s whole of life business and term assurance business, net level premium basis on whole of life business, 100% reinsurance on Assura business
 - SCOR: Original terms reinsurance on term assurance.

- SCOR: Reinsurance (entered into as part of Project Leaf) to mitigate the risk of mass lapse on the Project Leaf business.

4.18 The above reinsurance arrangements are unaffected by Project Leaf, and the effects of the above reinsurance arrangements are incorporated into the solvency balance sheets provided.

POLICY SERVICING AND ADMINISTRATION

4.19 Most of OneFamily's policy servicing and administration is carried out by OneFamily's own staff. For some classes of business (e.g. legacy annuity in payment and BPA business), use is made of external third-party administrators.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE ARRANGEMENTS

4.20 OneFamily carries out an annual Own Risk and Solvency Assessment ("ORSA") as required by the Solvency UK regime. The ORSA covers all the material risks to which OneFamily is exposed and ensures that OneFamily maintains sufficient financial resources to cover its solvency and risk needs.

4.21 In common with most UK insurers, OneFamily operates a three lines of defence model to support its risk management framework. The three lines of defence in OneFamily consist of:

- the first line, which involves business functions identifying, owning and managing risks;
- the second line, which includes risk and compliance functions that set policies and provide independent oversight; and
- the third line, which is Internal Audit, providing independent assurance on the governance, risk management and control frameworks.

4.22 The Board has ultimate responsibility for OneFamily's strategy, business activities and compliance with relevant regulation. The Board is supported by a number of sub-committees, including an Audit Sub-Committee, a Risk Sub-Committee, a With-Profits Sub-Committee, a Remuneration Sub-Committee and a Member, Customer and Culture Sub-Committee.

SOLVENCY, RISK PROFILE AND CAPITAL MANAGEMENT POLICY

4.23 OneFamily's Capital Management Policy ("CMP") aims to ensure that it maintains sufficient capital to readily absorb its material risks as well as meeting regulatory requirements. OneFamily maintains a capital buffer in excess of its calculated SCR, with the size of the buffer determining what actions may need to be taken in accordance with OneFamily's risk appetite.

4.24 OneFamily's regulatory solvency coverage ratio as at 31 December 2025, including and excluding the remaining impacts of Project Leaf, is shown in Figure 4.4 below (and consistent with the results presented above).

FIGURE 4.4 ONEFAMILY SOLVENCY UK PILLAR 1 CAPITAL POSITION AS AT 31 DECEMBER 2025

31 DECEMBER 2025 (£M)	SOLVENCY CAPITAL REQUIREMENT	
	EXCLUDING REMAINING LEAF	INCLUDING REMAINING LEAF (PRO FORMA)
Own Funds (A)	157.5	215.2
SCR (B)	76.5	116.2
Excess Own Funds over SCR (A-B)	81.0	98.9
Solvency Ratio (A/B)	206%	185%

Source: OneFamily/Milliman

4.25 As at 31 December 2025, OneFamily's SCR coverage was 206%, and 185% allowing for the remaining Project Leaf business, both of which values are comfortably above the 150% which OneFamily seeks to maintain under normal circumstances, this level being broadly that which would enable OneFamily to still meet its SCR following a stress of a 1-in-20 years level of severity.

4.26 OneFamily calculates its Pillar 1 SCR in line with the Solvency UK Standard Formula, this being common for insurers of OneFamily's size and nature. The SCR has been calibrated by regulators to target an insurer's

resilience against a 1-in-200-years adverse event or combination of adverse events. The Board of OneFamily, supported by actuarial advice, has determined that the Standard Formula is suitable for OneFamily's risk profile, and OneFamily conducts annual assessments of its continued appropriateness. The split of the SCR by risk category indicates the risk profile of OneFamily, as shown in Figure 4.5 as at 31 December 2025 (adjusted to allow for the remaining Project Leaf).

FIGURE 4.5 ONEFAMILY PILLAR 1 SOLVENCY CAPITAL REQUIREMENT BREAKDOWN AS AT 31 DECEMBER 2025 (PRO FORMA - AFTER REMAINING IMPACTS OF PROJECT LEAF)

31 DECEMBER 2025 (£M)	ONEFAMILY NPF	WP2	ENTITY
Market risk	74.3	0.3	74.6
Life underwriting risk	62.7	0.0	62.7
Health underwriting risk	2.2	-	2.2
Counterparty default risk	3.6	0.1	3.7
Diversification	-32.3	-0.1	-32.4
BSCR	110.4	0.4	110.8
Operational Risk	5.4	0.1	5.4
LACDT*	-	-	-
LACTP**	-	-	-
SCR	115.8	0.4	116.2

*Loss-absorbing capacity of deferred taxes

**Loss-absorbing capacity of technical provisions

Source: OneFamily/Milliman

- 4.27 OneFamily is significantly exposed to market risk, which is primarily driven by equity risk arising from the investments of unit-linked funds in equities to deliver good long-term returns to customers. OneFamily is also exposed to currency risk from its overseas investments.
- 4.28 OneFamily is also significantly exposed to life underwriting risk, which is to be expected for an insurer writing life insurance and annuity products. The life underwriting risk is primarily driven by lapse risk arising from unit-linked business. In addition, OneFamily is exposed to mortality risk (which is substantially reinsured), longevity risk from the Over 50s whole of life and the annuity businesses, as well as expense risk.
- 4.29 OneFamily is exposed to counterparty default risk through its exposure to reinsurers, its exposure to insurance intermediaries and its bank deposits. OneFamily also holds capital in respect of operational risk, calculated using a formula-based approach as per the Solvency UK Standard Formula requirements.
- 4.30 Health underwriting risk is not particularly material for OneFamily. This arises from critical illness products and is substantially reinsured.
- 4.31 For some insurers, tax on profits is payable, and such tax reduces if profits are reduced in adverse scenarios. This gives rise to a reduction in the SCR called the Loss-Absorbing Capacity of Deferred Taxes ("LACDT"). As OneFamily is a mutual and pays very little tax, no such reduction applies to OneFamily's SCR on grounds of materiality.
- 4.32 For certain types of insurance business (for example, with-profits business), part of the impact of an adverse scenario can be assumed to be passed on to policyholders through lower discretionary benefits, meaning that the full financial impact of the adverse scenario does not have to be held within the SCR (other than the component of the SCR relating to operational risk, which must be held within the SCR in full). This gives rise to a reduction in the SCR called the Loss-Absorbing Capacity of Technical Provisions ("LACTP"). In OneFamily's case, the pre-merger LACTP is zero on grounds of prudence.
- 4.33 OneFamily uses the Volatility Adjustment ("VA") for those classes of its business where such use is appropriate and for which OneFamily has regulatory permission, and this gives rise to lower liabilities for those classes. OneFamily does not make use of any other Solvency UK measures such as the matching adjustment or any transitional measures which would also give rise to lower liabilities.

PILLAR 2 FINANCIAL POSITION

- 4.34 As part of the ORSA process referred to above, OneFamily undertakes its own quantitative assessment of the amount of available capital and the amount of capital it needs to hold to meet a 1-in-200 years adverse scenario. This is referred to as the Pillar 2 financial position. The Pillar 2 assessments of available capital and capital requirements generally follow a similar approach to Pillar 1, but adjustments to both available and required capital as compared with Pillar 1 are made in order to take full account of the nature of OneFamily's business and OneFamily's risks. Following the completion of Project Leaf, there are now fewer material differences between OneFamily's Pillar 1 and Pillar 2 balances sheets. However, operational risk in particular continues to be assessed on a bespoke basis under Pillar 2.
- 4.35 As for Pillar 1, OneFamily has a CMP for Pillar 2 to facilitate the taking of appropriate action should the Pillar 2 position be subject to a decline.
- 4.36 As the Pillar 2 results are not in the public domain, I have not included them in this report. I do however note that the Pillar 2 position as at 31 December 2025 (adjusted to allow for the remaining impacts of Project Leaf) shows a satisfactory position, in line with the Pillar 2 CMP, and also broadly in line with the overall Pillar 1 position.

5 Overview of Scottish Friendly

BACKGROUND

- 5.1 In this section I have provided a high-level overview of Scottish Friendly, sufficient for my purposes and role as Chief Actuary of OneFamily. In preparing this Report, I have relied without independent verification on information received from Scottish Friendly in relation to its business and its financial position.
- 5.2 Scottish Friendly is a long-established friendly society incorporated in the UK. As a mutual organisation, Scottish Friendly does not have any shareholders.
- 5.3 Scottish Friendly is open to new business and writes a range of life and health business, including with-profits, unit-linked and index-linked, protection and health insurance. Scottish Friendly also has an existing portfolio of Section 32 pensions business, which is a form of buyout contract for individuals who leave company-sponsored pension schemes.
- 5.4 Scottish Friendly had assets under management of £4.4 billion and some 855,000 members as at 31 December 2025. Some members have more than one policy.
- 5.5 Scottish Friendly has extensive experience of acquiring and managing blocks of long-term insurance business via a Part VII Transfer process, including the following cases:
- The transfer of various blocks of with-profits, unit-linked and conventional life and pensions business from Canada Life in 2019.
 - The transfer of a block of unit-linked pensions business from Mobius Life in 2018.
 - The acquisition of the entire business (including with-profits and unit-linked business) of Marine & General Mutual in 2015.
- 5.6 Additionally, Scottish Friendly has recently acquired a block of business from Fidelity International as described further below (Project Tahoe). The transfer has been sanctioned by the High Court and will become effective on 30 September 2026.

SCOTTISH FRIENDLY BUSINESS AND STRUCTURE

- 5.7 Scottish Friendly maintains a main fund, known as the “**SF Main Fund**”, and three separate closed sub-funds in respect of with-profits business previously transferred from Scottish Legal, Marine & General Mutual (“**M&GM**”) and Manulife. For the Manulife sub-fund, the with-profits business was acquired from Canada Life as part of the larger transaction in 2019 as referred to above, with the other part of the acquired Canada Life business going into the SF Main Fund. Two other blocks of with-profits business, known as the Rational Shelley and the LANMAS blocks, were previously in separate with-profits sub-funds and were reallocated to the SF Main Fund (and ceasing to be with-profits policies at the same time) in October 2025.
- 5.8 A high-level overview of the business in each of the sub-funds is provided below:
- **SF Main Fund:** Consists of with-profits business (both conventional and unitised), unit-linked business (including ISAs and pensions), non-profit whole of life policies, and term assurance business (most of which is reinsured). The business transferred from Canada Life (other than the Manulife with-profits business) sits within this fund.
 - **Scottish Legal:** Consists of with-profits business (both conventional and unitised), non-profit whole of life policies, and small volumes of term assurance business. The business was originally written by another friendly society called Scottish Legal Life.
 - **M&GM:** Consists of with-profits business (both conventional and unitised), immediate annuities and flexible income annuities. The business was originally written by an insurer called Marine & General Mutual.
 - **Manulife:** Consists of with-profits and non-profit businesses originally sold by Manulife, and came to Scottish Friendly as part of the acquisition of business from Canada Life.
- 5.9 Scottish Friendly has a profit-sharing mechanism called “ProfitShare” to distribute a share of the profits emerging from the SF Main Fund each year to eligible policyholders by means of enhancing the investment returns applied to asset shares. ProfitShare distributions are discretionary in nature and Scottish Friendly has

the right to vary or stop the distributions in future. In practice the eligible policyholders are the with-profits policyholders in the SF Main Fund.

- 5.10 Scottish Friendly has a number of subsidiary companies. The main subsidiary of relevance for the purposes of this Report is Scottish Friendly Asset Managers Limited, which manages ISA, Junior ISA and CTF business invested in a Scottish Friendly-managed open-ended investment company. The other subsidiaries either provide services to Scottish Friendly or are dormant.

PROJECT TAHOE

- 5.11 In March 2025, Scottish Friendly entered into an agreement with Fidelity International to acquire two blocks of pension business which were no longer core to the strategy of Fidelity's UK life insurance company (known as FIL Life). This acquisition is known as Project Tahoe and a Part VII insurance business transfer process has been completed to transfer this business from FIL Life to the SF Main Fund within Scottish Friendly. The business transferred to Scottish Friendly under Project Tahoe comprises approximately 35,000 policies and £2 billion of assets under management.
- 5.12 The Part VII Directions Hearing for Project Tahoe was held on 27 March 2026 and the Sanction Hearing was held on 8 September 2026, at which High Court Sanction was received. The transfer will become effective on 30 September 2026.
- 5.13 Given that the Project Tahoe transfer has been sanctioned and will become effective on 30 September 2026, it is appropriate to allow for it in my analyses, and hence pro forma financial information as at 31 December 2025 including Project Tahoe is shown below and used in my subsequent analyses.

SOLVENCY UK PILLAR 1 FINANCIAL POSITIONS

- 5.14 The table below sets out the Scottish Friendly Pillar 1 Solvency UK financial positions as at 31 December 2025. These results are consistent with those published and thus exclude the effects of Project Tahoe.

