



Transfer of certain business of Mobius Life Limited to Scottish Friendly Assurance Society Limited.

The summary report of the Independent Expert

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Introduction

- 1.1. I have been instructed by Scottish Friendly Assurance Society Limited (“**SF**”) and Mobius Life Limited (“**Mobius**”) to report in the capacity of Independent Expert pursuant to Section 109 of the Financial Services and Markets Act 2000 (“**FSMA**”) on the terms of the proposed transfer of a block of long-term insurance business of Mobius to SF (the “**Transferring Business**”).
- 1.2. The Transferring Business consists of around 91 unit-linked contracts (in respect of around 13,310 policyholders/members) written by Mobius, with assets under management of around £340 million (as at 31 December 2016), comprised of:
 - Group stakeholder pension schemes;
 - Individual and group personal pension schemes; and
 - Trustee investment plans (“**TIPs**”) with member administration services.
- 1.3. My appointment as Independent Expert has been approved by the UK financial service regulators: the Prudential Regulation Authority (“**PRA**”) and the Financial Conduct Authority (“**FCA**”).
- 1.4. I am a Fellow of the Institute and Faculty of Actuaries (“**IFoA**”) in the UK and a Principal at Milliman LLP and hold a certificate issued by the IFoA enabling me to act as a Chief Actuary (Life) and as a With-Profits Actuary. I have fulfilled the role of Independent Expert in relation to a number of Part VII transfers that have subsequently been approved by the Court.
- 1.5. This is a summary of a more detailed report (“**my main report**”) that I have written on the proposed transfer and, in order to gain a full understanding of my conclusions, I encourage interested parties to read my main report which is available on SF’s and Mobius’s websites. The scope of my main report was agreed by the PRA and the FCA.
- 1.6. In this summary report I refer to this proposed Scheme as the “**Scheme**”, and throughout the remainder of this summary report this term is used to cover all the proposals included in the Scheme, including any documents referred to therein relating to the proposed implementation and operation of the Scheme. The limitations of liability and reliances that apply to my main report apply equally to this summary report.
- 1.7. The purpose of my main report is to report on the terms of the Scheme in my capacity as Independent Expert and my main report will be provided to the High Court of Justice of England and Wales (the “**Court**”) as a requirement of the approval of the transfer of certain insurance business from Mobius to SF.
- 1.8. The purpose of my main report is to review the proposed transfer of the business, outlined in paragraph 1.2, of Mobius to SF and the subsequent reinsurance of this business from SF to Mobius. In Sections 8, 9, 10 and 11 of my main report I cover the effects of the proposed transfer on the policies concerned in the transfer. These are, respectively, the transferring Mobius policies (Section 8 of my main report), the non-transferring Mobius policies (Section 9 of my main report), and the existing SF policies (Section 10 of my main report). For each group I consider the effects of the proposed transfer on:
 - The financial resources available to provide security for the benefits of the policies following the implementation of the Scheme compared to those currently available;
 - Any change to the profile of risks to which the policies will be exposed as a result of the implementation of the Scheme;
 - The effect of the implementation of the Scheme on the governance, management and service standards applicable to the policies; and
 - The effect of the implementation of the Scheme on the reasonable benefit expectations of the transferring Mobius policyholders, including the benefit expectations, service standards, management and governance that these policyholders should expect following the implementation of the Scheme.

I summarise the key points in this summary report below.

- 1.9. The transfer is expected to be presented to the Court for its Directions Hearing on 25 July 2018 and for its Sanctions Hearing on 29 October 2018. If approved by the Court, the Scheme will become operative on 31 October 2018 (the “**Transfer Date**”).
- 1.10. As envisaged by paragraph 2.39 of the Statement of Policy “The Prudential Regulation Authority’s approach to insurance business transfers”, I will also prepare a further report, my Supplementary Report, prior to the final Court hearing, to provide an update for the Court on my conclusions in the light of any significant events subsequent to the date of the finalisation of my main report.
- 1.11. My assessment of the impact of the proposed Scheme on the various affected policies is ultimately a matter of actuarial judgement regarding the likelihood and impact of possible future events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain in respect of their effect on the policies.
- 1.12. In order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in respect of transfers of long-term insurance business under Part VII of FSMA are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a large impact, or is likely to happen but has a small impact, then it is not considered to have a material adverse effect on the policies.

