

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

MARINE AND GENERAL MUTUAL LIFE ASSURANCE SOCIETY

and

SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED

SCHEME

(pursuant to Part VII of the Financial Services and Markets Act 2000)

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(ACC/CLXJ)

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PART A – DEFINITIONS AND INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 In this Scheme, unless the subject or context requires otherwise, the following expressions bear the meanings respectively set opposite them:

“Actuary”	the person appointed by the relevant insurer from time to time to perform the “actuarial function”, as described in SUP 4.3.13R;
“Average Earnings Index”	the Average Weekly Earnings measure published by the Office for National Statistics or such other similar or successor index using the same or a substantially similar formula (and method) of calculating the said index, as the SF Board, in consultation with the With-Profits Actuary and the Monitoring Committee, determines appropriate;
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for business (other than solely for trading and settlement in Euros) in both London and Glasgow;
“Capital Shortfall”	the amount by which the working capital of the M&G Sub-Fund (including the value of the Sole Member Policy) is less than the Notional Capital Requirement;
“Capital Support Charges”	the capital support charges calculated in accordance with <u>Part D of Schedule 1</u> ;
“COBS”	the Conduct of Business Sourcebook issued by the Regulators;
“Contribution”	a cash contribution of £10,000,000 (ten million pounds sterling) from the SF Main Fund;
“Contract”	any written contract, commitment, agreement, indenture, note, bond, mortgage, loan, instrument, lease or licence, including (without limitation) the FIA Reinsurance Agreement and the Standard and Select Annuities Reinsurance Agreement;
“Court”	the High Court of Justice in England and Wales;
“CRR Amount”	such amount of assets as the M&G Board, having regard to appropriate actuarial advice, shall determine as sufficient to ensure that M&G is able to meet its capital resources requirements as set out in GENPRU 2.1 (or subsequent regulatory capital requirements as implemented from time to time) after the Effective Date;
“Data Migration”	the migration to SF of: <ul style="list-style-type: none"> (A) all Policies, Contracts and data relating to the

	Transferred Business;
	(B) all of M&G's IT systems, including the Talisman System and the Exaxe system; and
	(C) all underlying assets and records relating to the Transferred Business in whatever form;
“Effective Date”	the time and date on which this Scheme shall become effective in accordance with <u>paragraph 31</u> ;
“Employees”	the employees of M&G immediately prior to the Effective Date;
“Encumbrance”	any mortgage, charge, pledge, security assignment, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, any other encumbrance or security interest of any kind and any other type of preferential arrangement (including, without limitation, title transfer and retention agreements) having a similar effect;
“Excluded Policies”	Policies under which any liability remains unsatisfied or outstanding as at the Effective Date: <ul style="list-style-type: none"> (A) written by or transferred to M&G in the course of carrying on insurance business in the United Kingdom or any other EEA State, in respect of which: <ul style="list-style-type: none"> (i) for the purpose of paragraph 1(3) of Schedule 12 to FSMA, an EEA State other than the United Kingdom is the State of the commitment; and (ii) the appropriate Regulator has not prior to the making of the Order by which the Court sanctions this Scheme provided the certificate referred to in paragraph 4 of Schedule 12 to FSMA with respect to the relevant EEA State which is the State of the commitment; or (B) written by or transferred to M&G in the course of carrying on insurance business in the United Kingdom or any other EEA State which the Court has determined shall not be transferred at the Effective Date; or (C) written by or transferred to M&G in the course of carrying on Long Term Business but which are not otherwise capable of being transferred pursuant to

FSMA at the Effective Date,

and any further Policy issued by M&G pursuant to the exercise of any right or option under an Excluded Policy as described in paragraph 7.3;

“Excluded Policies Reinsurance”	the reinsurance arrangement to be implemented pursuant to and in accordance with <u>paragraph 7</u> ;
“Existing Investment Classes”	the investment classes employed by M&G in relation to the Transferred Business as detailed in Form 13 of the PRA returns as at 31 December 2013;
“Financial Ombudsman Service”	the scheme provided under Part XVI FSMA;
“FIA Business”	all the business in respect of the FIA Policies carried on by M&G at the Effective Date;
“FIA Policies”	flexible income annuity contracts issued by M&G which are in force at the Effective Date;
“FIA Reinsurance Agreement”	the reinsurance agreement between M&G and MGM Advantage Life in relation to the FIA Business, dated 30 November 2013;
“FSMA”	the Financial Services and Markets Act 2000;
“FSMA Regulations”	The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001;
“Fund”	the SF Main Fund or M&G Sub-Fund (as applicable);
“GENPRU”	the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms issued by the Regulator;
“HMRC”	Her Majesty’s Revenue & Customs;
“Independent Expert”	the person nominated or approved by the Regulator to make the report on the terms of this Scheme in accordance with section 109 FSMA;
“INSPRU”	the Prudential Sourcebook for Insurers issued by the Regulator;
“Linked Fund”	an internal linked fund maintained by M&G prior to the Effective Date or by SF prior to or following the Effective Date for the purpose of calculating benefits payable under Linked Policies;
“Linked Policies”	Policies under which the benefits are wholly or partly to be determined by reference to the value of, or the income from, property