FIGURE 5.1 SCOTTISH FRIENDLY PILLAR 1 SOLVENCY UK PRE-MERGER FINANCIAL POSITION AS AT 31 DECEMBER 2025

31 DECEMBER 2025 (£M)	SF MAIN FUND	M&GM	MANULIFE	SCOTTISH LEGAL	ENTITY
Assets (A)	3,428.2	728.6	79.2	71.5	4,307.5
<i>Comprising:</i>					
<i>Reinsurance Assets</i>	<i>743.0</i>	<i>107.4</i>	<i>-</i>	<i>0.0</i>	<i>850.4</i>
<i>Linked Assets</i>	<i>2,096.2</i>	<i>-</i>	<i>2.6</i>	<i>-</i>	<i>2,098.8</i>
<i>Other Assets</i>	<i>589.1</i>	<i>621.2</i>	<i>76.6</i>	<i>71.5</i>	<i>1,358.4</i>
Liabilities (B)	3,305.3	645.8	79.2	61.4	4,091.8
<i>Comprising:</i>					
<i>BEL – WP</i>	<i>271.0</i>	<i>472.1</i>	<i>72.0</i>	<i>47.6</i>	<i>862.6</i>
<i>BEL – NP – annuity</i>	<i>27.1</i>	<i>158.8</i>	<i>1.8</i>	<i>0.0</i>	<i>187.7</i>
<i>BEL – NP – other</i>	<i>556.4</i>	<i>5.0</i>	<i>1.1</i>	<i>8.6</i>	<i>571.1</i>
<i>BEL – UL – linked component</i>	<i>2,362.8</i>	<i>-</i>	<i>2.6</i>	<i>-</i>	<i>2,365.5</i>
<i>BEL – UL – non-linked component</i>	<i>11.6</i>	<i>-</i>	<i>0.0</i>	<i>-</i>	<i>11.7</i>
<i>Risk Margin</i>	<i>10.5</i>	<i>2.2</i>	<i>-</i>	<i>0.1</i>	<i>12.9</i>
<i>Other Liabilities</i>	<i>65.9</i>	<i>7.7</i>	<i>1.6</i>	<i>5.1</i>	<i>80.4</i>
Own Funds before RFF Restriction (C=A-B)	122.9	82.8	-	10.1	215.8
RFF Restriction (D)	-	-	-	-	89.1
Own Funds after RFF Restriction (E=C-D)	122.9	82.8	-	10.1	126.6
SCR (F)	60.6	2.9	-	0.9	64.4
Solvency Coverage Ratio (G=E/F)	203%	2,895%	N/A	1,130%	197%

Source: Scottish Friendly.

- 5.15 The Manulife sub-fund is a North American-style of with-profits fund where liabilities are set equal to assets. As a result, the fund has nil Own Funds and does not generate an SCR.
- 5.16 The table below sets out on a pro forma basis the equivalent to the above but including the effects of Project Tahoe as at 31 December 2025.

FIGURE 5.2 SCOTTISH FRIENDLY PILLAR 1 SOLVENCY UK PRE-MERGER BALANCE SHEET AS AT 31 DECEMBER 2025 (PRO FORMA - INCLUDING PROJECT TAHOE)

31 DECEMBER 2025 (£M)	SF MAIN FUND	M&GM	MANULIFE	SCOTTISH LEGAL	ENTITY
Assets (A)	5,689.0	728.6	79.2	71.5	6,568.3
<i>Comprising:</i>					
Reinsurance Assets	778.3	107.4	-	0.0	885.7
Linked Assets	4,334.8	-	2.6	-	4,337.4
Other Assets	575.9	621.2	76.6	71.5	1,345.1
Liabilities (B)	5,547.0	645.8	79.2	61.4	6,333.5
<i>Comprising:</i>					
BEL – WP	271.0	472.1	72.0	47.6	862.6
BEL – NP – annuity	33.3	158.8	1.8	0.0	193.9
BEL – NP – other	556.4	5.0	1.1	8.6	571.0
BEL – UL – linked component	4,630.6	-	2.6	-	4,633.2
BEL – UL – non-linked component	- 23.0	-	0.0	-	- 22.9
Risk Margin	12.8	2.2	-	0.1	15.2
Other Liabilities	65.9	7.7	1.6	5.1	80.4
Own Funds before RFF Restriction (C=A-B)	141.9	82.8	-	10.1	234.8
RFF Restriction (D)	-	-	-	-	89.1
Own Funds after RFF Restriction (E=C-D)	141.9	82.8	-	10.1	145.7
SCR (F)	86.4	2.9	-	0.9	90.2
Solvency Coverage Ratio (G=E/F)	164%	2,895%	N/A	1,130%	162%

Source: Scottish Friendly – Unaudited figures.

- 5.17 Hence, allowing for Project Tahoe, Scottish Friendly's Main Fund and entity solvency coverage ratios (at 164% and 162% respectively) are reduced as compared with their reported 31 December 2025 values. However, the position is still in line with Scottish Friendly's solvency risk appetite (see below).

REINSURANCE

- 5.18 Scottish Friendly has the following reinsurance arrangements in place in order to manage its risks:
- Hannover Re: Net level premium reinsurance on term assurance business, critical illness business and whole of life business. Risk premium business on whole of life business, critical illness and family income benefit business. Either 100% or 90% reinsured.
 - Munich Re: Net level premium reinsurance on whole of life business. 50% retention. Original terms reinsurance on income protection business.
 - Swiss Re: Risk premium and net level premium reinsurance on whole of life business, and risk premium and net level premium reinsurance critical illness business. Either 100% or 90% reinsured.
 - SCOR: Risk premium and net level premium reinsurance on term assurance business, and risk premium and net level premium reinsurance critical illness business. Mostly 100% reinsured.
 - Pacific Life Re: A longevity swap reinsurance covering the majority of the Standard Annuities written in the M&GM sub-fund.

- RGA: The fixed portion of the longevity swap with Pacific Life Re is paid by RGA. There is also reinsurance covering 100% of the remaining Standard Annuities in the M&GM sub-fund and 25% of Select Annuities in the M&GM sub-fund.
- Gen Re: Net level premium reinsurance on term assurance business and whole of life business. Risk premium business on term assurance and whole of life business. Either 100% or 90% reinsured.
- Mobius: Unit-linked fund reinsurance for pension policies.

5.19 The effects of the above reinsurance arrangements are incorporated into the solvency balance sheets provided.

POLICY SERVICING AND ADMINISTRATION

5.20 Scottish Friendly carries out the policy servicing and administration of its “own brand” and its previously acquired business using its own staff. It also engages a number of Third-Party Administrators (“TPAs”) for the policy servicing and administration of some business known as “partnership” business where the partner firm undertakes the sale and policy servicing, with Scottish Friendly effectively receiving a fee for being the insurer of the business. These TPA arrangements are considered material outsourcing arrangements, and are subject to Scottish Friendly’s Procurement and Supplier Management Policy and Process. I note also that material outsourcing arrangements are subject to regulatory requirements.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE ARRANGEMENTS

5.21 Scottish Friendly maintains a risk management framework that is intended to establish an effective risk management capability throughout the business, in line with industry standards. Similarly to OneFamily, Scottish Friendly has implemented a three lines of defence model to support its risk management framework and carries out an ORSA process annually as required by the Solvency UK regime.

5.22 The Board of Scottish Friendly is ultimately responsible to the policyholders and members of the society. The Board is responsible for Scottish Friendly’s affairs and compliance with relevant regulations and standards, and delegates powers to various sub-committees including a risk committee, nominations committee, investments committee, audit committee, with-profits committee and remuneration committee. Unlike OneFamily, Scottish Friendly is a type of friendly society known as a “delegate society”, where some of the voting rights sit with a subset of the membership (approximately 30 in number) who are known as “delegates”. One of the matters which the delegates have the right to vote on is in relation to mergers with friendly societies by Part VIII Transfer. The voting rights of the non-delegate members of Scottish Friendly are effectively limited to the election of delegates when vacancies arise and there are more candidates than places.

SOLVENCY, RISK PROFILE AND CAPITAL MANAGEMENT POLICY

5.23 Scottish Friendly calculates its SCR in line with the Solvency UK Standard Formula. Scottish Friendly’s regulatory solvency coverage ratio as at 31 December 2025 is shown in Figure 5.3 below (and consistent with the results presented above).

FIGURE 5.3 SCOTTISH FRIENDLY SOLVENCY UK PILLAR 1 CAPITAL POSITION AS AT 31 DECEMBER 2025

31 DECEMBER 2025 (£M)	SOLVENCY CAPITAL REQUIREMENT	
	EXCLUDING TAHOE	INCLUDING TAHOE
Own Funds (A)	126.6	145.7
SCR (B)	64.4	90.2
Solvency Ratio (A/B)	197%	162%

Source: Scottish Friendly.

5.24 As can be seen from Figure 5.3, Project Tahoe added £19.1m to Own Funds and £25.8m to the SCR, with a resulting fall in the solvency ratio. This is to be expected for a transaction of this nature, and it should be noted that the addition to Own Funds represents a real addition to the value of Scottish Friendly, whereas the addition to the SCR is a capital requirement which would only actually be called upon in full in a 1-in-200 years adverse scenario. It should also be noted that the solvency ratio including Project Tahoe of 162% remains in line with Scottish Friendly’s solvency risk appetite (see below).

- 5.25 Figure 5.4 shows the split of the undiversified SCR into the high-level risks to which Scottish Friendly is exposed, including allowance for Project Tahoe.

FIGURE 5.4 SCOTTISH FRIENDLY UNDIVERSIFIED SOLVENCY CAPITAL REQUIREMENT BREAKDOWN AS AT 31 DECEMBER 2025 (INCLUDING PROJECT TAHOE)

31 DECEMBER 2025 (£M)	SF MAIN FUND	M&GM	SCOTTISH LEGAL	ENTITY
Market risk	55.4	3.5	1.5	60.4
Life underwriting risk	74.6	9.9	0.3	84.7
Health underwriting risk	1.1	-	-	1.1
Counterparty default risk	9.7	0.6	-	10.3
Diversification	-33.5	-2.5	-0.2	-36.2
BSCR	107.2	11.5	1.6	120.3
Operational Risk	9.9	2.9	0.3	13.1
LACDT*	-5.3	-3.3	-1.0	-9.6
LACTP**	-25.4	-8.2	-0.0	-33.5
SCR	86.4	2.9	0.9	90.2

*Loss-absorbing capacity of deferred tax

**Loss-absorbing capacity of technical provisions

Source: Scottish Friendly.

- 5.26 Scottish Friendly's risk profile corresponds to the wide variety of types of business which it writes. The main risks are market risk, and life underwriting risk (such as mortality, lapse and expense risk). Market risk arises primarily from the unit-linked business, and this risk has increased as a result of the large block of unit-linked business acquired under Project Tahoe.
- 5.27 As a mutual organisation Scottish Friendly (like OneFamily) does not have access to shareholder capital. There are however various management actions which Scottish Friendly can undertake to manage its ongoing solvency position. Under its risk appetite statement, Scottish Friendly aims to manage its business and its capital position in order to seek to cover its Pillar 1 regulatory capital requirements (without use of more extreme management actions). This in practice currently translates into seeking to maintain an entity solvency coverage ratio (as set out in Figure 5.3) in excess of 130% with a review point should this ratio fall below 150%.
- 5.28 For completeness, I note that Scottish Friendly does not make use of the VA, the matching adjustment, or any transitional measures. This is similar to the OneFamily position, other than in respect of the VA which is used by OneFamily.

PILLAR 2 FINANCIAL POSITION

- 5.29 Similarly to OneFamily, and as part of the ORSA process referred to above, Scottish Friendly undertakes its own quantitative assessment of the amount of available capital and the amount of capital it needs to hold to meet a 1-in-200 years adverse scenario. This is referred to as the Pillar 2 financial position. The Pillar 2 assessments of available capital and capital requirements generally follow a similar approach to Pillar 1, but adjustments to both available and required capital as compared with Pillar 1 are made in order to take full account of the nature of Scottish Friendly's business and Scottish Friendly's risks. Operational risk in particular continues to be assessed on a bespoke basis under Pillar 2.
- 5.30 As for Pillar 1, Scottish Friendly has a risk appetite statement setting out its solvency risk appetite for Pillar 2, and to facilitate the taking of appropriate action should the Pillar 2 position be subject to a decline.
- 5.31 As the Pillar 2 results are not in the public domain, I have not included them in this report. I do however note that the Pillar 2 position as at 31 December 2025 (both excluding and including Project Tahoe) shows a satisfactory position, in line with its solvency risk appetite for Pillar 2.