Overview of the Scheme

- 1.13. Mobius is an institutional investment life company and its focus and its future strategy is to develop its business for providing institutional services to corporate pension schemes in the UK, rather than focusing on individual policyholders, retail policyholders or pension services such as those that constitute to the Transferring Business.
- 1.14. SF is a friendly society incorporated under the Friendly Societies Act 1992. It has no shareholders and is owned by its members, with all SF policyholders being members. It sells life and investment insurance products, including Individual Savings Accounts (“**ISAs**”), to policyholders in the UK. SF maintains a single long-term business fund which is divided into a main fund (the “**SF Main Fund**”) and four separate notional sub-funds that are maintained in respect of the business previously transferred into SF from other companies. Only the SF Main Fund remains open to new business.
- 1.15. SF has a three-branch growth strategy of organic growth, business process outsourcing, and mergers and acquisitions. The aims of its mergers and acquisitions growth are to gain additional economies of scale (by increasing the number of policies and assets under management) and to develop a diversified income stream by moving into business lines within which SF is not currently well established.
- 1.16. For SF, the proposed Scheme is in line with their current focus and overall future strategy: it has a retail focus and future strategy that aims to diversify its product offering, identifying group personal and stakeholder pension business as an area of growth.
- 1.17. For Mobius, the implementation of the Scheme will reduce the exposure of the non-transferring Mobius policies to the risk of a counterparty default that currently exists in respect of the Transferring Business, reducing the amount of capital that Mobius must hold in order to protect itself against this risk.
- 1.18. The key terms of the Scheme are as set out below:
- All assets, liabilities and the policies in relation to the Transferring Business of Mobius will be transferred into the SF Main Fund, a with-profits fund that is open to new business;
 - All transferring business is unit-linked and as such the value of assets that will be transferred from Mobius to the SF Main Fund is equal to the value of the unit reserve of the Transferring Business;
 - Following the Transfer Date, all assets and any associated liabilities in relation to the Transferring Business that are currently comprised in each of Mobius’s internal linked funds, will be allocated to and become comprised in a corresponding linked fund of SF within the SF Main Fund, collectively the “**SF-Mobius Linked Funds**”. The policyholder benefits and thus the unit-linked liabilities under all transferring policies will become linked to a SF-Mobius Linked Fund that directly corresponds to the Mobius linked fund that it was invested in prior to the Transfer Date;

- Following the implementation of the Scheme, the investment management of the Transferring Business will continue to be conducted by Mobius. The Scheme is conditional on SF entering into an investment-only reinsurance contract with Mobius: the “**SF-Mobius Reinsurance Arrangement**”. This contract will allow SF to invest all of the transferring assets within the SF-Mobius Linked Funds back into the funds that they were in within Mobius, allowing Mobius to continue to manage the investment of the assets in a way that is consistent with its current approach (i.e. investing in the funds of third parties). The SF-Mobius Reinsurance Arrangement will be structured such that SF is liable for any default by either Mobius or any third party to which Mobius subsequently invests with in relation to the Transferring Business;
- An amount of assets equal to the purchase consideration for the Transferring Business will be transferred from SF to Mobius on the Transfer Date;
- The Scheme will not transfer to SF the current investment-based reinsurance arrangements between Mobius and third party reinsurers in relation to the Transferring Business. Mobius is, however, amending one of its reinsurance arrangements with Legal and General Assurance (Pensions Management) Limited (“**L&GPML**”) as a result of the transfer. L&GPML has agreed to split its existing reinsurance agreement into two distinct contracts, one of which will relate to the Transferring Business and the other covering the non-transferring Mobius business. Mobius will enter into a security assignment (the “**Security Assignment**”) with SF in respect of the reinsurance agreement relating to the Transferring Business, whereby L&GPML agrees that SF can look to the rights of Mobius against L&GPML in the event of a failure of Mobius to make a payment to SF under the SF-Mobius Reinsurance Arrangement;
- SF and Mobius also intend to enter into a Deed of Charge (also referred to as a floating charge agreement) whereby Mobius creates a floating charge over all of Mobius’s long-term insurance assets in favour of SF to secure the value of the reinsurance ceded to Mobius in respect of the Transferring Business. In the event that any insolvency practitioner appointed in relation to Mobius, or any director, agent, supervisor, scheme administrator or other equivalent person decides or resolves to take, or actually takes, any step to distribute a dividend to any non-preferential creditor of Mobius, the floating security will crystallise into a fixed charge which will ensure that SF will rank equally in the Mobius insolvency with Mobius’s own direct policyholders;
- As there are a number of floating charges created by Mobius in respect of reinsurances entered into with third party re-insureds (as chargees), and which have been identified to SF, SF has required that such chargees consent to the entry by Mobius into the Security Assignment and accordingly, in the event that the assets held with and managed by L&GPML include assets of the Transferring Business which have been invested with Mobius, SF shall have rights against L&GPML in relation to those assets in the event of an insolvency of Mobius.
- The change in the protection available to provide security of benefits to all individual personal pension plans, and plans issued under group policies where the member joined the scheme before 7 April 2010 in the Transferring Business (where the policyholder bears no counterparty default risk) (the “**Credit Neutral Policyholders**”) as a result of the Scheme is summarised below:

Event	Pre-Scheme	Post-Scheme
<p>If Mobius defaults</p>	<p>Mobius would make a claim for all assets held with third parties and the total amount of assets available to Mobius would be split equitably between all of Mobius's policyholders.</p>	<p>SF would be responsible for paying benefits in full to policyholders and making up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>As a result of the security assignment between Mobius and SF, SF can claim all assets reinsured by SF to Mobius that have been invested by Mobius with L&GPML.</p> <p>Mobius would make a claim for all assets held with all other third parties. As a result of the floating charge between Mobius and SF, the floating charge over all of the assets of Mobius will crystallise and so the total amount of assets available to Mobius would be split equitably between Mobius's direct policyholders (the holders of non-transferring Mobius policies) and the SF policyholders whose funds are reinsured to Mobius.</p> <p>If the assets received by SF (from Mobius) are not sufficient to ensure that there is no loss to the policyholders' benefits, SF would make up the shortfall using the excess capital in the SF Main Fund.</p>
<p>If a third party that Mobius invests with defaults</p>	<p>Mobius would be responsible for paying benefits in full to policyholders and making up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>The floating charge that Mobius has over the assets of the third party would crystallise in the event of the third party's insolvency and the assets of that counterparty would be split equitably between the third party's direct policyholders and the Mobius policyholders whose funds are invested with the third party.</p> <p>If the assets received by Mobius are not sufficient to ensure that there is no loss to the policyholders' benefits, Mobius would make up the shortfall using its excess capital.</p>	<p>SF would be responsible for paying benefits in full to policyholders and making up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>The floating charge that Mobius has over the assets of the third party would crystallise in the event of the third party's insolvency. The assets of that counterparty would be split equitably between the third party's direct policyholders and both the transferring policyholders (who are now SF policyholders) and the non-transferring Mobius policyholders whose funds are invested by Mobius with the third party.</p> <p>If the assets received by SF (from Mobius) are not sufficient to ensure that there is no loss to the policyholders' benefits, SF would make up the shortfall using the excess capital in the SF Main Fund.</p>

- The change in the protection available to provide security of benefits to all plans of Mobius issued under group policies where the member joined the scheme after 7 April 2010 in the Transferring Business, and to all TIPs (both transferring and non-transferring) (i.e. where the policyholder bears all counterparty default risk) (the “**Credit Exposed Policyholders**”) as a result of the Scheme is summarised below:

Event	Pre-Scheme	Post-Scheme
<p>If Mobius defaults</p>	<p>Mobius would make a claim for all assets held with third parties and the total amount of assets available to Mobius would be split equitably between all of Mobius's policyholders.</p>	<p>For the holders of transferring policies, SF would not be responsible for paying benefits in full to policyholders and does not have to make up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>As a result of the security assignment between Mobius and SF, SF can claim all assets reinsured by SF to Mobius that have been invested by Mobius with L&GPML.</p> <p>Mobius would make a claim for all assets held with all other third parties. As a result of the floating charge between Mobius and SF, the floating charge over all of the assets of Mobius will crystallise and so the total amount of assets available to Mobius would be split equitably between Mobius's direct policyholders (including the holders of non-transferring Mobius policies) and the SF policyholders whose funds are reinsured to Mobius.</p> <p>If the assets received by SF (from Mobius) are not sufficient to ensure that there is no loss to the policyholders' benefits, SF would not make up the shortfall using the excess capital in the SF Main Fund.</p>
<p>If a third party that Mobius invests with defaults</p>	<p>Mobius would not be responsible for paying benefits in full to policyholders and does not have to make up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>The floating charge that Mobius has over the assets of the third party would crystallise in the event of the third party's insolvency and the assets of that counterparty would be split equitably between the third party's direct policyholders and the Mobius policyholders whose funds are invested with the third party.</p> <p>If the assets received by Mobius are not sufficient to ensure that there is no loss to the policyholders' benefits, Mobius would not make up the shortfall using its excess capital.</p>	<p>Each of SF and Mobius would not be responsible for paying benefits in full to policyholders and does not have to make up any shortfall in the value of unit-linked benefits as a result of the default.</p> <p>The floating charge that Mobius has over the assets of the third party would crystallise in the event of the third party's insolvency. The assets of that counterparty would be split equitably between the third party's direct policyholders and both the transferring Mobius policyholders (who are now SF policyholders) and the non-transferring Mobius policyholders whose funds are invested by Mobius with the third party.</p> <p>If the assets received by SF (from Mobius) are not sufficient to ensure that there is no loss to the policyholders' benefits, SF would not make up the shortfall using the excess capital in the SF Main Fund.</p> <p>If the assets received by Mobius are not sufficient to ensure that there is no loss to the policyholders' benefits, Mobius would not make up the shortfall using its excess capital.</p>

- The policies within the Transferring Business will continue to have member administration services provided by Aegon UK plc.;
- Within Mobius, there currently exists a Governance Advisory Arrangement (“GAA”) which has an oversight role over all group personal pension plans and stakeholder pension plans where such plans have two or more employees of the same employer. Following the Transfer Date, the responsibility for this arrangement will move to SF;

- With effect from the Transfer Date, the policyholders within the Transferring Business will become equal members of SF with the existing policyholders, with the membership rights as set out in the SF Memorandum and Rules; and
- SF is a friendly society and as such it requires the transfer of insurance business to be approved by the delegates of SF (the “**Delegates**”) on behalf of its members. The approval for the transfer from the Delegates of SF will be sought by way of a Special Resolution. The transfer of business is conditional on the passing of the Special Resolution by at least 75% of the Delegates in attendance and voting at the Special General Meeting (“**SGM**”) that is set to be held prior to the Sanctions Hearing. The minimum number of Delegates that must be present at the SGM is 50% of the number of Delegates that are entitled to attend and vote.