	of any description (whether or not specified in the Policies) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified);
“Long Term Business”	the business of effecting or carrying out long term insurance contracts as principal, being contracts falling within Part II of Schedule 1 to the RAO;
“Long Term Fund”	the fund, or each of the funds, established and maintained by M&G or SF (as the context requires) pursuant to INSPRU 1.5.22R in respect of Long Term Business;
“M&G”	Marine and General Mutual Life Assurance Society, a company incorporated in England and Wales with registered number 00000006, whose registered office is at MGM House, Heene Road, Worthing, West Sussex, BN11 3AT;
“M&G Annuities”	the M&G Select Annuities and the M&G Standard Annuities;
“M&G Board”	the board of directors of M&G from time to time;
“M&G Group”	M&G, its subsidiaries and subsidiary undertakings, any holding company of M&G and all other subsidiaries of any such holding company from time to time;
“M&G Policyholders”	those Policyholders holding Policies allocated to the M&G Sub-Fund and entitled to participate in the surplus (if any) from time to time of the M&G Sub-Fund;
“M&G Select Annuities”	the Select annuity portfolio of pension annuities issued by M&G;
“M&G Standard Annuities”	the Standard annuity portfolio of non-profit immediate annuities issued by M&G;
“M&G Sub-Fund”	the with-profits fund bearing the name “M&G Sub-Fund” to be established and maintained by SF, with effect from the Effective Date, as a sub-fund within the SF Long Term Fund and separate from the SF Main Fund and other sub-funds maintained by SF;
“M&G Sub-Fund FFM”	the Fundamentals of Financial Management for the M&G Sub-Fund, as set out in out in <u>Schedule 2</u> (as amended from time to time in accordance with <u>paragraph 18.6</u>);
“M&G Sub-Fund PPFM”	the Principles and Practices of Financial Management for the M&G Sub-Fund in effect from time to time in respect of the M&G Sub-Fund, as updated in accordance with the M&G Sub-Fund FFM;
“M&G Talisman”	the (i) Talisman Software Customisation Part 1 Agreement and the

Licence”	Support Agreement and Escrow Agreement (as defined in such Talisman Software Part 1 Customisation Agreement) between Tacit Group Limited and M&G dated 23 February 2001 and (ii) all amendments of the Talisman Software Customisation Part 1 Agreement including the Variation Agreement entered into between Bravura Solutions (UK) and M&G dated 6 March 2006 and 8 May 2006 and the Software Customisation Agreement between Bravura Solutions (UK) Limited and M&G dated 31 August 2007;
“MGM Advantage Life”	MGM Advantage Life Limited;
“MGM Advantage Services”	MGM Advantage Services Limited;
“MGM Advantage Services Employees”	any person employed or engaged by MGM Advantage Services or any sub-contractor of MGM Advantage Services who is wholly or mainly engaged in the provision of services by MGM Advantage Services to the Transferred Business immediately prior to the Effective Date;
“MGMI Scheme”	the scheme providing for the transfer of all the business of MGM International Assurance Limited to M&G, with effect from 12 April 2010;
“Monitoring Committee”	the sub-committee to be established by the SF Board to provide independent oversight of the M&G Sub-Fund;
“Notional Capital Requirement”	will be determined by the Actuary subject to the approval of the With-Profits Actuary and will be the lower of: <ul style="list-style-type: none"> (A) the capital resources requirements as set out in GENPRU 2.1 or subsequent regulatory capital requirements as implemented from time to time, calculated for the M&G Sub-Fund in isolation ignoring any liability to pay Capital Support Charges; and (B) an amount determined in accordance with the principles set out in the M&G Sub-Fund FFM;
“Order”	an order made by the Court pursuant to section 111 of FSMA sanctioning this Scheme and any order (including any subsequent order) in relation to this Scheme made by the Court pursuant to section 112 of FSMA;
“Pension Scheme”	the MGM Assurance Staff Pension Plan as currently governed by the Fourth Definitive Trust Deed and Rules dated 25 November 1999 (as