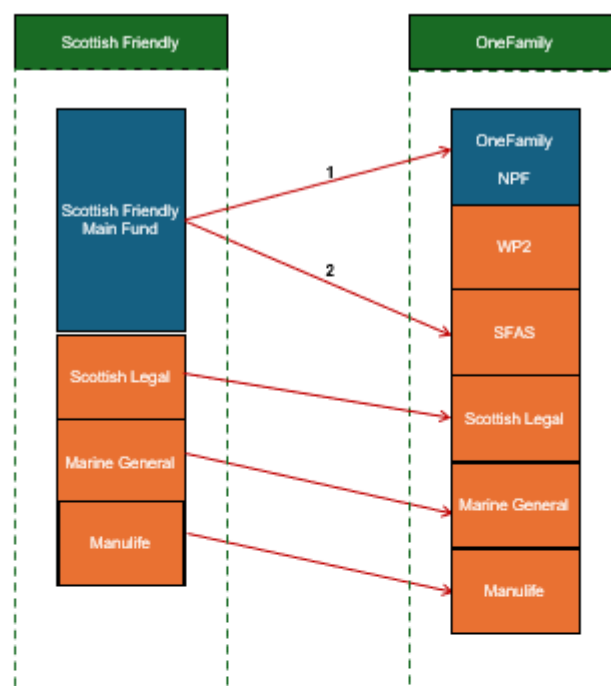
6 The Instrument of Transfer

OVERVIEW

- 6.1 The IoT provides that, as from the Effective Date, all assets, liabilities and policies of Scottish Friendly will transfer to OneFamily. OneFamily will become responsible for the management, administration and servicing of the Transferring Business, and meeting the liabilities as they become due. The IoT also provides for the transfer to OneFamily of all Scottish Friendly reinsurance arrangements and other contracts. Under the Part VIII process, Scottish Friendly will cease to exist as from the Effective Date.
- 6.2 Under the IoT, the Transferring Business will be allocated to OneFamily as follows:
- The SF Main Fund business will be split into two elements:
 - The with-profits business (plus a one-off Merger Allocation – see below) will be allocated to the SFAS Sub-fund, which will be a new closed with-profits fund within OneFamily. This new sub-fund is discussed further in paragraphs 6.13 to 6.37 below.
 - The unit-linked and non-profit business, along with the surplus assets of the SF Main Fund (minus the one-off Merger Allocation referred to above) will be transferred to the existing OneFamily NPF.
 - The business currently allocated to Scottish Friendly's Scottish Legal, M&GM and Manulife sub-funds (the "Scottish Friendly Closed Funds") will be transferred into three new corresponding closed sub-funds to be established within OneFamily. These new sub-funds will be established on a "like for like" basis, with no change to the business and assets allocated to the funds, nor to the management or practical operation of the funds, and these funds will continue to be closed to new business (with the exception as currently of existing policy options, renewals and increments).
- 6.3 The transfer of the business from Scottish Friendly to OneFamily as set out in the above paragraph will comprise all assets, liabilities, policies and reinsurance arrangements associated with each block of business. In the case of the with-profits business within the SF Main Fund, the transfer of business into the new SFAS sub-fund will include the transfer of assets associated with the Merger Allocation from the SF Main Fund (which is discussed further in paragraphs 6.16 to 6.38 below).
- 6.4 For the unit-linked Transferring Business, policy units will be allocated to new unit-linked funds within the OneFamily NPF equivalent to the existing unit-linked funds within the SF Main Fund, with the same number, class and value of unit holdings immediately post-transfer as prior to the Effective Date. The new unit-linked funds within the OneFamily NPF will be established with the same investment objectives, restrictions and policies as applied within the corresponding unit-linked funds immediately prior to the Effective Date. Following the Effective Date, OneFamily shall be permitted to open, close or merge unit-linked funds across the full post-merger range of funds, or to make changes to the investment approach of the funds, subject to actuarial advice and considerations of fairness.
- 6.5 The SF Main Fund contains certain 'hybrid' policies which comprise both unit-linked and unitised with-profits holdings. For these cases, the policy itself and the unit-linked component will be allocated to the OneFamily NPF post-merger, and the unitised with-profits component will be allocated to the SFAS sub-fund post-merger. Policyholders will continue to be able to exercise any rights and options available under the terms of their policies, including rights to switch between unit-linked and with-profits investments where provided for under the policy terms.
- 6.6 There will be no changes to the terms and conditions of the Transferring Policies under the IoT, other than them becoming policies of OneFamily rather than Scottish Friendly. For the avoidance of doubt, there will be no changes to the terms and conditions of any of the existing OneFamily policies and no changes to the operation of OneFamily's WP2 fund.
- 6.7 From the Effective Date, members of Scottish Friendly will become members of OneFamily with the same membership rights as current OneFamily members. Such rights include voting rights and the rights to the surplus of OneFamily on any winding-up or any future form of demutualisation or other transaction. In particular, it can be noted that post-merger the membership rights of all former Scottish Friendly with-profits policyholders will be the same as (and no greater than) all other former Scottish Friendly and all current OneFamily policyholders.

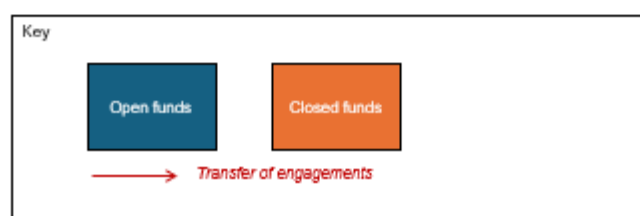
- 6.8 Figure 6.1 below summarises in diagram form the business transferring under the IoT and the structure of OneFamily post-merger (boxes are not shown to scale).

FIGURE 6.1: PRE- AND POST-MERGER STRUCTURES



Scottish Friendly Main Fund split to transfer:

1. Existing unit-linked and non-profit business plus surplus (minus Merger Allocation) to the OneFamily NPF.
2. Existing with-profits business plus Merger Allocation to the newly established SFAS sub-fund.



- 6.9 As the above diagram shows, post-merger OneFamily will comprise an enlarged NPF and five closed to new business ring-fenced with-profits funds.
- 6.10 Both OneFamily and Scottish Friendly will each meet their own costs in effecting the IoT, including the costs of notifying their respective members and policyholders of the IoT. Regulatory costs and the costs of the Independent Actuary will be shared equally between the Societies.

- 6.11 From the Effective Date, the new SFAS sub-fund will bear the costs of any pre-transfer mis-selling or pre-transfer operational errors which subsequently emerge in relation to the business allocated to that fund. The costs of any such errors occurring post-transfer will be met by the OneFamily NPF. For the three existing Scottish Friendly sub-funds, such costs will continue to be met by the sub-fund if they pre-date the relevant acquisition by Scottish Friendly, and will otherwise be met by the OneFamily NPF. The cost of any potential mis-selling or past operational errors in respect of the transferring non-profit and unit-linked business will be borne by the OneFamily NPF.
- 6.12 Following the Effective Date, any changes to the terms of the IoT are subject to PRA and FCA consent and will require a certificate from the OneFamily Chief Actuary and the OneFamily With-Profits Actuary confirming that in their opinion, the proposed amendment will not have a material adverse effect on the reasonable expectations or benefit security of OneFamily policyholders. Such consent from the PRA and the FCA will not be required in relation to minor or technical amendments to the IoT necessary to correct an error or omission, or amendments which are reasonably considered by the OneFamily Board to be necessary to ensure the IoT operates as intended following future changes in regulation. Any such amendments shall still require notification to and non-objection from the regulators, as well as actuarial advice on the impact of the amendments on OneFamily policyholders.

ESTABLISHMENT OF THE NEW SFAS SUB-FUND

- 6.13 As referred to in paragraph 6.2, a new closed ring-fenced fund, the SFAS sub-fund, will be established under the IoT. The SFAS sub-fund will hold the assets, liabilities and policies associated with the with-profits policies currently within the SF Main Fund, together with additional assets representing a one-off Merger Allocation as compensation for the loss of expected future distributions from the surplus assets of the SF Main Fund (currently known as ProfitShare, as noted previously). The Merger Allocation is discussed further in paragraphs 6.16 to 6.19 below.
- 6.14 The new SFAS sub-fund will be closed to new business other than in respect of existing policy options, renewals, contractual increments and other automatic premium increases.
- 6.15 From the Effective Date (other than under extreme circumstances) any surplus existing or arising in the SFAS sub-fund shall effectively belong exclusively to the policyholders of the SFAS sub-fund, such surplus being distributed to those policyholders over time as the sub-fund runs off. A run-off plan is being produced to facilitate this.

Merger Allocation

- 6.16 As outlined above, a one-off Merger Allocation will be allocated to the SFAS sub-fund. The Merger Allocation amount has been determined by the Board of Scottish Friendly.
- 6.17 The IoT defines the Merger Allocation as an amount calculated on the basis of a simple² annual uplift of 1.828% p.a. to policyholder asset shares, according to a prescribed formula. Based on the policies in-force and the asset shares as at 31 December 2025, this corresponds to an estimated Merger Allocation of £35m. The actual amount of assets required to support the Merger Allocation will be determined as the assets equivalent to the 1.828% p.a. simple uplift as at the Effective Date based on the policies and asset shares then in force (provided that the policy was also in-force on the cut-off date of 28 February 2026). The IoT provides for an estimate of the Merger Allocation to be made prior to the Effective Date with a corrective adjustment being made shortly after the Effective Date.
- 6.18 In practice, part of the Merger Allocation will be applied to provide an uplift (the “**Initial Policy Uplift**”) to asset shares as from the Effective Date, with an expectation that the balance would be available to be applied to asset shares over time.
- 6.19 The IoT provides that the amount of the Initial Policy Uplift to asset shares as from the Effective Date cannot be such as to increase the liabilities of the SFAS sub-fund at the Effective Date by more than 50% of the Merger Allocation.

² In this context, “simple” refers to the fact that the 1.828% distribution in a given year is assumed in the formula to apply to the asset share **excluding the value of prior uplifts**, that is, the 1.828% does not compound over time. The equivalent compound figure would be lower than 1.828% p.a.

SFAS Sub-fund Charges and Expenses

- 6.20 Under the IoT, the policy management and administration expenses allocated to the SFAS sub-fund post-merger will be met by the OneFamily NPF, and the SFAS sub-fund will pay charges to the OneFamily NPF as a fixed amount per policy in-force.
- 6.21 The IoT contains a SFAS sub-fund “rate card” which sets out these charges payable from the SFAS sub-fund to the NPF in respect of policy management and administration expenses. These rates vary by policy type and are based on Scottish Friendly’s current costs of managing the with-profits business allocated to the SF Main Fund plus a 5% uplift. This uplift compensates the NPF for taking on the expense and future operational risk as the SFAS sub-fund runs off.
- 6.22 The initial annual charges payable per policy are as follows:
- Unitised With-Profits Policies (excluding MyPlans) - £43.92
 - MyPlans Unitised With-Profits Policies - £33.92
 - With-Profits Institutional Whole of Life Policies - £27.40
 - Conventional With-Profits Policies - £33.59
- 6.23 These charges (which include the 5% uplift) will increase in line with CPI plus 1% each year. The figures set out within the IoT are shown as annual amounts, but will be payable from the SFAS sub-fund to the OneFamily NPF on a quarterly basis.
- 6.24 For hybrid policies (as described in paragraph 6.5), the annual charges set out above will be applied proportionally based on the unitised with-profit component of the policy allocated to the SFAS sub-fund.
- 6.25 Investment management expenses will be charged in addition to the SFAS sub-fund based on actual costs incurred. Any investment management charges in excess of 20 bps p.a. will be subject to an additional level of governance review.
- 6.26 The SFAS sub-fund will also bear the costs of any exceptional, recurring or one-off projects incurred by OneFamily arising in respect of business allocated to the SFAS sub-fund where such costs are required or where they are expected give rise to benefits (either financial or non-financial) to SFAS sub-fund and/or its policies. Such costs will be as determined on a fair basis by the OneFamily Board having regard to the advice of the OneFamily With-Profits Actuary.
- 6.27 Under the terms of the IoT, other charges may be applied to the SFAS sub-fund following the Effective Date which were not reasonably foreseeable at the Effective Date and which would have reasonably been allocated to the SFAS sub-fund had they been reasonably foreseeable. Such charges may be applied to the SFAS sub-fund as determined by the OneFamily Board having regard to the advice of the OneFamily With-Profits Actuary, on the condition that such charges are fair and take account of policyholders’ reasonable expectations.

SFAS Sub-fund Capital Support

- 6.28 The IoT includes a capital support arrangement under which the OneFamily NPF will provide capital support to the SFAS sub-fund in the event that the value of the assets of the SFAS sub-fund falls below the value of the SFAS sub-fund’s liabilities.
- 6.29 No capital support is required to be provided by the OneFamily NPF under the IoT in the event that the SFAS sub-fund has assets sufficient to meet its liabilities but not its notional SCR. However, in such a situation any excess Own Funds within the OneFamily NPF would, under current UK regulatory requirements, be deemed to be available to meet the portion of the SFAS sub-fund notional SCR that cannot be met by assets of the SFAS sub-fund.
- 6.30 The capital support arrangement set out in the IoT is subject to the overarching principle that the SFAS sub-fund will be operated as a standalone mutual entity with no expectation of capital support.
- 6.31 The details of the capital support arrangement within the IoT are such that the point at which capital support would be provided is, in effect, the same as that applicable via the current PRA and FCA rules in the sense that current PRA and FCA rules require with-profits funds to hold sufficient assets to meet their liabilities, but there is no regulatory requirement for with-profits to have sufficient Own Funds to cover their notional SCR; if necessary the notional SCR can be met by assets held outside of the with-profit fund.

SFAS Sub-Fund Governance

- 6.32 In addition to the various governance provisions within the IoT, the SFAS sub-fund will benefit post-merger from oversight of the OneFamily With-Profits Committee and advice from the OneFamily With-Profits Actuary.
- 6.33 The updated, post-merger Principles and Practices of Financial Management (“PPFM”) document is substantially based on the existing SF Main Fund PPFM, retaining the same investment principles. The updated PPFM allows for the changes arising from the IoT, and in particular includes the overarching principle from the IoT that the sub-fund will be managed as a stand-alone mutual entity with no expectation of capital support.
- 6.34 As a newly closed sub-fund, the SFAS Sub-fund will be subject to run-off plan consistent with the requirements of the relevant FCA rules. This run-off plan will demonstrate the fair distribution of the surplus of the sub-fund until ultimate closure (see below).