Financial position of SF and Mobius pre- and post-Scheme

- 1.19. In order to cover the potential effects of the Scheme on the financial resources available to provide security for benefits for all relevant groups of policyholders of SF and Mobius, I have divided the policyholders into the following groups for consideration, due to the similar risk exposures within each of the groups:
- The policyholders transferring from Mobius to SF;
 - The non-transferring Mobius policyholders; and
 - The existing SF policyholders.
- 1.20. I have considered the financial impact of the Scheme on the financial resources available to provide security for benefits for all relevant groups of policyholders under:
- Solvency II Pillar 1 which uses a market consistent framework for valuing the company’s assets and liabilities. The results are public and as such have been provided within my summary report and my main report; and
 - Solvency II Pillar 2 where the company must make a forward looking assessment of risks, solvency needs and adequacy of capital resources over the current business planning horizon. The methodology is less prescriptive than Pillar 1 and must take into account the firm’s own views about the risks that it faces, its risk appetite and the risk mitigation procedures that it has in place. Although my conclusions have considered and taken into account the financial impact of the Scheme on a Pillar 2 basis, the Pillar 2 results are private and confidential, and as such have not been provided explicitly in my summary report nor my main report.
- 1.21. Under Solvency II Pillar 1 the assets held in respect of a policy or group of policies are represented by the technical provisions (consisting of the best estimate liability and risk margin) and the Solvency Capital Requirement (“**SCR**”). This amount is then increased in accordance with the firm’s capital management policy.
- 1.22. The capital management policy of an insurer sets out the capital that a company has committed to hold and is typically expressed in terms of regulatory capital requirements. The regulatory capital requirements may target a specified probability of remaining solvent over a certain time horizon. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the relevant policies subject to the capital management policy.
- 1.23. When considering the financial resources available to provide the security of the benefits of a particular group of policies, reliance can only be placed upon assets held in adherence to the capital management policy and not on assets in excess of this level, since assets in the latter category are potentially available for distribution (subject to logistical constraints) or to fund strategic business growth. The current capital management policies of SF and Mobius aim to ensure sufficient excess capital is held such that they each target:
- SF: A limit of 150% of capital cover, with a trigger point of 200% upon which management actions would be considered to restore SF’s capital position. Both are considered on a Solvency II Pillar 2 basis for the entire business of SF; and

- Mobius: A Solvency II Pillar 1 target of around 120% solvency margin and a Solvency II Pillar 2 target of 140% solvency margin.

1.24. Generally, capital cover and solvency margin are calculated as the amount of excess capital resources divided by the capital requirement (either the regulatory Solvency II Pillar 1 SCR or a Pillar 2 capital requirement). On a Solvency II Pillar 1 basis, the excess capital resources are the excess of the assets held in respect of a policy or group of policies (defined as the Solvency II “Own Funds”) over the value of the technical provisions, any other liabilities and the SCR. The excess capital resources are subject to any restrictions on their use due to the ring-fencing of assets.

The financial resources available to provide security for benefits for transferring Mobius policyholders

1.25. Table 1.1 below shows the pre-Scheme financial strength of Mobius as at 31 March 2017 and the pro-forma post-Scheme financial strength of SF as at 31 December 2016 on the Solvency II Pillar 1 basis.

Table 1.1: Pro-forma comparison of the regulatory solvency providing security for benefits to the transferring Mobius policyholders pre- and post-Scheme

Impact of the Transfer on relevant parties' solvency position		
	as at 31 March 2017	as at 31 December 2016
£m	Mobius pre-Scheme	SF post-Scheme
Assets	9,397.6	2,892.6
Technical provisions	9,377.3	2,606.3
Other liabilities	8.6	102.6
Own Funds	11.7	183.7
Adjustment for restricted Own Funds items	0.0	-19.9
Solvency II Own Funds	11.7	163.8
SCR	9.7	85.8
Excess capital	2.0	77.9
SCR coverage ratio	120%	191%

Source: Mobius’s Chief Actuary’s Report and SF’s Chief Actuary’s Report

- 1.26. Table 1.1 shows the pre-Scheme financial position for Mobius and the pro-forma post-Scheme financial position for SF as at two different dates. This is because SF and Mobius have different year-end reporting dates and, therefore, the audited liability valuations took place at different dates for each of the companies.
- 1.27. On a Solvency II Pillar 1 basis, if the Scheme had been implemented on 31 December 2016, the key impacts on the financial resources available to provide security for benefits for transferring Mobius policyholders would have been:
- The capital resources of SF would have covered its SCR with a ratio of 191%. This represents an increase from the Mobius pre-Scheme position at 31 March 2017, where the capital resources of Mobius covered its SCR with a ratio of 120%;
 - The excess capital to support the security of the benefits of the transferring Mobius policyholders increases in absolute terms from £2.0 million to £77.9 million;
 - The notional sub-funds are managed as ring-fenced funds, with a restriction to transferring surplus capital in one ring-fenced fund to cover losses outside of the ring-fenced fund. However, in the unlikely scenario where the solvency of the SF Main Fund or one of the ring-fenced funds of SF was threatened, SF would be able to transfer the restricted surplus using the capital support arrangements that SF currently has in place. As shown in Table 1.1, this would release an additional £19.9 million of surplus assets which provides further security to transferring Mobius policyholders.
- 1.28. The security for the benefits of the transferring Mobius policies will be provided by the assets of SF held in accordance with SF’s current capital management policy which has a target level of capital defined on a Solvency