	amended);
“Policy”	has the meaning set out in the Financial Services and Markets Act 2000 (Meaning of “Policy” and “Policyholder”) Order 2001;
“Policyholder”	has the meaning set out in the Financial Services and Markets Act 2000 (Meaning of “Policy” and “Policyholder”) Order 2001;
“Proceedings”	includes any action or other legal or administrative proceedings or step (whether direct or indirect, by way of a claim, demand, legal proceedings, execution of judgment, arbitration, complaint or otherwise howsoever) including arbitration, mediation, adjudication, any other dispute resolution procedure (whether or not it involves submission to any court), any judicial, quasi-judicial, administrative or regulatory review or process or any complaint or claim to any ombudsman or other proceedings for the resolution of a dispute or claim, in each case whether current, future, pending, threatened or otherwise;
“RAO”	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544);
“Realistic Liabilities”	will be determined by the Actuary subject to the approval of the With-Profits Actuary as the sum of: <ul style="list-style-type: none"> (A) the best estimate liabilities calculated for the purpose of the calculation of the Individual Capital Assessment set out in INSPRU 7.1 or subsequent regulatory capital requirements as implemented from time to time, calculated for the M&G Sub-Fund in isolation ignoring any liability to pay Capital Support Charges; and (B) any additional amounts that may be required to be held within the M&G Sub-Fund under subsequent regulations as implemented from time to time;
“Records”	all documents, files and other records, whether in physical or electronic form, relating to the Transferred Business which are in the possession of, or under the control of, M&G, but excluding any records documents, files and other records relating to the Transferred Business that the parties at any time agree in writing to exclude;
“Regulator”	the Prudential Regulation Authority (“ PRA ”) and/or the Financial Conduct Authority (as the case may be) of the United Kingdom or such other authority or authorities as shall from time to time carry out such functions in relation to the prudential regulation and/or financial conduct of Long Term Business as carried on in the United Kingdom

by M&G or SF(as applicable) as are on the date hereof carried out by the Prudential Regulation Authority and the Financial Conduct Authority of the United Kingdom;

“Residual Asset”

- (A) any property of M&G attributable to the Transferred Business (including any right, benefit or power of M&G under any Transferred Policy) in respect of which the Court has declined to order the transfer to SF under section 112(2) of FSMA as at the Effective Date;
- (B) any other property of M&G attributable to the Transferred Business (including any right or benefit under any Transferred Policy) where M&G and SF agree in writing that its transfer should be delayed or should not be transferred at all;
- (C) any property of M&G attributable to the Transferred Business which is outside the jurisdiction of the Court or in respect of which the transfer pursuant to an order of the Court is not recognised by the laws of the jurisdiction in which the property is situated;
- (D) any property of M&G attributable to the Transferred Business which cannot be transferred to or vested in SF on the Effective Date for any other reason;
- (E) assets representing the CRR Amount; and
- (F) any proceeds of sale or income or other accrual or return whatsoever, whether or not in any case in the form of cash, earned or received from time to time after the Effective Date in respect of any property referred to in paragraphs (A) to (E) of this definition;

“Residual Liability”

any liability whatsoever of M&G (other than under an Excluded Policy):

- (A) that is attributable to or connected with a Residual Asset and arises at any time before the Subsequent Transfer Date applicable to that Residual Asset including, without limitation, any liability to taxation; or
- (B) in respect of which the Court has declined to order the transfer to SF under section 112(2) of FSMA on the Effective Date; or
- (C) any liability of M&G which cannot be transferred to or

vested in SF for any other reason on the Effective Date;

“Run-Off Spreadsheet”	the spreadsheet named “140819 MG Mutual run-off working_Dec13.xlsx” as sent to SF on 19 August 2014 showing results from the valuation at 31 December 2013 as updated at the Effective Date;
“Services Agreement”	the services agreement between M&G and MGM Advantage Services dated 30 November 2013;
“Services Agreement Break Fee”	the break fee payable by M&G pursuant to clause 11.8 of the Services Agreement;
“SF”	Scottish Friendly Assurance Society Limited a friendly society, registered and incorporated under the Friendly Societies Act 1992 with No. 3 COLL (S), whose registered office is at Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ;
“SF Board”	the board of directors of SF from time to time;
“SF Framework Agreement”	the framework agreement entered into between SF and the trustees of the Pension Scheme, dated [●];
“SF Group”	SF, its subsidiaries and subsidiary undertakings, any holding company of SF and all other subsidiaries of any such holding company from time to time;
“SF Long Term Fund”	the fund established and maintained by SF pursuant to INSPRU 1.5.22R in respect of Long Term Business;
“SF Main Fund”	the fund bearing the name “Main Fund” established as a sub fund of the SF Long Term Fund for business other than business held in the M&G Sub-Fund and other sub funds maintained by SF;
“SF Rules”	the Memorandum and Rules of SF in force from time to time;
“SF With-Profits Governance Arrangement”	such committee or advisory arrangement as SF may appoint in accordance with COBS 20.5;
“Sole Member”	SF;
“Sole Member Policy”	the With-Profits capital redemption policy to be issued by M&G to the Sole Member on the Effective Date;
“Standard and Select Annuities Reinsurance”	the reinsurance agreement between M&G and RGA International Reinsurance Company Limited in relation to the M&G Annuities,