Closure of the SFAS Sub-fund

- 6.35 The IoT contains a section which provides OneFamily with the option to cease maintaining the SFAS sub-fund as a separate sub-fund when the value of assets within the fund falls below £50m (measured as at 31 December 2025 and increasing annually in line with CPI), or when the OneFamily Board considers the continued maintenance of the SFAS sub-fund as a separate fund is materially adverse to OneFamily NPF Policies (having regard to the advice of the OneFamily Chief Actuary) and cessation of the fund is not materially adverse to the SFAS sub-fund with-profits policies (having regard to the advice of the OneFamily With-Profits Actuary). Once the value of assets within the SFAS sub-fund falls below £25m (measured as at 31 December 2025 and increasing annually in line with CPI), then under the IoT OneFamily must cease to maintain the SFAS sub-fund as a separate fund.
- 6.36 Upon meeting the criteria for closing the SFAS sub-fund set out above, all policies, assets and liabilities of the SFAS sub-fund will be transferred to the OneFamily NPF. Any surplus within the SFAS sub-fund at this time, less a “Cessation Charge”, will be allocated as enhancements to SFAS sub-fund policies. The manner in which the surplus is distributed to SFAS sub-fund Policies, and the value of the Cessation Charge, will be determined on a basis that the OneFamily Board (having regard to the advice of the OneFamily Chief Actuary and OneFamily With-Profits Actuary) considers fair. The Cessation Charge covers the cost of certain additional capital requirements arising in the OneFamily NPF as a result of the closure of the SFAS sub-fund, together with an agreed share of the costs incurred in carrying out the closure.
- 6.37 When transferring the SFAS sub-fund policies to the OneFamily NPF under these terms within the IoT, the OneFamily Board (having regard to the advice of the OneFamily With-Profits Actuary) may elect to convert SFAS sub-fund with-profits policies to either unit-linked policies or non-profit policies on the basis that upon conversion, such policies will be treated consistently with other such unit-linked or non-profit policies within the OneFamily NPF.

Taxation of the SFAS Sub-fund

- 6.38 The IoT provides for tax to be charged to the SFAS sub-fund as if it were a notional stand-alone friendly society.

Considerations around reattribution

- 6.39 Following conversations with the FCA, Scottish Friendly has applied to the FCA for a modification of part 20.1.2R of the Conduct of Business Sourcebook (“COBS”) within the FCA Handbook. This modification would disapply the process relating to a reattribution of an inherited estate³ set out in COBS 20.2.42R to COBS 20.2.52G. The conditions accompanying 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. Consequently, the Independent Actuary appointed to report on the effects of the transfer (described in paragraph 1.9) has agreed to expand his scope to meet the relevant requirement described above.
- 6.40 The discussions around reattribution relate to the SF Main Fund inherited estate and the nature and extent of the rights and interests of the SF Main Fund with-profits policyholders in the SF Main Fund inherited estate. Therefore, unless the ongoing discussions were to result in a material change to the size of the Merger Allocation, the question of reattribution would not be materially relevant to existing OneFamily policyholders or

³ The FCA Handbook Glossary defines a reattribution as “the process under which a firm that carries on with-profits business seeks to redefine the rights and interests that the with-profits policyholders have over the inherited estate”.

to my remit as Chief Actuary of OneFamily. I will comment further on any developments relating to reattribution in my supplementary report on the transfer if necessary.

- 6.41 It should be noted that I have set out the information above in relation to the consideration of reattribution and the Scottish Friendly application for a modification to the COBS rules for the sake of completeness. For the avoidance of doubt, I have had no involvement in the consideration of these matters and the courses of action being followed by Scottish Friendly.

SUBSIDIARIES

- 6.42 Under the IoT, the subsidiaries of Scottish Friendly will be transferred so as to become assets of the OneFamily NPF, consistent with the subsidiaries of OneFamily being assets of the OneFamily NPF. For Scottish Friendly's FCA-authorised subsidiary (Scottish Friendly Asset Managers Limited), this is subject to the required FCA change in control process.

OTHER SCHEMES AND INSTRUMENTS

- 6.43 Under the IoT, certain ongoing terms of the existing Scottish Friendly schemes or instruments continue to apply after the Effective Date, on the basis that any references to Scottish Friendly in such schemes or instruments are read as references to OneFamily from the Effective Date.
- 6.44 In particular, the operation of the Scottish Legal Life, M&GM and Manulife sub-funds within OneFamily post-merger will continue as within Scottish Friendly pre-merger. The key aspects relate to the arrangements for charging expenses and tax, capital support, and when these sub-funds may be ceased.
- 6.45 In relation to Project Tahoe, the IoT includes the relevant references from the Part VII scheme which effected the transfer into Scottish Friendly, in particular those aspects which relates to the ongoing management of the business acquired under Project Tahoe.
- 6.46 The FIL Life Scheme imposed obligations on Scottish Friendly relating to the operation of the FutureWise investment approach and the continued availability of certain investment arrangements following that transfer. I understand that these obligations will transfer to OneFamily following the merger and will therefore continue to be honoured by OneFamily.
- 6.47 The reinsurance arrangements relating to the Transferring Policies will transfer to OneFamily as part of the merger and will generally remain unchanged.
- 6.48 It is proposed that the transfer of any business carried on in or from Jersey by Scottish Friendly (or any predecessor firms), or which comprises policies issued by Scottish Friendly (or any predecessor firms) to persons resident in Guernsey will be effected following the approval of separate schemes of transfer in Jersey and Guernsey. These schemes will provide for the transfer of policies on the same terms as the IoT and are expected to have the same transfer date as the IoT.

7 Financial effects of the IoT

7.1 Before considering the effects of the IoT on the OneFamily policyholders, it is useful to set out the financial effects of the IoT on the Solvency UK Pillar 1 financial position.

7.2 In addition to setting out the financial effects of the IoT on the Solvency UK Pillar 1 financial position, I also consider the effects of the IoT on a Solvency UK Pillar 2 basis.

IMPACT ON PILLAR 1 FINANCIAL POSITION

7.3 The effects of the IoT on the OneFamily Solvency UK Pillar 1 financial position as at 31 December 2025 are set out in this section, including fund and entity-level impacts as appropriate. Unless otherwise stated, the pre- and post-merger figures shown include allowance for the remaining impacts of Project Leaf (in respect of OneFamily) and for Project Tahoe in respect of Scottish Friendly.

7.4 The key assumptions underlying the post-merger figures shown in this section are as follows:

- Under the terms of the IoT, a Merger Allocation of £35m is allocated to the newly established SFAS sub-fund post-merger. The analysis assumes that the increase in the best estimate liability arising on the application of the initial uplift to asset shares (described in paragraph 6.18) is equal to 40% of the Merger Allocation, with the remainder allocated to the SFAS sub-fund estate;
- The expense synergies arising post-merger are assumed to give rise to a reduction of £61.7m in best estimate liabilities within the post-merger OneFamily NPF; and
- The total costs of implementing the IoT and of implementing the expense synergies are assumed to be £17m and are allocated fully to the post-merger OneFamily NPF.

7.5 The assumed implementation costs and expense synergies are discussed further below.

OneFamily NPF

7.6 The table below sets out the Solvency UK Pillar 1 financial position as at 31 December 2025 for the OneFamily NPF. The pre- and post-merger figures shown allow for the remaining impacts of Project Leaf and the post-merger figures shown also allow for Project Tahoe.

FIGURE 7.1: ONEFAMILY NPF PILLAR 1 SOLVENCY UK FINANCIAL POSITION

ONEFAMILY NPF 31 DECEMBER 2025 (£M)	PRE-MERGER INCLUDING REMAINING IMPACTS OF PROJECT LEAF	POST-MERGER INCLUDING REMAINING PROJECT LEAF AND PROJECT TAHOE
Assets (A)	4,486.1	9,847.0
<i>Comprising:</i>		
Reinsurance Assets	113.3	891.6
Linked Assets	4,145.8	8,480.6
Other Assets	227.0	474.8
Liabilities (B)	4,271.3	9,477.6
<i>Comprising:</i>		
BEL – WP	-	-
BEL – NP – annuity	72.7	106.0
BEL – NP – other	84.8	637.2
BEL – UL – linked component	4,145.8	8,776.4
BEL – UL – non-linked component	-111.5	-134.4
Risk Margin	10.1	25.9
Other Liabilities	69.4	66.6
Own Funds (C=A-B)	214.7	369.4
SCR (D)	115.8	214.6
Solvency Coverage Ratio (E=C/D)	185%	172%

Source: OneFamily and Scottish Friendly

- 7.7 The post-merger OneFamily NPF balance sheet allows for the following adjustments:
- The Merger Allocation of £35m and the costs of implementing the IoT of £17m are deducted from Other Assets;
 - The expense synergies of £61.7m in value are deducted from Other Liabilities⁴;
 - Other Liabilities are also reduced by the estimated benefit to the OneFamily NPF of the profit loading included within the rate card between the OneFamily NPF and the SFAS sub-fund, as outlined in paragraph 6.20⁵;
 - The best estimate liabilities associated with certain non-profit business from the SF Main Fund allocated to the OneFamily NPF post-merger are adjusted to allow for the estimated impact of applying the VA to that business, consistent with OneFamily's approach. This would be subject to regulatory approval, but it reflects our working assumption that OneFamily will apply to extend its VA application to include certain non-profit business transferred in from the SF Main Fund.
- 7.8 Overall, the IoT results in a £154.6m increase in Own Funds within the OneFamily NPF, a £98.8m increase in SCR, and a reduction in solvency coverage ratio from 185% to 172%.
- 7.9 The increase in Own Funds arises mainly from the Own Funds associated with the SF Main Fund business allocated to the OneFamily NPF post-merger and the expense synergies expected to arise from the merger, offset partly by the Merger Allocation allocated to the SFAS sub-fund post-merger and the project implementation costs.

⁴ In practice, the value of the expense synergies will be a reduction to the BEL (with a suitable apportionment across product categories) rather than the Other Liabilities. However, the choice of categorisation is largely presentational and does not affect Own Funds or the Solvency Coverage Ratio.

⁵ Similarly to the expense synergy, in practice, the value of the benefit of the profit loading will be a reduction to the BEL, rather than adjustment to Other Liabilities. However, this categorisation is purely presentational.

- 7.10 The increase in SCR arises as a result of the additional risks associated with the SF Main Fund business allocated to the OneFamily NPF post-merger, together with a reduction in the LACTP, albeit with some diversification benefit arising when combined with the existing business within the OneFamily NPF. Overall, the composition of the risks to which the OneFamily NPF is exposed remains similar post-merger to pre-merger, with the most material risk exposures being equity risk, currency risk, lapse risk and expense risk both pre- and post-merger. The following changes arising from the merger are worth noting (the comparisons below are based on the post-merger OneFamily NPF SCR relative to the sum of the pre-merger SCRs of the OneFamily NPF and the SF Main Fund business due to be allocated to the OneFamily NPF post-merger):
- A reduction in the SCR relating to interest rate risk post-merger compared to the aggregate interest rate risk SCR of the OneFamily NPF and the relevant component of the SF Main Fund pre-merger, which is due to a change in the biting direction for the business allocated from the SF Main Fund to the OneFamily NPF - from 'interest rates down' pre-merger to 'interest rates up' post-merger;
 - A reduction in the SCR relating to interest rate risk and spread risk arising from the relevant component of the SF Main Fund post-merger due to the payment of the Merger Allocation, which (in 31 December 2025 terms) will be paid from cash, gilts and short-term corporate bonds and will therefore reduce the interest rate and spread risk SCR in the OneFamily NPF (and with the relevant risk then arising instead within the SFAS sub-fund);
 - A reduction in the SCR relating to expense risk due to the expense synergies expected to emerge as a result of the IoT, partly offset by some additional expense risk within the OneFamily NPF as a result of the expense agreement between the OneFamily NPF and the SFAS sub-fund.
- 7.11 OneFamily and Scottish Friendly have carried out initial analysis of the expected resilience of the post-merger entity against various adverse stresses and scenarios, based on the pro forma financial position as at 31 December 2025. This analysis shows that the Solvency UK financial position of the post-merger entity is expected to be resilient against a range of stresses and scenarios, even before the execution of potential management actions that would be expected to be available to improve solvency coverage.
- 7.12 The capital management policy of the post-merger entity will be a matter for the Board of that entity once the merger has become effective. However, OneFamily and Scottish Friendly have carried out an initial analysis of the post-merger entity and the extent to which a maintaining a 150% solvency coverage ratio would be expected to correspond to sufficient resilience to meet 100% of SCR following a 1-in-20 year adverse event. This analysis indicates that a 150% solvency coverage ratio would indeed be consistent with 1-in-20 year level of resilience against an SCR breach.
- 7.13 Regarding the pro forma SCR coverage ratio of the merged entity at 31 December 2025, whilst there is a reduction in the solvency coverage ratio of the OneFamily NPF post-merger, it remains comfortably above the 150% level which OneFamily seeks to maintain under normal circumstances under its CMP. As described above, a 150% solvency coverage ratio is expected based on initial analysis to provide resilience against an SCR breach following a 1-in-20 year event. Further, I note that the addition to Own Funds represents a real addition to the value of the OneFamily NPF, whereas the addition to the SCR is a capital requirement which would only actually be called upon in full in a 1-in-200 years adverse scenario.

OneFamily WP2 Fund

- 7.14 The table below sets out the pre- and post-merger Solvency UK Pillar 1 balance sheet as at 31 December 2025 for the OneFamily WP2 Fund.