II Pillar 2 basis as described in paragraph 1.23. There are no proposed changes to the capital management policy of SF as a result of the transfer.

- 1.29. I have reviewed SF's financial position on a Solvency II Pillar 2 basis and a capital management policy defined on a Pillar 2 basis for SF represents a stronger constraint on capital than if this had been defined on a Pillar 1 basis at the same target level of solvency cover. I am satisfied that the capital buffer of 50% of the Pillar 2 capital requirement targeted to be held by SF when compared to the capital buffer of 20% of the Pillar 1 capital requirement held by Mobius does not produce a smaller margin to provide security for policyholder benefits.

The financial resources available to provide security for benefits for the non-transferring Mobius policyholders

- 1.30. Table 1.2 below shows the pre-Scheme and pro-forma post-Scheme financial strength of Mobius as at 31 March 2017 on the Solvency II Pillar 1 basis.

Table 1.2 – Pro-forma comparison of the regulatory solvency providing security for benefits to the non-transferring Mobius policyholders pre- and post-Scheme

Impact of the Transfer on Mobius's solvency position as at 31 March 2017			
£m	pre-Scheme	post-Scheme	Scheme impact
Assets	9,397.6	9,400.5	2.9
Technical Provisions	9,377.3	9,382.9	5.6
Other Liabilities	8.6	7.6	-1.0
Solvency II Own Funds	11.7	10.0	-1.7
SCR	9.7	1.9	-7.8
Excess Capital	2.0	8.1	6.1
SCR coverage ratio	120%	522%	402%
MCR	4.4	3.3	-1.1
MCR coverage ratio	266%	301%	35%

Source: Mobius's Chief Actuary's Report

- 1.31. On a Solvency II Pillar 1 basis, if the Scheme had been implemented on 31 March 2017, the key impacts on the financial resources available to provide security for benefits for non-transferring Mobius policyholders would have been:
- The Minimum Capital Requirement ("MCR") of Mobius is expected to equal the absolute minimum capital requirement for life insurance companies of €3.7 million (approximately £3.3 million as at 31 March 2017);
 - The SCR is expected to become smaller than the absolute MCR and Mobius will be required to hold capital equal to the greater of the two. Therefore, the Solvency II Pillar 1 capital requirement for Mobius following the transfer will be the MCR. Mobius will be required to hold more capital than has been calculated, and than is required, at the 1-in-200 level (as defined for the SCR). This results in additional security for policyholders' benefits than if this minimum were not present; and
 - The pre-Scheme SCR cover of 120% should therefore be compared to the post-Scheme MCR cover of 301%. This reflects a significant improvement in Mobius's solvency position and the solvency ratio of Mobius is expected to be comfortably in excess of its current Solvency Pillar 1 target solvency coverage ratio of around 120% of solvency margin.
- 1.32. The transfer will necessitate a change to the current capital management policy of Mobius. Given the change in the Solvency II Pillar 1 capital requirement from the SCR to the MCR and the small absolute amount that the target 20% capital buffer will represent following the proposed transfer, it is my opinion that the current capital management policy of Mobius will no longer be appropriate for the non-transferring business within Mobius. Mobius's management expects that the capital management policy will be revised, by way of an increase to the target percentage of SCR, in order to reflect the post-Scheme risk profile. At the time of writing my main report, the level of the post-Scheme capital management policy still needs to be discussed and approved by both the

Mobius Audit, Risk and Compliance Committee and the Board of Mobius. I will provide an update on this within my Supplementary Report.

The financial resources available to provide security for benefits for the existing SF policyholders

- 1.33. Table 1.3 below shows the pre-Scheme and pro-forma post-Scheme financial strength of SF as at 31 December 2016 on a Solvency II Pillar 1 basis.