Agreement	dated 25 November 2014;
“Subsequent Transfer Date”	<p>in relation to any Residual Asset or Residual Liability, the date (and each date) after the Effective Date on which such Residual Asset or Residual Liability is or is to be transferred to SF, namely;</p> <p>(A) in respect of any Residual Asset falling within paragraph (A), (C) or (D) of the definition of Residual Asset, and of any Residual Liability which is attributable to or connected with that Residual Asset or which falls within paragraph (B) or (C) of the definition of Residual Liability, the date on which any impediment to its transfer shall have been removed or overcome;</p> <p>(B) in respect of any Residual Asset falling within paragraph (B) or (F) of the definition of Residual Asset and of any Residual Liability which is attributable or connected with that Residual Asset, the date on which M&G and SF agree the transfer should take effect;</p> <p>(C) in respect of any Residual Asset falling within paragraph (E) of the definition of Residual Asset, the date on which, in the opinion of the M&G Board, having regard to appropriate actuarial advice, which Residual Asset or part thereof is no longer required to be retained in M&G, in order for M&G to be able to meet its capital resources requirements as set out in GENPRU 2.1 or subsequent regulatory capital requirements as implemented from time to time; or</p> <p>(D) the date on which the Court may otherwise determine that such transfer shall take effect;</p>
“SUP”	the Supervision Manual issued by the Regulators;
“Talisman System”	means the IT systems used by M&G for processing business in accordance with the M&G Talisman Licence;
“tax” or “taxation”	all forms of tax, duty, rate, levy, charge or other imposition or withholding whenever and by whatever authority imposed and whether of the United Kingdom or elsewhere, including (without limitation) income tax (including income tax or amounts equivalent to or in respect of income tax required to be deducted or withheld from or accounted for in respect of any payment), corporation tax, advance corporation tax, capital gains tax, inheritance tax, value added tax, customs duties, excise duties, stamp duty, stamp duty reserve tax, stamp duty land tax, national insurance, and other

similar contributions, and any other taxes, duties, rates, levies charges, imposts or withholdings corresponding to, similar to, replaced by or replacing any of them, together with any interest, penalty, surcharge or fine in connection with any taxation or in connection with the failure to file any return for the purposes of any taxation;

“Tax Clearances”

- (A) confirmation from HMRC that the transfer of the Transferred Business will be treated as a TOGC or otherwise not subject to VAT;
- (B) confirmation from HMRC that the transfer or sale and purchase of the assets comprised in the Transferred Business will not attract stamp duty or stamp duty reserve tax;
- (C) notification by HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that they are satisfied that the scheme of reconstruction comprised of the cancellation of the interests of M&G's members in M&G and the issue to them of new membership interests in SF is effected for bona fide commercial reasons and do not form part of any such scheme or arrangements as are mentioned in section 137(1) of that Act; and
- (D) notification from HMRC under section 133 of the Finance Act 2012 confirming that HMRC are satisfied that section 132(1)(b) of the Finance Act 2012 is not met;

“this Scheme”

this scheme in its original form or with or subject to any modification, addition or condition which may be approved or imposed in accordance with paragraph 32;

“TOGC”

the transfer of a business (or of part of a business) as a going concern for the purposes of both section 49(1) VATA 1994 and article 5 Value Added Tax (Special Provisions) Order 1995;

“Transfer Regulations”

the Transfer of Undertaking (Protection of Employment) Regulations 2006;

“Transferred Assets”

all and any property or other assets of M&G whatsoever and wheresoever situated as at the Effective Date including (without prejudice to the generality of the foregoing):

- (A) the rights, benefits and powers of M&G under or by

virtue of the Transferred Policies;

- (B) all rights and claims (present or future, actual or contingent) against any third party in relation to the Transferred Business or arising as a result of M&G having carried on the Transferred Business;
- (C) all rights, benefits and powers of M&G under or by virtue of Contracts;
- (D) the Records, and all rights, title and interest of M&G in the Records; and
- (E) all property attributable to the Excluded Policies (except if and for so long as such property constitutes a Residual Asset),

but excluding: (1) the Residual Assets; and (2) any rights, benefits and powers under or relating to the Excluded Policies;

“Transferred Business”

the whole undertaking and business of M&G whatsoever and wheresoever (including all activities carried on in connection with or for the purposes of such business) as at the Effective Date, including the Transferred Policies, Transferred Assets and Transferred Liabilities but excluding any Residual Assets, Residual Liabilities, and Excluded Policies;

“Transferred Liabilities”

all liabilities of M&G whatsoever as at the Effective Date (whether actual or prospective), including (without prejudice to the generality of the foregoing):

- (A) all liabilities under or in connection with the Transferred Policies; and
- (B) to tax (including without limitation any liability to tax of M&G attributable to the Transferred Business or any other business of M&G or to its transfer of any such business),

but excluding: (1) the Residual Liabilities; and (2) any liabilities under or relating to the Excluded Policies;