FIGURE 7.2: ONEFAMILY WP2 FUND PILLAR 1 SOLVENCY UK FINANCIAL POSITION

ONEFAMILY WP2 FUND 31 DECEMBER 2025 (£M)	PRE- AND POST-MERGER
Assets (A)	23.7
<i>Comprising:</i>	
<i>Reinsurance Assets</i>	-
<i>Linked Assets</i>	-
<i>Other Assets</i>	23.7
Liabilities (B)	19.6
<i>Comprising:</i>	
<i>BEL – WP</i>	18.1
<i>BEL – NP – annuity</i>	-
<i>BEL – NP – other</i>	-
<i>BEL – UL – linked component</i>	-
<i>BEL – UL – non-linked component</i>	-
<i>Risk Margin</i>	0.0
<i>Other Liabilities</i>	1.5
Own Funds (C=A-B)	4.2
SCR (D)	0.4
Solvency Coverage Ratio Pre-Merger (E=C/D)	959%

Source: OneFamily

- 7.15 There is no change in the Solvency UK Pillar 1 financial position of the OneFamily WP2 fund as a direct result of the merger.

SFAS Sub-fund

- 7.16 The table below sets out the Solvency UK Pillar 1 balance sheet as at 31 December 2025 for the SFAS sub-fund, which will be a newly established ring-fenced fund from the Effective Date under the terms of the IoT.

FIGURE 7.3: SFAS SUB-FUND PILLAR 1 SOLVENCY UK BALANCE SHEET

SFAS SUB-FUND	POST-MERGER
31 DECEMBER 2025 (£M)	
Assets (A)	311.1
<i>Comprising:</i>	
<i>Reinsurance Assets</i>	-
<i>Linked Assets</i>	-
<i>Other Assets</i>	311.1
Liabilities (B)	292.8
<i>Comprising:</i>	
<i>BEL – WP</i>	285.0
<i>BEL – NP – annuity</i>	-
<i>BEL – NP – other</i>	-
<i>BEL – UL – linked component</i>	-
<i>BEL – UL – non-linked component</i>	-
<i>Risk Margin</i>	0.7
<i>Other Liabilities</i>	7.1
Own Funds (C=A-B)	18.3
SCR (D)	11.0
Solvency Coverage Ratio (E=C/D)	166%

Source: Scottish Friendly

- 7.17 In addition to the assets (which are determined based on the best estimate liability, including cost of guarantees, arising from the with-profits business) and liabilities associated with the with-profits business currently within the SF Main Fund, assets of £35m representing the one-off Merger Allocation are assumed to be allocated to the SFAS sub-fund. For the purposes of this analysis, it has been assumed that the increase in liabilities arising from the initial uplift to asset shares (described in paragraph 6.18) is equal to 40% of the Merger Allocation and contributes to the with-profits BEL of the SFAS-sub-fund. The remainder of the Merger Allocation is included in the Own Funds of the SFAS sub-fund. The Own Funds are also reduced due to the effect of the profit loading included within the rate card between the OneFamily NPF and the SFAS Sub-fund (which increases the Other Liabilities of the SFAS sub-fund and reduces the Other Liabilities of the OneFamily NPF). All of these effects are included in Figure 7.3.
- 7.18 It is proposed that the SCR of the SFAS sub-fund will be set such that the SFAS sub-fund would, if necessary, assume management actions (beyond the normal recalculation of reducing future bonuses under the SCR stresses) to bring the solvency coverage ratio of the sub-fund back up to 150%, as there are sufficient liabilities of a discretionary nature within the fund to assume the risks could be partially absorbed via management actions under stress. Such actions would be reflected in the SCR via the loss-absorbing capacity of technical provisions; however, as the post-merger solvency coverage ratio of the SFAS sub-fund as at 31 December 2025 already exceeds the target ratio of 150% without the need to undertake any such management actions, no such actions have been allowed for in the SCR.
- 7.19 I note for completeness that, under the terms agreed for the merger, it falls to Scottish Friendly to make available immediately pre-merger the appropriate assets to fund the Merger Allocation. I note further that Scottish Friendly has, since the merger terms were agreed, entered into arrangements to back the £35m (which is the 31 December 2025 value of the Merger Allocation) with appropriate matching assets so as to minimise any strain arising when the actual amount of the Merger Allocation becomes known in due course.

Scottish Friendly Closed Funds

- 7.20 The table below sets out the pre- and post-merger Solvency UK Pillar 1 financial position as at 31 December 2025 for the Scottish Friendly Closed Funds.

FIGURE 7.4: SCOTTISH FRIENDLY CLOSED FUNDS PILLAR 1 SOLVENCY UK FINANCIAL POSITION

SCOTTISH FRIENDLY CLOSED FUNDS 31 DECEMBER 2025 (£M)	PRE- AND POST-MERGER		
	M&GM	MANULIFE	SCOTTISH LEGAL
Assets (A)	728.6	79.2	71.5
<i>Comprising:</i>			
Reinsurance Assets	107.4	-	0.0
Linked Assets	-	2.6	-
Other Assets	621.2	76.6	71.5
Liabilities (B)	645.8	79.2	61.4
<i>Comprising:</i>			
BEL – WP	472.1	72.0	47.6
BEL – NP – annuity	158.8	1.8	0.0
BEL – NP – other	5.0	1.1	8.6
BEL – UL – linked component	-	2.6	-
BEL – UL – non-linked component	-	0.0	-
Risk Margin	2.2	-	0.1
Other Liabilities	7.7	1.6	5.1
Own Funds (C=A-B)	82.8	-	10.1
SCR (D)	2.9	-	0.9
Solvency Coverage Ratio Pre-Merger (E=C/D)	2,895%	N/A	1,130%

Source: Scottish Friendly

- 7.21 There is no change in the M&GM sub-fund balance sheet as a result of the IoT. The SCR of the M&GM sub-fund is equal to the operational risk capital requirement both pre- and post-merger, as all other risks are assumed to be fully absorbed under stress via the loss absorbing capacity of deferred taxes and technical provisions.
- 7.22 As noted previously, the Manulife fund is a North American-style with-profits fund where assets are set equal to liabilities. As a result, the fund has nil Own Funds and does not generate an SCR. This continues to be the case post-merger.
- 7.23 There is no change in the Scottish Legal sub-fund Own Funds and SCR as a result of the IoT. Currently the SCR of the Scottish Legal sub-fund of £0.9m includes only partial allowance for the loss-absorbing capacity of deferred taxes and technical provisions under stress, and consequently includes some residual risk in addition to operational risk. Post-merger it is assumed that there is no change in the Solvency UK Pillar 1 financial position of the Scottish Legal sub-fund as a direct result of the merger.
- 7.24 The table below sets out the Solvency UK Pillar 1 financial position as at 31 December 2025 for OneFamily at the entity level. The pre- and post-merger figures shown allow for Project Leaf and the associated mass lapse reinsurance, and the post-merger figures shown also allow for Project Tahoe.

FIGURE 7.5: ENTITY-LEVEL PILLAR 1 SOLVENCY UK FINANCIAL POSITION

ONEFAMILY - ENTITY LEVEL 31 DECEMBER 2025 (£M)	PRE-MERGER INCLUDING REMAINING PROJECT LEAF	POST-MERGER INCLUDING REMAINING PROJECT LEAF AND PROJECT TAHOE
Assets (A)	4,509.8	11,061.1
<i>Comprising:</i>		
Reinsurance Assets	113.3	999.0
Linked Assets	4,145.8	8,483.2
Other Assets	250.8	1,578.9
Liabilities (B)	4,290.9	10,576.4
<i>Comprising:</i>		
BEL – WP	18.1	894.7
BEL – NP – annuity	72.7	266.6
BEL – NP – other	84.8	651.9
BEL – UL – linked component	4,145.8	8,779.0
BEL – UL – non-linked component	-111.5	-134.4
Risk Margin	10.1	29.0
Other Liabilities	70.9	89.6
Own Funds before RFF Restriction (C=A-B)	218.9	484.7
RFF Restriction (D)	3.7	100.1
Own Funds after RFF Restriction (E=C-D)	215.2	384.6
SCR (F)	116.2	229.8
Solvency Coverage Ratio (G=E/F)	185%	167%

Source: OneFamily and Scottish Friendly

- 7.25 Overall, the IoT results in a £169.4m increase in Own Funds after RFF Restriction, a £113.6m increase in SCR and a reduction in solvency coverage ratio from 185% to 167% at the OneFamily entity level. These changes arise as a result of the movements in the underlying funds as discussed in the above sections.
- 7.26 Whilst there is a reduction in the entity solvency coverage ratio of OneFamily post-merger, as is the case for the OneFamily NPF, it remains comfortably above the 150% level which OneFamily seeks to maintain under normal circumstances under its CMP.
- 7.27 The post-merger Solvency UK Pillar 1 financial position as at 31 December 2025 for all funds and the merged entity is summarised in the table below, including the remaining Project Leaf and including Project Tahoe. This table does not present any new information as compared with the tables above, but does show the entirety of the OneFamily fund structure and fund positions in a single table.

FIGURE 7.6: POST-MERGER PILLAR 1 SOLVENCY UK FINANCIAL POSITION (INCLUDING PROJECT TAHOE)

31 DECEMBER 2025 (£M)	ONEFAMILY NPF	SFAS SUB-FUND	M&GM	MANULIFE	SCOTTISH LEGAL	WP2	ENTITY
Assets (A)	9,847.0	311.1	728.6	79.2	71.5	23.7	11,061.1
Comprising:							
Reinsurance Assets	891.6	-	107.4	-	0.0	-	999.0
Linked Assets	8,480.6	-	-	2.6	-	-	8,483.2
Other Assets	474.8	311.1	621.2	76.6	71.5	23.7	1,578.9
Liabilities (B)	9,477.6	292.8	645.8	79.2	61.4	19.6	10,576.4
Comprising:							
BEL – WP	-	285.0	472.1	72.0	47.6	18.1	894.7
BEL – NP – annuity	106.0	-	158.8	1.8	0.0	-	266.6
BEL – NP – other	637.2	-	5.0	1.1	8.6	-	651.9
BEL – UL – linked component	8,776.4	-	-	2.6	-	-	8,779.0
BEL – UL – non-linked component	-134.4	-	-	0.0	-	-	-134.4
Risk Margin	25.9	0.7	2.2	-	0.1	0.0	29.0
Other Liabilities	66.6	7.1	7.7	1.6	5.1	1.5	89.6
Own Funds before RFF Restriction (C=A-B)	369.4	18.3	82.8	-	10.1	4.2	484.7
RFF Restriction (D)	-	-	-	-	-	-	100.1
Own Funds after RFF Restriction (E=C-D)	369.4	18.3	82.8	-	10.1	4.2	384.6
SCR (F)	214.6	11.0	2.9	-	0.9	0.4	229.8
Solvency Coverage Ratio (G=E/F)	172%	166%	2,895%	N/A	1,130%	959%	167%

Source: OneFamily and Scottish Friendly

PILLAR 2 CONSIDERATIONS

- 7.28 As might be expected, there are differences between OneFamily's and Scottish Friendly's existing Pillar 2 approaches and bases. Post-merger, it will fall to the risk function of the enlarged OneFamily to determine its definitive Pillar 2 approach. It is, however, necessary for me to give consideration to Pillar 2 as part of my consideration of the Part VIII transfer. I have therefore had discussions with OneFamily and Scottish Friendly (including with the respective Chief Risk Officers) in order to determine an appropriate interim Pillar 2 approach on which to base my analysis. This is set out below.
- 7.29 The principle adopted in determining the interim post-merger Pillar 2 approach for the combined entity has been primarily to adopt OneFamily's existing Pillar 2 approach given that OneFamily is the receiving society, and to apply this approach to the Scottish Friendly business post-merger where there is no material loss of utility in so doing. However, where certain aspects of Scottish Friendly's Pillar 2 approach will more robustly reflect the nature and risks of the combined business post-merger, the Scottish Friendly approach has been adopted for the combined entity.
- 7.30 The above results in the following aspects being worthy of note and/or where there is a refinement to the current OneFamily Pillar 2 approach:
- The Pillar 2 discount rate is the same as the Pillar 1 discount rate, this being based on the standard PRA discount curve plus allowance for VA on the relevant classes of business.
 - A realistic allowance is included for business to continue beyond the contract boundaries imposed under Solvency UK Pillar 1.
 - Allowance is made for different biting directions at the individual fund level for interest rate and lapse risk, this being the most robust approach, as it is desirable for each fund to be able to cover its Pillar 2 capital requirements based on the most onerous directional stress for that fund.

- For all ring-fenced with-profit funds, explicit allowance is made for equity, property and bond volatility risk, as volatility for these asset classes affects the value of guarantees. No allowance for volatility risk is considered necessary for the NPF.
- Stresses are based on the Pillar 1 stresses, unless there is a clear reason to depart from these given the nature of the business.
- A bespoke approach to calculating Pillar 2 operational risk is used, similar to that currently used by both OneFamily and Scottish Friendly. This will be considered in detail post-merger, but in the meantime the two allowances for operational risk have been added together, and a modest reduction applied to allow for duplicated risk exposures post-merger.
- Adoption of Scottish Friendly's extended correlation approach for operational risk, which allows for the diversification of operational risk with market, life, health and counterparty risks, given that it is reasonable to assume that operational risk is not fully correlated with other risk types.
- No Pillar 2 risk margin is assumed to be applied, and so Pillar 2 is based on assets, Pillar 2 best estimate liabilities (and other liabilities), and Pillar 2 capital requirements (this being a common approach for Pillar 2).
- A look-through approach is adopted to apply Pillar 2 to the business within subsidiaries.