Table 1.3: Pro-forma comparison of the regulatory solvency providing security for benefits to the existing SF policyholders pre- and post-Scheme

Impact of the Transfer on the solvency position of SF as at 31 December 2016			
£m	pre-Scheme	post-Scheme	Scheme impact
Assets	2,552.4	2,892.6	340.2
Technical provisions	2,267.2	2,606.3	339.1
Other liabilities	102.6	102.6	0.0
Adjustment for restricted Own Funds items due to ring-fencing	-19.9	-19.9	0.0
Solvency II Own Funds	162.7	163.8	1.1
SCR	81.8	85.8	4.0
Excess Capital	80.9	77.9	-3.0
SCR coverage ratio	199%	191%	-8%

Source: SF's Chief Actuary's Report

- 1.34. On a Solvency II Pillar 1 basis, if the Scheme had been implemented on 31 December 2016, there would have been a deterioration in SF's Solvency II Pillar 1 solvency position, reducing the financial resources available to provide security for benefits for the existing SF policyholders. This arises predominantly due to an increase in the SCR of SF that must be held in relation to the risks inherent in the Transferring Business. This increase in SCR must be met by the excess assets of the SF Main Fund, thus reducing the amount of excess capital available to provide security for the benefits of the existing SF policyholders. The implementation of the Scheme will have no impact on the reserves held in relation to the current SF policies that are within the other notional sub-funds.
- 1.35. SF's capital management policy and in particular the target level of capital buffer in excess of the Pillar 2 capital requirement as described in paragraph 1.23, will not be changed by the implementation of the Scheme. Thus the security of existing policyholder benefits will only be affected by any changes to the company's continuous ability to comply with this policy as the scope of the policy as it is extended to include the transferring Mobius policyholders.
- 1.36. I have reviewed the pre-Scheme and pro-forma post-Scheme financial position of SF as at 31 December 2016 on a Solvency II Pillar 2 basis. As is the case on a Pillar 1 basis, if the Scheme had been effective as at this date, there would have been a deterioration in SF's Pillar 2 solvency position but SF still remains capitalised above the risk appetite limit of 150% of its Solvency II Pillar 2 capital requirement.
- 1.37. However, following the transfer, the solvency ratio of SF is expected to be below its risk appetite trigger point of 200% coverage of its Pillar 2 capital requirement. Consequently, management would be required to assess whether the solvency level is acceptable and whether actions are required in order to improve the solvency level above their target of 200% on a Pillar 2 basis.

The profile of risks to which the policyholders of Mobius and SF are exposed

The profile of risks to which the transferring Mobius policyholders are exposed

- 1.38. Following the implementation of the Scheme, the transferring Mobius policies will become direct policies of SF and therefore directly exposed to the risk profile of a different company that has written a different mix of business, through different distribution channels, to policyholders with different demographic profiles.

1.39. As a result of the implementation of the Scheme, the main changes to the risk profile to which the transferring Mobius policyholders are exposed will be:

- A material increase in exposure to equity risk (a form of market risk) in relation to SF's investment in equities in relation to its with-profits policies;
- An increase in exposure to risks in relation to: assets under management (counterparty, equity and interest rate risk); life and pension liabilities (mortality, morbidity and longevity risk); and counterparty default risk from its reinsurance and banking counterparties;
- In relation to the Credit Exposed Policyholders, prior to the implementation of the Scheme, such transferring policyholders are exposed to the risk of insolvency and default of the third parties with which Mobius invests. Following the implementation of the Scheme, as a result of the SF-Mobius Reinsurance Arrangement, the Credit Exposed Policyholders are exposed to the risk of insolvency and default of (i) Mobius and (ii) the third parties with which Mobius invests. As such, a number of the transferring members will also be exposed to the risk that Mobius becomes insolvent or defaults on its obligation as a result of the transfer; and
- In relation to the Credit Neutral Policyholders, following the implementation of the Scheme, such transferring policyholders are unaffected by the risk of insolvency of Mobius (or for that matter any third party with which Mobius invests).

The profile of risks to which the non-transferring Mobius policyholders are exposed

1.40. As a result of the implementation of the Scheme, the main changes to the risk profile to which the non-transferring Mobius policyholders are exposed will be:

- A material reduction in the exposure to counterparty default risk due to the SF-Mobius Reinsurance Arrangement, which will remove the counterparty risk associated with the Transferring Business as this will then be borne by SF; and
- The expected loss for non-transferring policyholders, in the event that Mobius were to become insolvent, will increase following the implementation of the Scheme as a result of the amended reinsurance arrangement between Mobius and L&GPML and security assignment between SF and Mobius, as described in paragraph 1.18. This will result in SF having priority over Mobius in respect of the assets relating to the Transferring Business that are invested with L&GPML. Prior to the transfer, these assets would have also been included in the assets available to pay policyholders' benefits in the event of Mobius's insolvency and shared equitably between all policyholders (including the non-transferring policyholders).

The profile of risks to which the existing SF policyholders are exposed

1.41. As a result of the implementation of the Scheme, the risk profile to which the existing SF policyholders are exposed is not expected to be impacted materially and the dominant risks remain as they were prior to the transfer. That said, the main changes to the risk profile to which the existing SF policyholders are exposed will be:

- An increase in SF's exposure to counterparty default risk in respect of Mobius as well as the third parties that Mobius invests with in relation to the Transferring Business, as a result of the SF-Mobius Reinsurance Arrangement described in paragraph 1.18; and
- An increase in SF's exposure to mass lapse risk: the Transferring Business is exposed to significant 'mass lapse' risk as there is a concentration of assets in group pension plans held by a small number of employers (who are the policyholders) and SF will become at risk of these policyholders transferring all assets under management to new arrangements within a short timeframe. This would result in a significant loss of new contributions received on the Transferring Business.