“Transferred Policies”

every Policy written by or transferred to M&G under which any liability remains unsatisfied or outstanding at the Effective Date, including:

- (A) Policies written by or transferred to M&G which have lapsed on or before the Effective Date and which are

reinstated by SF after the Effective Date;

- (B) all proposals for insurance received by or on behalf of M&G before the Effective Date which have not become Policies in force by the Effective Date but which subsequently become Policies,

but excluding:

- (A) Excluded Policies; and
- (B) all those individual enhanced annuity contracts previously issued by M&G, and which are intended to transfer to M&G Advantage Life (whether or not they do transfer) pursuant to a scheme under Part VII of FSMA prior to the Effective Date;

“Unit and Term Policies”

means all M&G policies categorised as unit-linked policies or term assurance policies in tables 6 and 7 respectively of the Results section in the Run-Off Spreadsheet. For the avoidance of doubt this does not include: (i) term assurance contracts associated with Lutine reinsurance contracts; (ii) non-profit whole of life contracts; (iii) non-profit endowment contracts; (iv) permanent health insurance contracts; (v) life annuity contracts; and (vi) pension term assurance contracts;

“VAT”

value added tax;

“VATA 1994”

Value Added Tax Act 1994;

“With-Profits Actuary”

the person or persons appointed by M&G or SF (as the context requires) from time to time to perform the “with profits actuary function”, as set out in SUP 4.3.16AR in respect of the relevant with-profits fund or funds; and

“With-Profits Policies”

any policies in which the relevant Policyholder is eligible to participate in any part of the established surplus.

1.2 In this Scheme, unless the subject or context requires otherwise, the following expressions bear the meanings respectively set opposite them:

- (A) “property” includes (without limitation) property, assets, rights (including, without limitation, contingent rights as to the repayment of tax) and powers of every description (whether present or future, actual or contingent) and includes property held on trust and securities, benefits, powers of any description and any interest whatsoever in any of the foregoing;
- (B) “liabilities” includes (without limitation) duties and obligations of every description (whether present or future, actual or contingent);

- (C) “transfer” includes (as the context may require) “assign”, “assignment” or “assignment”, “dispose” or “disposal” or “convey” or “conveyance”;
- (D) any reference to the singular shall include a reference to the plural and vice versa and any reference to the masculine shall include a reference to the feminine and neuter and vice versa;
- (E) any reference in this Scheme to an enactment, a statutory provision or any subordinate legislation shall be deemed to include a reference to that enactment, statutory provision or subordinate legislation as amended, replaced or re-enacted from time to time and to any instrument or order made from time to time under such enactment, statutory provision or subordinate legislation;
- (F) any reference to any rules or regulations issued by the Regulators shall be deemed to include a reference to such rules or regulations as amended or replaced from time to time;
- (G) expressions used in this Scheme which have meanings under FSMA shall bear those meanings, including:
 - (i) “State of the commitment” which bears the meaning set out in paragraph 6, Part 1 of Schedule 12 to FSMA; and
 - (ii) “EEA State” which bears the meaning set out in paragraph 8, Part 1 of Schedule 3 to FSMA;
- (H) the expressions “holding company” and “subsidiary” shall have the same meanings as in the Companies Act 2006;
- (I) any references to this Scheme shall include the Schedules to it and references to paragraphs, Parts or Schedules are to paragraphs or Parts of or Schedules to this Scheme;
- (J) headings are inserted for convenience only and shall not affect the construction of this Scheme;
- (K) any reference to a person shall include a reference to a body corporate, a partnership, an unincorporated association or to a person’s executors or administrators, and for the avoidance of doubt, shall include a trustee;
- (L) if a period of time is specified from a given day or date or from the day or date of an actual event, it shall be calculated exclusive of that day or date;
- (M) any reference to writing shall include any modes of reproducing words in a legible and non-transitory form;
- (N) any reference to a calculation, decision, determination or opinion of any of the SF Board or the M&G Board (or any similar expression) shall be deemed to include a calculation, decision, determination or opinion of a duly constituted

committee or duly authorised representative of the SF Board or the M&G Board (as appropriate);

- (O) the expression “variation” shall include any variation, supplement, deletion, replacement or termination, however effected;
- (P) any reference to an amount shall be exclusive of any applicable value added or other tax; and
- (Q) any reference to pounds or £ shall be to pounds sterling or £ sterling in the currency of the United Kingdom.

PART B – INTRODUCTION**2. INTRODUCTION**

- 2.1 M&G is a company incorporated in England and Wales with registered number 00000006. The registered office of MGM is situated at M&G House, Heene Road, Worthing, West Sussex, BN11 3AT.
- 2.2 SF is a friendly society registered and incorporated under the Friendly Societies Act 1992 with No. 3 COLL (S). The registered office of SF is situated at Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.
- 2.3 M&G has a Part 4A permission under FSMA to effect and carry on Long Term Business in the United Kingdom in classes I, II, III, VI and VII set out in Part II of Schedule 1 to the RAO. As at the date of this Scheme, the business which M&G carries out falls within classes I and III set out in Part II of Schedule 1 to the RAO.
- 2.4 SF has a Part 4A permission under FSMA to effect and carry on Long Term Business in the United Kingdom in classes I, III and IV set out in Part II of Schedule 1 to the RAO.
- 2.5 It is proposed that the Transferred Business shall, by the Order, be transferred to SF and shall be dealt with in accordance with this Scheme.