- 7.31 Currently, the OneFamily NPF Pillar 2 balance sheet includes a liability for additional expenses as the existing business runs off, given that fixed expenses cannot be reduced as quickly as the existing business runs off. This reflects OneFamily's Pillar 2 approach being predicated on administering a stand-alone solvent run-off rather than transferring liabilities to another insurer (which Solvency UK Pillar 1 is intended to represent). Allowance has been made for this additional liability to be increased to reflect the addition of the Scottish Friendly business, recognising that the level of fixed costs of the enlarged society is lower than the sum of the two separate societies - consistent with the expected expense synergies.
- 7.32 Overall I consider the above approach for determining the interim Pillar 2 financial position for the merged entity to be appropriate as it retains the core features of OneFamily's approach, whilst adopting certain features of Scottish Friendly's approach where these are either desirable for the enlarged OneFamily or necessary given the Scottish Friendly business (and in particular the with-profits business). However, the actual Pillar 2 position used for the enlarged society will be determined post-merger.
- 7.33 Using the above approach, I have prepared post-merger Pillar 2 financial positions for the enlarged OneFamily NPF and the five ring-fenced with-profits sub-funds. As Pillar 2 results are not in the public domain, I have not included these Pillar 2 financial positions in this Report. I do, however, note that the post-merger Pillar 2 position as at 31 December 2025 shows a satisfactory position for each of the funds, in line with the OneFamily Pillar 2 CMP. I note that, for Pillar 2, the concept of an entity-level Pillar 2 balance sheet is in my view less relevant. More relevant are the Pillar 2 balance sheets for each fund, in particular since (as noted above) for bi-directional stresses, the biting directions are assessed under Pillar 2 at fund level, as opposed to the single assessment at entity level as required under Pillar 1. The Pillar 2 approach is thus more risk-aligned in this respect. Of key importance to the entity is the Pillar 2 position of the post-merger OneFamily NPF, and I note further that the Pillar 2 solvency coverage position of the post-merger OneFamily NPF is broadly similar to the equivalent Pillar 1 solvency coverage position as set out in Figure 7.1 above.

APPROACH TO POST-MERGER FINANCIAL POSITIONS

- 7.34 In producing the pro forma post-merger Pillar 1 and Pillar 2 balance sheets as set out and referred to above, the following approaches have been adopted:
- For the best estimate liabilities within the OneFamily NPF, the liabilities have been added together across the OneFamily and Scottish Friendly components.
 - I note that there is currently a difference in the approaches used by the Societies in relation to reserving for maintenance expenses as between the OneFamily NPF and the SF Main Fund. Scottish Friendly's approach takes account of the recent stable state which has applied to its business. OneFamily's approach takes account of the material business development activities which it has recently undertaken and is currently undertaking, particularly in relation to developing its presence in the protection market and in relation to developing and modernising its systems. Thus, as compared with Scottish Friendly, OneFamily

allocates a higher proportion of its expenses to development expenses (which do not affect best estimate liabilities) and a lower proportion of its expenses to maintenance expenses (which do affect best estimate liabilities). Both approaches are appropriate to the circumstances of the respective societies. The approach used by OneFamily is similar to that used by other long-term insurers that are undergoing significant development activities.

- The development activities referred to above will continue post-merger and I see no reason to change the fundamental approaches being adopted in relation to these activities and the classes of business to which they relate. It is possible that post-merger an exercise may be carried out to apply some aspects of the current OneFamily approach to the former Scottish Friendly business, and to apply some aspects of the current Scottish Friendly approach to the current OneFamily business. This would result in a more straightforward and unified approach across the enlarged OneFamily. However, I would expect that any such methodology alignment exercise would be carried out on a basis that would lead to no material increase or decrease in best estimate liabilities within the post-merger OneFamily NPF, thus preserving the fundamentals of the approach to the developments being undertaken.

- 7.35 For the SCRs, the various capital components corresponding to the various risks have been combined at the lowest possible level, and then re-aggregated using the Solvency UK correlation parameters. This approach closely reflects that which will actually apply post-merger. Adjustments have been made in respect of expense risk due to the expense synergies arising (see below), and adjustments have been made as between the sub-funds in respect of the Scottish Friendly Merger Allocation monies moving into the SFAS sub-fund. Other less material adjustments have also been made as appropriate.
- 7.36 Neither OneFamily or Scottish Friendly has asset concentrations that result in a non-zero SCR in respect of Market Risk Concentrations, and it is expected that this will remain the case for the enlarged society post-merger.
- 7.37 For the risk margins, adjustments have been made to take account of the updated/combined SCRs. These adjustments have been made on an approximate basis but, given the size of the risk margins, such approximations are not expected to give rise to any material distortion to the overall results.
- 7.38 I note that, post-merger, there may be some additional allocation of current assets and (equal) current liabilities from the NPF to the SFAS sub-fund. This will not have any impact on the solvency positions of either fund.

APPROACH TO EXPENSE SYNERGIES AND ONE-OFF COSTS

- 7.39 As previously noted, the merger is expected to give rise to expense synergies. The ongoing expenses of the enlarged OneFamily will be lower than the sum of the ongoing expenses of the Societies as they currently exist and operate. This is due to the planned removal of duplicate functions and the greater efficiencies which are possible within a larger firm. Some of these synergies will flow through into the maintenance expenses which are allowed for in the best estimate liabilities.
- 7.40 There will be one-off costs involved in achieving the synergies, as well as one-off costs in preparing for and implementing the merger itself.
- 7.41 It is, in my view, appropriate to allow for the estimated synergies and the one-off costs in preparing and considering the post-merger Pillar 1 and Pillar 2 balance sheets. Not to do so would result in an unrealistic assessment of the merger. I have done this on an expected basis, where the post-merger position is based on the intended timing of the realisation of the synergies, and on a sensitivity basis which incorporates a degree of prudence allowing for unplanned delays in the realisation of the synergies.
- 7.42 The respective finance functions of the Societies have worked together to produce and validate detailed merger plans, including identifying and assessing where synergies can be achieved and producing estimates of their quantum. I have reviewed these assessments and raised questions as necessary. Based on this, an allowance of £61.7m has been incorporated into the post-merger OneFamily NPF balance sheet for both Pillar 1 and Pillar 2. This allowance will reduce the amount of the best estimate liability but has, for ease of presentation, been included as a reduction in other liabilities. This value allows for the fact that not all of the synergies will be achieved in the first year after the merger (i.e. in 2027).
- 7.43 Given that cost savings can take longer than expected to realise, a sensitivity has also been produced under which the value of synergies is assumed to take longer to achieve, incorporating an allowance of £55.2m into

the post-merger OneFamily NPF balance sheet for both Pillar 1 and Pillar 2. This results in a small reduction of the pro forma solvency coverage ratio of the post-merger entity from 167% to 164%, which remains comfortably above the 150% level which OneFamily seeks to maintain under normal circumstances under its CMP.

- 7.44 Similarly, the respective finance functions have worked together to produce and validate the estimated costs of implementing the merger and achieving the synergies. Based on this, an allowance for implementation costs (both of the merger itself and of achieving the synergies) of £17m has been incorporated into the post-merger OneFamily NPF balance sheet via a deduction from other assets.
- 7.45 I am satisfied that the incorporation of these allowances for maintenance expense synergies and one-off costs is appropriate for the purposes of this Report and for my role as Chief Actuary of OneFamily. I am also satisfied from the sensitivity carried out that the post-merger solvency position would remain comfortably above the current 150% target in the event of unforeseen delays in realising the maintenance expense synergies.
- 7.46 Post-merger, OneFamily will continue to have available to it a variety of tools and approaches that have been used by others in the insurance industry to help manage its capital position and to ensure that it continues to meet its CMP.

LIQUIDITY CONSIDERATIONS

- 7.47 In addition to the consideration of capital, it is relevant also to consider the position in relation to liquidity, i.e. the need to maintain sufficient liquid assets to meet cash outflows under both expected and under adverse scenarios. Both societies currently maintain their respective liquidity framework and approaches to manage and monitor liquidity.
- 7.48 OneFamily produces a set of liquidity metrics, over 3, 6, and 12 month time horizons, on a monthly basis. The liquidity metric is calculated as a ratio of the sum of liquid assets and projected inflows to the sum of projected outflows. OneFamily's liquidity metrics at 31 December 2025 indicate a satisfactory position.
- 7.49 Scottish Friendly similarly has liquidity metrics calculated as a ratio of assets which can be liquidated to the expected net aggregate cashflows, determined over time horizons of 1 and 3 months, and monitored on a monthly basis. Scottish Friendly's liquidity metrics at 31 December 2025 indicate a satisfactory position.
- 7.50 As may be expected, there are some differences as to the detail between the OneFamily and Scottish Friendly approaches to liquidity, but both approaches are similar in their overall aims and objectives.
- 7.51 Immediately post-merger, both liquidity approaches will be maintained in respect of both parts the enlarged OneFamily. Hence the Scottish Friendly liquidity approach will continue to be followed in respect of the former Scottish Friendly business and operations, and the OneFamily liquidity approach will continue to be followed in respect of the original OneFamily business and operations. This will ensure that there will be no immediate liquidity issues arising at and just after the Effective Date of the merger, noting that if anything this initial approach is likely to result in a more prudent combined level of liquidity being maintained across the enlarged OneFamily.
- 7.52 In due course, after the merger, a combined and integrated liquidity framework and set of metrics will be established, this taking into account the liquidity approaches of both former parts of the enlarged OneFamily. This will be done once the necessary operational changes have been made.
- 7.53 As noted above, under the terms of the merger, it falls to Scottish Friendly to provide the relevant assets to fund the Merger Allocation on the Effective Date.

ONGOING CAPITAL MANAGEMENT

- 7.54 Post-merger, OneFamily will continue to have available to it a variety of tools and approaches that have been used by others in the insurance industry to help manage its capital position and to ensure that it continues to meet its CMP.
- 7.55 As described in paragraph 7.12, OneFamily and Scottish Friendly have undertaken analysis to assess whether a target solvency ratio of 150% for the combined entity would remain consistent with a capital risk appetite based on having sufficient Own Funds to meet SCR after a 1-in-20 year event after the merger. The conclusion of this analysis is that 150% will remain consistent with a 1-in-20 risk appetite, albeit that the capital management

policy of the merged entity will be a matter for the Board of that entity once the merger becomes effective. I have reviewed a summary of the analysis carried out and am satisfied that the approach taken is reasonable.

- 7.56 OneFamily has internally set limits on the size of the reinsurance recoverable arising from individual reinsurance counterparties. These limits will need to be updated post-merger to reflect the larger size of the enlarged society and its consequent ability to hold larger reinsurance exposures.

8 Effects of the IoT on OneFamily Policyholders

- 8.1 Having set out the financial analyses in Section 7, this section now sets out my considerations of the effects of the merger and the IoT on the OneFamily policyholders, considering the effects in terms of benefit expectations (including considerations of fairness and Consumer Duty), and in terms of financial security. I consider the OneFamily policyholders allocated to the OneFamily NPF and to the WP2 Fund separately, and I also give consideration to those OneFamily customers whose benefits continue to be provided via OneFamily's subsidiary companies.

BENEFIT EXPECTATIONS

OneFamily NPF Policyholders

- 8.2 The OneFamily NPF policyholders will remain allocated to the OneFamily NPF post-merger, and there will be no change to any policy terms and conditions as a result of the IoT.
- 8.3 Unit-linked policies within the OneFamily NPF will remain invested in the same underlying unit-linked funds post-merger as they are currently. There will be no immediate changes to the investment objectives of these unit-linked funds, the approach to unit pricing, the terms for investing and switching between funds, or the charges applied for investment management and administration as a result of the IoT. Any future changes to unit-linked funds available to OneFamily NPF policyholders, including the charging basis, will be subject to the same governance arrangements and considerations of fairness post-merger as are applied currently. In relation to any possible future increases to unit-linked charges (where these are not capped by various rules), any such increases would continue as currently to need to be justified as being fair in the circumstances, both in terms of general governance requirements and in terms of compliance with FCA fairness and Consumer Duty rules. If anything, the greater size and efficiency of OneFamily post-merger should act to reduce the likelihood of any such increases being necessary.
- 8.4 As noted in Section 6, the IoT provides for OneFamily to open, close or merge unit-linked funds across the full post-merger range of funds, (including the former Scottish Friendly funds) or to make changes to the investment approach of the funds, subject to actuarial advice and considerations of fairness. Such provisions effectively exist already across the OneFamily range of funds, and the IoT codifies that such provisions can be applied across the enlarged range of funds. The requirement for actuarial advice and the consideration of fairness will ensure that policyholders are not subject to any material disadvantage should any changes apply in future and, moreover, this facility will enable OneFamily to maintain the most efficient and comprehensive range of unit-linked funds for the benefit of all policyholders.
- 8.5 Besides the unit-linked policies, the other policies in the OneFamily NPF are all non-profit policies with benefits that are either fixed in monetary terms or are determined mechanically based on published indices (such as inflation indices). These policies include protection policies providing benefits on death or sickness, annuity policies (both individual and bulk) and savings policies. There will be no changes to how benefits are determined for these policies. I note that, for sickness policies, some discretion may be required by OneFamily and/or its reinsurers in assessing whether the conditions necessary for benefit payment/continuance have been met. However, there is no reason to suppose that this discretion will be exercised any differently post-merger as compared with pre-merger.
- 8.6 Some protection policies in the UK market have the facility for future premiums to be reviewed based on emerging claims experience on the policies in question. OneFamily does not, however, have any such policies. It does have some protection policies whereby the policyholder has the option to increase their premiums in line with inflation (which would give rise to an increase in policy benefits), but this does not involve the exercise of any discretion on the part of OneFamily.
- 8.7 For the avoidance of doubt, the addition to the OneFamily NPF of the Scottish Friendly unit-linked and non-profit policyholders will not in my opinion have any impact on the considerations set out above. I note that, in relation to any future changes to unit-linked investment funds, the ability to merge or close funds granted by the IoT apply across the combined OneFamily and Scottish Friendly ranges of funds but, as noted above, such changes are subject to actuarial advice and considerations of fairness.
- 8.8 In summary, and based on the above considerations, I conclude that the IoT will give rise to no material adverse effects on the benefit expectations of any of the current OneFamily NPF policyholders.