The governance, management and service standards applicable to the Mobius and SF policies pre- and post-Scheme

The governance, management and service standards applicable to the transferring Mobius policyholders

- 1.42. The Scheme will have the following impacts on the governance, management and service standards applicable to the transferring Mobius policyholders:
- The Transferring Business will be managed by SF and subject to the governance of the Board of SF who will manage the friendly society by authority of the Delegates in accordance to the Friendly Society Act, its Memorandum and Rules and any directions given by Special Resolution;
 - The transferring policyholders will become members of SF, equal with all other members, and therefore have the ability to influence the management of SF through their membership rights as defined in the Memorandum and Rules of SF. As a result, the transferring policyholders will become eligible to become Delegates of SF and on the winding up of SF will be entitled to an equitable share in any surplus remaining (as determined by the Board of SF following the advice of its actuary);
 - SF will form a GAA that aims to replicate the existing Mobius GAA and the SF Board Risk Committee will be responsible for the oversight and running of the GAA;
 - The member administration services in relation to the Transferring Business will continue to be performed by Aegon UK plc.; and
 - All investment administration will continue to be carried out by Mobius with no changes immediately after the transfer to the fund links that are available to policyholders immediately before the Transfer Date. There will not be any immediate changes to the choice of investment funds available to the transferring Mobius policies after the Transfer Date as a direct impact of the proposed Scheme.

The governance, management and service standards applicable to the non-transferring Mobius policyholders

- 1.43. The Scheme will have no impact on the governance, management and service standards applicable to the non-transferring Mobius policyholders.

The governance, management and service standards applicable to the existing SF policyholders

- 1.44. The Scheme will have the following impacts on the governance, management and service standards applicable to the existing SF policyholders:
- SF will form a GAA that aims to replicate the GAA that currently exists at Mobius and provides governance oversight to the group stakeholder and personal pension policies in the Transferring Business. It will be effective from the Transfer Date. The SF Board Risk Committee will be responsible for the oversight and running of the GAA. The scope of the GAA is expected to be extended to include around 1,500 of SF's current policyholders of pension business;
 - Membership rights for all existing SF policyholders, as prescribed in the Memorandum and Rules of SF, will be unaffected by the implementation of the Scheme;
 - The policyholders within the Transferring Business will become members of SF, equally with the existing SF policyholders, resulting in a dilution of membership rights for the existing SF policyholders. Given the relative size of the Transferring Business (around 13,310 policyholders/members) compared to the size of the existing SF business (around 1.2 million policyholders), this dilution is not expected to have a material impact on the existing SF policyholders; and
 - There are no further changes arising as a result of the transfer to the governance, management or administration arrangements within SF that will impact the existing SF policyholders. In particular, there will be no changes to the way that with-profits business is managed or governed by SF.

The reasonable benefit expectations of the policyholders of Mobius and SF pre- and post-Scheme

The reasonable benefit expectations of the transferring Mobius policyholders

- 1.45. The main impacts that the implementation of the Scheme will have on the reasonable benefit expectations of the transferring Mobius policyholders are as follows:
- There are no changes proposed to the policy terms and conditions for the transferring Mobius policies, except that they will become SF policies, and so the contractual benefits as set out in these terms and conditions will be unchanged by the Scheme;
 - Policies transferring from Mobius into the SF Main Fund have no entitlement to, or expectation of, any share of distributions of surplus from that fund, or any other notional sub-fund after the transfer;
 - The transfer will have no impact on the operation of the internal linked funds (in particular the unit pricing) or the investment of the unit-linked funds (in accordance to the investment objectives of those funds) of the Transferring Business; and
 - The management of SF has confirmed that they are not proposing any change to the charges applicable to the transferring Mobius policyholders following the transfer and it will be the responsibility of the SF GAA to ensure value for money for policyholders which should act to prevent charges from being unfairly increased following the transfer.

The reasonable benefit expectations of the non-transferring Mobius policyholders

- 1.46. The main impacts that the implementation of the Scheme will have on the reasonable benefit expectations of the non-transferring Mobius policyholders are as follows:
- There will be no change to the terms and conditions of the non-transferring policies of Mobius;
 - There will be no change to the operation of the business and, in particular, the investment strategy for the non-transferring business;
 - There will be no changes to the level of charges for the non-transferring business as a result of the transfer; and
 - There will be no costs or taxes incurred by the non-transferring policies as a result of planning or implementing the Scheme. These will be met by the shareholder funds of Mobius.