PART C – TRANSFER

3. MEMBERSHIP RIGHTS

- 3.1 SF shall procure that on and with effect from the Effective Date, the members and Policyholders of M&G shall become members of SF with the membership rights set out in the SF Rules.

4. TRANSFER OF BUSINESS

- 4.1 Each part of the Transferred Business, the Residual Assets and the Residual Liabilities shall be transferred to and be vested in SF in accordance with this Scheme, so that:

- (A) subject to paragraph 9, on and with effect from the Effective Date, each Transferred Asset and all the interest of M&G in it shall, by the Order and without further act or instrument, be transferred to and be vested in SF, subject to all Encumbrances (if any) affecting such asset in accordance with this Scheme;
- (B) subject to paragraph 9, on and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies and all the interest of M&G in it shall, by the Order and without any further act or instrument, be transferred to and be vested in SF, subject to all Encumbrances (if any) affecting such asset in accordance with this Scheme;
- (C) on and with effect from the Effective Date, each Transferred Liability shall, by the Order and without any further act or instrument, be transferred to and become a liability of SF in accordance with this Scheme and shall cease to be a liability of M&G; and
- (D) on and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by the Order and without any further act or instrument, be transferred to and become a liability of SF in accordance with the Scheme and shall cease to be a liability of M&G.

- 4.2 SF shall accept without investigation or requisition such title as M&G shall have at the Effective Date to the Transferred Assets and, at any Subsequent Transfer Date, to each Residual Asset then transferred.

- 4.3 Without prejudice to any other provision in this Scheme, M&G and SF shall each take all such steps (including the execution and delivery of documents) as may be required or desired:

- (A) to effect or perfect the transfer to and vesting in SF or allocation to the SF Main Fund or M&G Sub Fund (as applicable) of any Transferred Asset or Residual Asset pursuant to this Scheme;
- (B) to correct any errors in the identity or amount of the assets so transferred or allocated; and

- (C) to effect or perfect the transfer to and assumption by SF of any Transferred Liability or Residual Liability pursuant to the Scheme.

4.4 The Transferred Assets, Residual Assets, Transferred Liabilities and Residual Liabilities shall be allocated in accordance with Part D.

4.5 On and with effect from the Effective Date, SF shall:

- (A) succeed to all rights, liabilities and obligations of M&G in respect of any personal data which relates to the Transferred Business and which is subject to the Data Protection Act 1998;
- (B) become the data controller of any personal data which relates to the Transferred Business and which is subject to the Data Protection Act 1998 in place of M&G and shall be deemed to have been the controller of all such data at all material times when personal data was processed; and
- (C) in respect of any personal data which relates to the Transferred Business be under the same duty by virtue of any law as M&G was under to respect the confidentiality and privacy of any person in relation to that personal data and shall be bound by any specific notice or consent given, or request made by, the data subject which was binding on M&G and which required M&G not to use the personal data for marketing purposes,

and in any consent given by a data subject in respect of such data as is mentioned in this paragraph 4.5, any reference to M&G shall be deemed to include a reference to SF and any reference to any member of the M&G Group shall be deemed to include a reference to any member of the SF Group.

5. CONTINUITY OF PROCEEDINGS

5.1 On and with effect from the Effective Date, any Proceedings or applications to any authority (including, without limitation, any complaints to the Financial Ombudsman Service) whether pending, current or future by, against or in relation to and/or in respect of which M&G is a party (or, in the case of future Proceedings, M&G would be a party but for this Scheme) (including, without limitation, as the plaintiff, claimant, applicant, defendant, respondent, pursuer, defender or petitioner) concerning or in connection with the Transferred Business, the Transferred Policies, the Transferred Assets or the Transferred Liabilities shall be continued or commenced by, against or in relation to SF and SF shall be entitled to all defences, claims, counterclaims, settlements, rights of set-off and any other rights that would have been available to M&G in relation to the Transferred Business, the Transferred Policies, the Transferred Assets, the Transferred Liabilities and such Proceedings or applications.