OneFamily WP2 Fund Policyholders

- 8.9 The OneFamily WP2 Fund policyholders will remain allocated to the WP2 Fund post-merger. There will be no changes in the approach to managing the with-profits business within the WP2 Fund, including the approach to setting bonuses, the charges applied to policies and the approach to exercising discretion. The OneFamily WP2 Fund will continue to be managed in accordance with its current PPFM post-merger, and there will be no changes to the OneFamily WP2 Fund PPFM as a result of the IoT. Further, there will be no changes to the investment strategy of the OneFamily WP2 Fund as a result of the IoT.
- 8.10 There is currently an expense agreement in place between the OneFamily NPF and the WP2 Fund which specifies the expenses to be charged to the WP2 Fund, with any expenses arising in excess of the specified level being met by the OneFamily NPF. This expense arrangement will remain unchanged post-merger.
- 8.11 The WP2 Fund is subject to previously set out conditions for when it may be subject to closure and the policies converted to non-profit policies within the OneFamily NPF. The IoT will not change this.
- 8.12 In summary, and based on the above considerations, I conclude that the IoT will give rise to no material adverse effects on the benefit expectations of the OneFamily WP2 Fund policyholders.
- 8.13 The OneFamily With-Profits Actuary has also considered the proposed merger and the IoT and has produced a report. I have read an advanced draft of the OneFamily With-Profits Actuary's report and I note that he reaches a similar conclusion in relation to benefit expectations to that expressed above.

Consumer Duty

- 8.14 The FCA Consumer Duty rules came fully into force in July 2024. These rules effectively provide an enhanced regime for the fair treatment of customers including the duty to seek good customer outcomes.
- 8.15 Like other UK insurers, OneFamily carried out an extensive project to ensure compliance with these new rules and to embed the Consumer Duty requirements within its business and within the firm's governance framework. This includes, but is not limited to, oversight provided by the OneFamily Board, designated individuals responsible for monitoring specific aspects of the business, and a monitoring framework outlining the ongoing process for conducting Consumer Duty reviews.
- 8.16 I can confirm that my analysis and conclusions as set out above in respect of benefit expectations take into account the requirements of the Consumer Duty rules. Hence the IoT will not, in my opinion, give rise to any material adverse effects on any OneFamily policyholders arising out of Consumer Duty considerations. I note that, post-merger, there may be some practical alignments of the detailed approaches to monitoring and achieving compliance with the Consumer Duty rules as between the approaches currently adopted by OneFamily and the approaches currently adopted by Scottish Friendly, but I would not expect any such practical alignments to affect customer outcomes.

SECURITY OF BENEFITS

All OneFamily Policyholders

- 8.17 The Pillar 1 financial analyses set out in Section 7 of this Report show that the OneFamily NPF and OneFamily at entity level both comfortably meet their regulatory solvency requirements, and will continue to do so post-merger. I can confirm that this statement also applies to the Pillar 2 positions.
- 8.18 It can be noted that for both OneFamily and Scottish Friendly, there are reductions to the Pillar 1 solvency coverage ratios from their published 31 December 2025 levels due to business developments which are unconnected with the merger, that is, Project Leaf for OneFamily and Project Tahoe for Scottish Friendly. The post-merger solvency coverage ratio at entity level of 167% is between the pro forma pre-merger ratios (185% for OneFamily and 162% for Scottish Friendly) allowing for these projects. Given that that two societies are of broadly similar size after these projects, this illustrates that the overall impact of the merger itself (as compared with the two societies pre-merger) is modest.
- 8.19 From the OneFamily viewpoint, whilst the analyses do show a reduction in solvency coverage ratio post-merger as compared with pre-merger (i.e. 185% falling to 167%), the post-merger ratio is still in line with the Pillar 1 CMP, and the same applies to Pillar 2. Moreover, as described in paragraph 7.12, a solvency coverage ratio of 150% for the post-merger entity is, based on initial analysis, expected to result in resilience against an SCR breach following an adverse scenario at the 1-in-20 year level.

- 8.20 Additionally, as described in paragraph 7.11, initial analysis by OneFamily and Scottish Friendly indicates (based on financial positions as at 31 December 2025) that the Solvency UK financial position of the post-merger entity will remain resilient against a range of adverse stresses and scenarios. Post-merger, OneFamily will also still have access to the same suite of management actions and available tools and techniques to continue to be able to manage its capital position in line with its CMP policies. It is relevant also to note that, post-merger, the enlarged OneFamily will continue to have the same broad composition of risk exposures, with the most material risk exposures continuing to be equity risk, currency risk, lapse risk and expense. The merger will not bring any material new risks to which OneFamily is not already exposed.
- 8.21 The enlarged OneFamily includes the newly established SFAS sub-fund, and the IoT includes the provision of capital support arrangements to this sub-fund. I note that the establishment of this new sub-fund is such that a material surplus will exist within it, and that there will be sufficient loss-absorbency to reduce the SCR to its minimum possible value. Under the IoT, the point at which capital support would be provided to the SFAS sub-fund is effectively the same as that provided for under the relevant regulatory rules, and the sub-fund will be managed as a standalone entity with no reliance on or expectation of capital support. Given these aspects, I am satisfied that the SFAS sub-fund and its arrangements will not have a material adverse effect on the benefit security of the OneFamily policyholders.
- 8.22 As described in paragraphs 6.20 to 6.24, the IoT introduces an expense deal between the OneFamily NPF and the SFAS sub-fund, whereby the SFAS sub-fund pays defined charges per policy to the OneFamily NPF and the OneFamily NPF meets the actual costs of managing the SFAS sub-fund. The defined charges are based on Scottish Friendly's current costs of managing the business, plus a 5% uplift, increasing with CPI plus 1% each year. I am satisfied that the 5% uplift on the charges payable to the OneFamily NPF provides the OneFamily NPF with a fair margin in exchange for taking on the expense risk as the SFAS sub-fund runs off.
- 8.23 As noted above, the enlarged OneFamily also includes the three existing Scottish Friendly with-profits funds. As the financial analyses set out in Section 7 show, two of these funds (M&GM and Scottish Legal) are highly solvent, and the other fund (Manulife) is such that assets and liabilities are always in balance. Even though the existing capital support arrangements for these funds are carried forward into OneFamily under the IoT, I am satisfied given the position of these funds that there is no material risk to the OneFamily policyholders. I note further that the OneFamily NPF is taking on (in place of the SF Main Fund) the existing expense arrangements in respect of these three sub-funds. The effects of these arrangements are incorporated into the post-merger balance sheets, and taking on these arrangements has to be seen as part and parcel of the overall benefits gained by the enlarged OneFamily as a result of the merger.
- 8.24 The IoT contains provisions such that, once certain criteria are met when the sub-fund declines to a smaller size, the policies, assets and liabilities of the SFAS sub-fund will be transferred to the OneFamily NPF, with the policies being converted at the same time to non-profit or unit-linked policies. In addition to criteria relating to the total value of the assets falling below specified levels, the OneFamily Board has discretion to exercise this conversion option if it considers that the continued maintenance of the SFAS sub-fund as a separate fund is materially adverse to OneFamily NPF policies (having regard to the advice of the OneFamily Chief Actuary). On conversion, a Cessation Charge will be paid from the surplus assets of the SFAS sub-fund to the OneFamily NPF to cover the cost of the additional non-market-related capital requirements which will arise in the OneFamily NPF, as well as to cover a contribution to the costs of implementing the conversion. I am therefore satisfied that there will be suitable processes in place for the future closure and conversion of the SFAS sub-fund (for whatever reason) and that the terms will not give rise to any material adverse effects on the benefit security of OneFamily policyholders. I note that similar provisions are carried forward via the IoT in respect of the three existing Scottish Friendly with-profits sub-funds.
- 8.25 Taking all of the above aspects into consideration, I am satisfied that the IoT will give rise to no material adverse effects on the benefit security of any of the OneFamily policyholders.
- 8.26 I note that there will be no change in how the Financial Services Compensation Scheme ("FSCS") will apply to the OneFamily policies in the event of the insolvency of OneFamily, and access to the Financial Ombudsman Service ("FOS") for the OneFamily policyholders will be similarly unaffected by the IoT. These aspects do not form part of the grounds for my opinion on financial security as set out above, but are noted for completeness.

OneFamily WP2 Fund Policyholders

- 8.27 My analysis and conclusions set out in the paragraphs above apply to all OneFamily policyholders, including the with-profits policyholders in the WP2 Fund. It can be noted in addition that the financial analyses set out in Section 7 of this Report show that the IoT does not have any direct impact on the financial position of the WP2 Fund itself, and the fund will continue to comfortably meet its capital and CMP requirements post-merger. This reinforces my conclusions in respect of the WP2 Fund.
- 8.28 The report of the OneFamily With-Profits Actuary (as referred to above) has also considered the effects of the IoT on the security of benefits for the WP2 Fund policyholders, and I note that he reaches a similar conclusion to that expressed above.

9 Further considerations

ONEFAMILY POLICYHOLDER COMMUNICATIONS

- 9.1 In line with the rules governing Part VIII transfers, the OneFamily policyholders will be entitled to vote on the transfer in their capacity as members, and each policyholder will receive an information pack including proxy voting arrangements. There will also be a Special General Meeting which policyholders can attend and vote at in person should they so wish.
- 9.2 The information pack sets out the rationale for and the details of the merger, together with certain summary financial and non-financial information in a form required by FSA92. Also included is a summary of the report of the Independent Actuary, and where policyholders can access further information.
- 9.3 Under the Part VIII transfer process, policyholders are able to make written representations or objections to the regulators, and there is also a hearing being convened by the regulators at which OneFamily policyholders (and Scottish Friendly policyholders) can make representations in person should they so wish.
- 9.4 I note also that OneFamily (in conjunction with Scottish Friendly) will be placing notices of the merger in various newspapers (as required by the Part VIII transfer rules). Any OneFamily policyholders seeing such notices will be able to request more information should they so wish, this route providing a back-up in cases where a policyholder has not updated OneFamily with their latest address or contact details.
- 9.5 Information on the merger and the associated arrangements will be available for all OneFamily policyholders on its website, and there will be a dedicated telephone helpline which all OneFamily policyholders can use.
- 9.6 I have reviewed the communication plan and the draft communications to be sent to the OneFamily policyholders, and I am satisfied from my viewpoint as Chief Actuary that these communications are clear and appropriate.

ADMINISTRATION AND SERVICING

- 9.7 The Societies have confirmed that the terms of the merger will maintain offices and operations in both the current OneFamily location of the South East of England and the current Scottish Friendly location of the City of Glasgow. Immediately post-merger, the original OneFamily policies will continue to be administered and serviced using the same OneFamily systems and the same OneFamily staff (or outsourcers), and the former Scottish Friendly policies will continue to be administered and serviced using the same former Scottish Friendly systems and the same former Scottish Friendly staff (or outsourcers). Unlike some transfers of insurance business, there will in this case be no “migration” of any policy administration and servicing arising out of the legal transfer/merger itself. The operational risks of implementing the legal merger are thus lower in this case than in cases where a simultaneous migration is involved.
- 9.8 There will thus be no immediate changes to the administration and servicing arrangements for the OneFamily policyholders arising as a result of the IoT, and the OneFamily policyholders will continue to be subject to the same service standards as those which apply currently.
- 9.9 Going forward there may be changes arising to integrate the operations, systems and servicing as between the original OneFamily and former Scottish Friendly approaches. Such changes may be connected with the achievement of the expense synergies referred to previously in this Report. However, any such changes will be subject to a controlled change process, and I note that such changes commonly take place within insurers anyway as they seek to keep their systems and servicing operations up to date and efficient.

GOVERNANCE

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

- 9.11 OneFamily and Scottish Friendly will jointly determine the composition of the post-merger OneFamily Board and committees, including in particular the post-merger OneFamily With-Profits Committee. This process will ensure appropriate representation from both parties that collectively possess the skills and experience required to govern the combined business post-merger, and ensuring compliance with regulatory requirements around governance matters.
- 9.12 Overall, I am satisfied that there will be no material change to the level of governance applicable to the OneFamily policyholders as a result of the merger, and that there are suitable measures in place to ensure appropriate oversight and governance continues to apply to OneFamily policyholders post-merger.

MEMBERSHIP

- 9.13 There will be no changes to the membership rights of the existing policyholders/members of OneFamily as a result of the merger. Following the merger, all existing members of Scottish Friendly will become members of OneFamily in accordance with the current OneFamily membership rules. Of particular note is the fact that, in the event of a dissolution or other material transaction arising, the membership rights of all of the former Scottish Friendly with-profits policyholders (in all four of the former Scottish Friendly with-profits sub-funds) will be no different to any of the other OneFamily policyholders. In other words, the merger will not create any new category of member with higher-ranking membership rights than the current OneFamily members, and I am thus satisfied that the merger will result in no diminution of membership rights of the existing OneFamily policyholders. In the event of any dissolution or other material transaction arising which involves a distribution of OneFamily's net assets to its members, such distribution would be done on a basis which would be determined to be fair at the time.
- 9.14 For completeness I note that the current Scottish Friendly ProfitShare arrangements will cease when the merger becomes effective.