The reasonable benefit expectations of the existing SF policyholders

- 1.47. The main impacts that the implementation of the Scheme will have on the reasonable benefit expectations of the existing with-profits policyholders in the SF Main Fund are as follows:
- There will be no change to the terms and conditions of the existing with-profits policyholders in the SF Main Fund;
 - The existing policyholders in the SF Main Fund will remain in the SF Main Fund following the implementation of the Scheme and there will be no changes in the operation of the SF Main Fund. In particular, the bonuses on with-profits policies, investment policy and amounts credited and debited from each of the with-profits funds will continue to be determined in line with the SF Main Fund's published Principles and Practices for Financial Management;
 - The costs associated with the Scheme that are attributable to SF will be met from the SF Main Fund. Furthermore, as explained in paragraph 1.34 the assets to be transferred into the SF Main Fund do not cover the SCR on the Transferring Business and so this capital will be covered by the surplus assets of the SF Main Fund, further reducing the surplus assets of the fund immediately following the implementation of the Scheme. However, the SCR and risk margin are expected, if best estimate assumptions of future experience hold, to be released as the Transferring Business runs off, generating a profit for with-profits policyholders in the future. In addition, the WPA of SF has stated that the reduction in surplus assets in the SF Main Fund is expected to have no impact on the level of bonuses in the short

to medium term. I therefore do not consider that the transfer will have an adverse effect on the ability to pay bonuses and thus the bonus earning capacity of the SF Main Fund; and

- The current investment policy of the SF Main Fund is unchanged by the implementation of the Scheme and the assets chosen to match the liabilities in relation to the Transferring Business will not have a material adverse effect on the investments backing the with-profits policies.

1.48. The main impacts that the implementation of the Scheme will have on the reasonable benefit expectations of the existing non-profit and unit-linked policyholders in the SF Main Fund are as follows:

- There will be no change to the terms and conditions of the existing non-profit and unit-linked policyholders in the SF Main Fund;
- The existing policyholders in the SF Main Fund will remain in the SF Main Fund following the implementation of the Scheme and there will be no change to the operation of the SF Main Fund; and
- The Scheme will have no effect on the benefits payable under the existing non-profit or unit-linked policies in SF.

1.49. The main impacts that the implementation of the Scheme will have on the reasonable benefit expectations of the existing policyholders in the other notional sub-funds are as follows:

- There will be no change to the terms and conditions of the existing policyholders in the other notional sub-funds;
- The existing policyholders in the notional sub-funds will remain in the same notional sub-funds following the implementation of the Scheme and there will be no change to the operation of any of the notional sub-funds. In particular, for with-profits policies in the notional sub-funds, the bonuses on with-profits policies, investment policy and amounts credited and debited from each of the with-profits funds will continue to be determined in line with the fund's published Principles and Practices for Financial Management; and
- The costs associated with the Scheme that are attributable to SF will be met solely from the SF Main Fund and so none of the costs will be attributable to the policyholders in the notional sub-funds.

The policyholder communications proposed for this transfer

1.50. Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties to the Scheme. However, this requirement may be waived at the discretion of the Court, which will give consideration to issues such as the practicality and costs of sending direct notices against the likely benefits for policyholders of receiving such communications, as well as the effectiveness of alternative information channels (e.g. public notices).

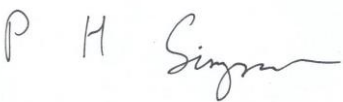
1.51. Therefore, the following communications have been proposed for this transfer:

- A legal notice of the transfer will be published in The Times, The Telegraph, the Herald and the London, Edinburgh and Belfast Gazettes;
- Direct communications will be sent to the following groups of Mobius policyholders, for whom Mobius holds a current address, to notify them of the transfer (and thus Mobius are to seek dispensation from the Court from the requirement to contact any other additional policyholders):
 - The trustees who hold a TIP in the Transferring Business, and the adviser of the trustees (in some cases, where Mobius regularly deals with the adviser);
 - The individual scheme members of a group personal pension plan, group stakeholder pension plan or a TIP in the Transferring Business, and the individual holders of an individual personal pension plan in the Transferring Business; and
 - The trustees who hold a TIP in the non-transferring business, and the adviser of the trustees (in some cases, where Mobius regularly deals with the adviser).

- Each Delegate of SF will receive a voting pack in advance of the SGM, which will include an explanatory document prepared by SF (containing details of the proposed transfer) alongside a copy of the communications that are to be prepared by and sent to Mobius policyholders. SF intends to seek dispensation from the Court from the requirement to contact all other members; and
- Policyholders and other interested parties will be able to obtain information from SF's and Mobius's websites, which will contain documents regarding the Scheme, including a statement setting out the terms of the Scheme and this summary report.

Conclusions

- 1.52. I confirm that I have considered the issues affecting the policyholders of Mobius and SF as set out in Sections 8, 9, 10 and 11 of my main report and I am satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits under the policies of Mobius and SF;
 - The profile of risks to which the policies of Mobius and SF are exposed;
 - The governance, management or service standards applicable to the Mobius and SF policies; or
 - The reasonable benefit expectations of the policyholders of Mobius and SF.
- 1.53. I am satisfied that the Scheme is equitable to all classes and generations of SF and Mobius policyholders.
- 1.54. I am satisfied that the proposed approach to communication with policyholders, including the application for the waivers, is fair and reasonable.



PH Simpson

Philip Simpson

19 July 2018

Fellow of the Institute and Faculty of Actuaries