5.2 On and with effect from each Subsequent Transfer Date applicable thereto any Proceedings or applications to any authority (including, without limitation, any complaints to the Financial Ombudsman Service) whether pending, current or future by, against or in relation to and/or in respect of which M&G is a party (or, in the case of future Proceedings, M&G would be a party but for the Scheme) (including, without

limitation, as the plaintiff, claimant, applicant, defendant, respondent, pursuer, defender or petitioner) concerning the Residual Assets or Residual Liabilities which are to be transferred on such Subsequent Transfer Date shall be continued or commenced by, against or in relation to SF and SF shall be entitled to all defences, claims, counterclaims, settlements, rights of set-off and any other rights that would have been available to M&G in relation to the Residual Assets and the Residual Liabilities. Until such Subsequent Transfer Date, the relevant Proceedings shall be continued by or against M&G.

- 5.3 Any judgment, settlement, order or award obtained by or against M&G to the extent that it relates to any part of the Transferred Business, the Transferred Policies, the Transferred Assets, the Transferred Liabilities, the Residual Assets or the Residual Liabilities and which is not fully satisfied before the Effective Date or, as the case may be, the applicable Subsequent Transfer Date, shall, on that date and to the extent to which it was enforceable by or against M&G immediately prior to such date, become enforceable by or against SF (to the exclusion of M&G).

6. RIGHTS AND OBLIGATIONS IN RELATION TO THE TRANSFERRED BUSINESS

- 6.1 On and with effect from the Effective Date, SF shall become entitled to all the rights, benefits and powers of M&G whatsoever subsisting on the Effective Date under or by virtue of the Transferred Policies.
- 6.2 Without prejudice to the generality of paragraph 6.1, where the benefits of any Transferred Policy are held under the terms of a trust, such terms, together with the terms of any rules applicable to any pension scheme in the case of any pension scheme under which benefits are referable to a Transferred Policy, shall operate and be construed on and with effect from the Effective Date on a basis which is consistent with the transfer of such Transferred Policy in accordance with the provisions of this Scheme. For the avoidance of doubt:
- (A) where the consent of M&G is required under any such terms, the consent of SF shall, with effect from the Effective Date, instead be treated as required; and
- (B) where a power to appoint trustees under such terms is conferred on M&G, that power shall, with effect from the Effective Date, instead be treated as conferred on SF.
- 6.3 Subject to the terms of this Scheme, every person who is a Policyholder of any of the Transferred Policies or is a party to, or has the benefit of, any other agreement with M&G relating to the Transferred Business shall on and with effect from the Effective Date become entitled, in succession to, and to the exclusion of, any rights which he may have had against M&G under any of the Transferred Policies or any other such agreement relating to the Transferred Business, to the same rights against SF as were available to him against M&G under such Policies or such other agreement relating to the Transferred Business and (as regards Transferred Policies under which premiums or other sums attributable or referable thereto continue to be payable) shall on and with effect from the Effective Date account to SF for any further or additional premiums or

other sums attributable or referable thereto as and when the same become due and payable.

- 6.4 If any person entitled to do so with respect to a Transferred Policy, exercises any right or option granted under the terms of that Policy and either:
- (A) the right or option provides for a new, additional or replacement Policy to be issued or amendments to be made to an existing Transferred Policy; or
 - (B) it is appropriate in the opinion of the SF Board, having regard to appropriate actuarial advice, in order to comply with that right or option to issue a new, additional or replacement Policy or, as the case may be, amend an existing Transferred Policy,

such person shall be entitled to require that the obligation thereby arising shall be satisfied by the issue by SF of a Policy which complies with the terms of such right or option, but (without prejudice to the right of such person to have the right or option satisfied by the issue by SF of such a Policy) if SF is not at the time of the exercise of such right or option writing Policies complying exactly with the Policy to which the right or option refers, SF shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) the Policy commonly offered by SF which SF considers to be the nearest equivalent Policy in accordance with the terms and conditions applicable to the Policies of SF at that time, provided that the issue of such alternative Policy would not in the opinion of the SF Board, having regard to appropriate actuarial advice result in a liability or an increase in liability to taxation of the holder of such Policy (or in the event of such liability or increase in liability would occur SF shall have the option to indemnify the policyholder in full and to issue another Policy pursuant to this paragraph 6.4) or otherwise fail to satisfy his reasonable expectations.

- 6.5 All references in any Transferred Policy or other agreement relating to the Transferred Business to M&G, its board of directors, its Actuary or any other officers, employees or agents of M&G shall from and after the Effective Date be read as references to SF, its board of directors, its Actuary or any other officers or employees of SF or, where appropriate, agents of SF to which the administration or investment management of the relevant part of the business carried on by SF has been delegated. In particular, but without limitation, all rights and/or duties exercisable or expressed to be exercisable or responsibilities to be performed by M&G, its board of directors, Actuary or any other officers, employees or agents of M&G in relation to any of the Transferred Policies or other agreements relating to the Transferred Business shall, from the Effective Date, be exercisable or required to be performed by SF, its board of directors, its Actuary or any other officers, employees or agents. All references in a Transferred Policy to the M&G Group shall, where the context requires, be read and construed, from the Effective Date, as references to the SF Group.
- 6.6 The transfer of any rights, benefits, liabilities and obligations under or in connection with any Transferred Policy, Transferred Asset, Residual Asset, Transferred Liability or Residual Liability pursuant to this Scheme shall take effect and shall be valid and binding on all parties having any interest in the same notwithstanding any restriction on transferring, assigning or otherwise dealing with the same and such transfer shall be

deemed to take effect on the basis that it does not contravene any such restriction and does not give rise to any right to terminate, modify, acquire or claim an interest or right, or to treat an interest or right as terminated or modified.