TAX CLEARANCES

- 9.15 OneFamily and Scottish Friendly are in the process of seeking the appropriate tax clearances in respect of the merger, some of which have been granted as at the date of this report. It is not expected that the merger will give rise to any tax becoming due on the transfer of the assets from Scottish Friendly to OneFamily, and it is not expected that the transfer will give rise to any change in tax status for any of the OneFamily or Scottish Friendly policies. All of this is consistent with the normal procedures and expectations for a transfer of insurance business from one firm to another.

SUPPLEMENTARY REPORT

- 9.16 I expect to produce a supplementary report in January 2027 to provide updated summary financial analyses as at 30 June 2026 and to provide any other relevant updates to this Report and to my conclusions.

10 Conclusions

- 10.1 I have considered and analysed the effects of the proposed merger and the IoT on OneFamily itself as an incorporated friendly society, and on its members and policyholders. Based on my analysis I conclude that in my opinion:
- OneFamily will post-merger meet its regulatory capital requirements under both Pillar 1 and Pillar 2 of the Solvency UK regime, and will be in compliance with its capital management policies.
 - There will be no material adverse effects on the benefit expectations for any of the OneFamily policyholders.
 - There will be no material adverse effects on the security of the benefits for any of the OneFamily policyholders.
 - There will be no material adverse effects on the levels of ongoing administration and customer service that apply to any of the OneFamily policyholders.
 - There will be no material adverse effects on the standards of governance applying to OneFamily or any of its policyholders.
- 10.2 Given the above conclusions, and given that the merger will result in a larger mutual organisation with greater resources in the widest sense, I can conclude further that in my opinion the proposed merger is in the interests of the OneFamily members and policyholders.

Robert Bugg

25 September 2026

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Chief Actuary, Family Assurance Friendly Society Limited

Appendix A - Glossary of Terms

A.1. The figure below presents a glossary of terms used throughout this report.

FIGURE A.1: DEFINITION OF TERMS

TERM	DESCRIPTION
Amalgamation	The legal process by which two mutual entities are combined into a single entity, with all assets, liabilities, and membership rights transferred to the continuing entity, subject to regulatory and court approval.
APS	Standards issued by the IFoA that set out the principles and requirements for actuarial work in the UK.
APS X1	The Actuarial Profession Standard that sets out how to determine which standards are applicable to actuarial work.
APS X2	The Actuarial Practice Standard defining Members' responsibilities for work review, including independent peer review where appropriate, to ensure the quality of actuarial work.
Chief Actuary	The Chief Actuary advises on the methodologies, assumptions, and models used in financial and risk assessments, and provides advice on matters such as pricing, reserving, capital requirements, and regulatory compliance.
Cessation Charge	An amount equal to the marginal cost of capital that will be incurred by the enlarged NPF as a result of the cessation and merger of the SFAS Sub-fund into the NPF, plus a fair share of the actual costs incurred in relation to the cessation and merger of the SFAS Sub-fund
CMP	Capital Management Policy – The policy explains how a company ensures it has enough capital to absorb risks, support its business, and meet regulatory requirements, while also using capital efficiently.
CTF	Child Trust Fund.
Consumer Duty	The regulatory framework introduced by the Financial Conduct Authority requiring firms to act to deliver good outcomes for retail customers.
Delegate Society	A governance structure where voting rights are primarily exercised by a small group of elected members ("delegates"), who vote on key matters such as mergers. Other members' voting rights are generally limited to electing delegates when required.
Directions Hearing	The initial court hearing at which the court considers procedural matters relating to an insurance business transfer pursuant to Part VII of FSMA 2000, including approval of the proposed communications to members and the timetable for the process.
Effective Date	The date on which the transfer of engagement becomes legally effective, and on which the transfer of business, assets, liabilities, and membership rights takes place.
EMFL	Engage Mutual Funds Limited – Managed the CTF business. The company is now deauthorised and dormant.
FCA	Financial Conduct Authority - The UK regulator responsible for overseeing conduct in financial markets, including ensuring that firms treat customers fairly, provide appropriate products and services, and maintain market integrity.
FEPL	Family Equity Plan Limited – manages the CTF, Junior ISA, Investment ISA, Lifetime ISA and Cash ISA business.
FIL Life	FIL Life Insurance Limited, a UK-based life insurance company within the Fidelity International group, providing life assurance and investment-linked products, including pensions and savings policies.
FSMA 2000	Financial Services and Markets Act 2000, the principal legislation governing the regulation of financial services in the UK, including the provision relating to Part VII insurance business transfers.
FIML	Family Investment Management Limited – Manages investment for FEPL and EMFL.
FOS	Financial Ombudsman Service - An independent UK body that resolves complaints and disputes between consumers and financial services firms, with the power to make binding decisions where disputes cannot be settled directly.
FSMA92	Friendly Societies Act 1992 – This act outlines the legal obligations and regulations that friendly societies must adhere to, including registration with the FCA and compliance with certain financial reporting requirements.
FSCS	Financial Services Compensation Scheme – The UK's government-backed safety net that compensates consumers if authorised financial firms fail.

TERM	DESCRIPTION
FutureWise	The primary default investment strategy used by FIL Life for its Section 32 policies.
Hybrid policies	Insurance policies that contain both with-profits and non-profit elements, typically combining guaranteed benefits with discretionary bonuses or profit participation.
Independent Actuary	An actuary appointed in connection with a transfer of engagements from one friendly society to another to provide an independent actuarial opinion on the likely effects of the proposed transfer on all policyholders and members.
IFoA	Institute and Faculty of Actuaries - The UK's professional body for actuaries, responsible for setting professional standards, education, and qualification requirements.
Initial Policy Uplift	An uplift to asset shares, as of the Effective Date, of policies allocated to the SFAS sub-fund
IoT	Instrument of Transfer – The legal document setting out the terms and conditions of the transfer of engagements or amalgamation between mutual entities.
ISA	Individual Savings Account.
LACDT	Loss-Absorbing Capacity of Deferred Taxes – LACDT is a mechanism that allows insurance and reinsurance firms to reduce their SCR by recognising the potential tax relief that arises from future losses under stressed scenarios.
LACTP	Loss-Absorbing Capacity of Technical Provisions – LACTP is a mechanism that allows insurance and reinsurance firms to reduce their SCR by reflecting the extent to which technical provisions can be reduced from losses under stress scenarios.
LTMs	Lifetime Mortgages.
M&GM	A separate closed sub-fund in respect of with-profits business previously transferred from Marine & General Mutual. It consists of with-profits business (both conventional and unitised), immediate annuities and flexible income annuities.
Manulife	A with-profits sub-fund that was acquired from Canada life as part of a larger transaction in 2019, with the other part of the acquired Canada Life business going into the SF Main Fund.
Merger Allocation	A one-off compensation being allocated to the SFAS sub-fund in respect of the loss of expected future ProfitShare distributions from the SF Main Fund.
OFA	OneFamily Advice Limited - Carries out the administration of certain Term and Critical Illness business underwritten by the Scottish Friendly under previous arrangements. The advice activities in this subsidiary ceased in Q3 2024.
OFLM	OneFamily Lifetime Mortgages Limited – Formerly originated and serviced lifetime mortgages on behalf of third parties. The company is now deauthorised and dormant.
OneFamily NPF	OneFamily's main non-profit fund. All non WP2 business resides within the NPF and all new business is written into the NPF.
OneFamily WP2	OneFamily's With-Profits Fund 2. It has previously written with-profits business but is now closed to new business.
ORSA	Own Risk and Solvency Assessment - A forward-looking assessment undertaken by an insurer to evaluate its own risk profile, capital needs, and solvency position under normal and stressed conditions.
Part VII Transfer	A court-approved transfer of insurance business under Part VII of the Financial Services and Markets Act 2000, typically involving the transfer of policies from one insurer to another.
Part VIII Transfer	A transfer of engagements between friendly societies under Part VIII of the Friendly Societies Act 1992, requiring approval by the PRA following consultation with the FCA.
PRA	Prudential Regulation Authority – The UK regulator responsible for the prudential supervision of insurers, banks, and credit unions, operating as part of the Bank of England.
ProfitShare	The discretionary profit-sharing mechanism operated by Scottish Friendly prior to the Part VIII Transfer, under which a share of the profits emerging from the SF Main Fund may be distributed to eligible with-profits policyholders by enhancing the investment returns applied to asset shares.
Project Leaf	The project that has been carried out by OneFamily over 2025 and 2026. The project's purpose is to transfer almost all of business of FEPL and all of the business of EMFL from these subsidiaries into OneFamily itself.

TERM	DESCRIPTION
Project Tahoe	In March 2025, Scottish Friendly entered into an agreement with Fidelity International to acquire two blocks of pension business which were no longer core to the strategy of Fidelity's UK life company. A Part VII insurance business transfer process has been completed to transfer this business from FIL Life to the SF Main Fund within Scottish Friendly.
Sanction Hearing	A court hearing held as part of a Part VII transfer under the FSMA 2000, at which the court considers whether the proposed transfer should be approved.
Scottish Legal	A separate closed sub-fund in respect of with-profits business previously transferred from Scottish Legal Life. It consists of with-profits business (both conventional and unitised), non-profit whole of life policies, and small volumes of term assurance business.
SCR	Solvency Capital Requirement - The amount of capital an insurer is required to hold under Solvency UK to ensure it can meet its obligations over the next year with a 99.5% confidence level.
SF Main Fund	The main long-term business fund of Scottish Friendly prior to the Part VIII Transfer. It consists of with-profits business (both conventional and unitised), unit-linked business (including ISAs and pensions), non-profit whole of life policies, and term assurance business (most of which is reinsured). The business transferred from Canada Life (other than the Manulife with-profits business) sits within this fund.
SFAS sub-fund	This is the newly established closed ring-fenced fund under the IoT. It will hold the assets, liabilities and policies associated with the with-profits policies currently with the SF Main Fund, together with the additional assets representing a one-off Merger Allocation in respect of expected future distributions from ProfitShare of the SF Main Fund.
TAS 100	The high-level technical actuarial standard that sets out general principles for all actuarial work, including integrity, competence, and communication.
TAS 200	A technical actuarial standard providing detailed requirements for actuarial work in insurance, including modelling, assumptions, and reporting.
TASs	Technical Actuarial Standards issued by the Financial Reporting Council, setting requirements for actuarial practice in the UK.
The Board	The governing body of the company responsible for oversight, strategic decisions, and ensuring regulatory compliance.
TPAs	Third-Party Administrators – The external service providers engaged to perform administrative functions such as policy servicing, claims handling, or customer support.
Transfer of engagements	The legal process by which insurance policies and associated liabilities are transferred from one friendly society to another.
Transferring Business	The portfolio of insurance policies, assets, and liabilities being transferred as part of a transaction.
Transferring Policies	Individual insurance contracts included within the transferring business.
VA	Volatility Adjustment - regulatory adjustment applied to discount rates under Solvency UK to reduce the impact of short-term market volatility on insurers' balance sheets.
With-Profits Actuary	An actuary responsible for advising the firm and the Board on matters relating to with-profits business. This includes considering whether that policyholders are treated fairly, providing opinions on bonus distributions, overseeing compliance with the Principles and Practices of Financial Management (PPFM), and reporting on the management of with-profits funds.

Appendix B - Key Information Received

B.1. The figure below illustrates the key information we have received in preparing this report.

FIGURE B.1: KEY INFORMATION RECEIVED

SOURCE	INFORMATION RECEIVED	DATE RECEIVED
OneFamily	External Due Diligence Report on OneFamily	19/11/2025
OneFamily	External Due Diligence Report on Scottish Friendly	19/11/2025
OneFamily	Considerations on Project Tahoe	28/11/2025
OneFamily	Project Meridian Framework Agreement	26/01/2026
OneFamily	OneFamily Board Papers Relating to the Merger	26/01/2026
OneFamily	Project Meridian Instrument of Transfer	10/07/2026
OneFamily	Project Timeline	16/03/2026
OneFamily	OneFamily Mass Lapse Reinsurance Agreement	18/03/2026
OneFamily	OneFamily Volatility Adjustment Application Document and Policy	26/03/2026
OneFamily	OneFamily Balance Sheet Figures as at 31 December 2025 (Including Detailed Analyses of Assets, Liabilities, Risk Margin and SCR Broken Down by Class of Business)	31/03/2026
OneFamily	Analysis of Expense Synergies	17/08/2026
OneFamily	With-Profits Actuary Report on the Merger	04/09/2026
OneFamily	Analysis of the Risk Appetite of the Post-merger Entity	02/09/2026
Scottish Friendly	With-Profits Committee Papers Relating to the Merger	19/11/2025
Scottish Friendly	Scottish Friendly Balance Sheet Figures as at 31 December 2025 (Including Detailed Analyses of Assets, Liabilities, Risk Margin and SCR Broken Down by Class of Business)	19/02/2026
Scottish Friendly	Reattribution Advice from Pinsent Masons	28/05/2026
Scottish Friendly	Chief Actuary Report on the Merger	03/09/2026
Independent Actuary	Independent Actuary Report on the Merger	21/09/2026
PRA	Feedback on OneFamily Chief Actuary Report	17/09/2026