7. EXCLUDED POLICIES

7.1 The Excluded Policies (if any) shall not be transferred to SF by this Scheme and, subject to paragraph 7.6, the liabilities under or attributable to the Excluded Policies shall remain liabilities of M&G but shall at all times after the Effective Date be reassured in their entirety into SF for no further consideration in accordance with this paragraph 7.

7.2 The liability of SF in respect of the reinsurance arrangements described in this paragraph 7 shall be calculated so as to ensure that the rights, benefits and powers provided to the Policyholders of Excluded Policies shall be no less favourable than the rights, benefits and powers which would have been provided to such Policyholders of the Excluded Policies had such Excluded Policies been Transferred Policies.

7.3 On and with effect from the Effective Date, SF shall be responsible for the management and the administration of the Excluded Policies and M&G hereby appoints SF as its exclusive agent to conduct the management and administration of the Excluded Policies and confers upon and grants to SF and to any agent appointed by SF all power and authority that SF in its sole judgement considers necessary or desirable to manage and administer the Excluded Policies. For these purposes, SF shall be entitled to represent itself as managing and administering the Excluded Policies as exclusive agent for M&G, and shall be entitled to represent itself in that capacity directly to the Policyholders of Excluded Policies following the Effective Date. For the avoidance of any doubt, where SF is responsible for the management and administration of the Excluded Policies it shall be entitled to take out of the M&G Sub-Fund the per policy administration charges set out in Part A of Schedule 1.

7.4 If any person entitled to do so with respect to an Excluded Policy exercises any right or option granted under the terms of that Excluded Policy and either:

- (A) the right or option provides for a new, additional or replacement Policy to be issued or amendments to be made to an existing Excluded Policy; or
- (B) it is appropriate in the opinion of the SF Board, having regard to appropriate actuarial advice, in order to comply with that right or option to issue a new, additional or replacement Policy or, as the case may be, amend an existing Excluded Policy,

such person shall be entitled to require that the obligation thereby arising may be satisfied by the issue or amendment (as the case may be) by M&G of a Policy which complies with the terms of such right or option. Without prejudice to such entitlement:

- (C) SF shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) a Policy which complies with the terms of such right or option; and

(D) if SF is not at the time of the exercise of such right or option writing Policies complying exactly with the Policy to which the right or option refers, then SF shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) the Policy commonly offered by SF which SF considers to be the nearest equivalent Policy, in accordance with the terms and conditions applicable to Policies of SF at that time.

7.5 If all consents, permissions or other requirements for the transfer of an Excluded Policy from M&G to SF are obtained:

(A) such Excluded Policy shall be transferred to SF, and shall thereafter be treated in all respects, as if it were a Transferred Policy; and

(B) any liability attributable to such Excluded Policy shall be transferred to SF, and shall thereafter be treated in all respects, as if it were a Transferred Liability.

7.6 If any Excluded Policy is novated to SF, the property and liabilities relating to such Excluded Policy shall, to the extent not previously transferred, be transferred to SF and such Excluded Policy shall thereafter be dealt with by SF under the provisions of this Scheme in all respects as if such Excluded Policy were a Transferred Policy, and the reinsurance arrangements set out in this paragraph 7 shall, on and with effect from that novation, cease to apply to that Excluded Policy (provided however that SF shall continue to reassure M&G against any liability of M&G under such Excluded Policy).

8. PREMIUMS, MANDATES AND OTHER PAYMENTS

8.1 All premiums attributable or referable to the Transferred Policies shall on and after the Effective Date be payable to SF and shall be receivable and received by SF and shall be allocated to the Fund to which the Policy to which they relate is allocated pursuant to paragraph 14.

8.2 Any mandate or other instruction in force on the Effective Date (including, without limitation, any instruction given to a bank by its customer in the form of a direct debit or standing order) and providing for the payment by a banker or other intermediary of premiums payable to M&G under or in respect of any of the Transferred Policies shall thereafter take effect as if it had provided for and authorised such payment to SF.

8.3 Any mandate or other instruction in force on the Effective Date as to the manner of payment of any sum payable by M&G under any of the Transferred Policies shall, on and from the Effective Date, continue in force as an effective authority to SF.

9. DECLARATION OF TRUST BY M&G

9.1 If:

(A) any Transferred Asset of M&G is not, or is not capable of being, transferred to and vested in SF by the Order on the Effective Date by reason of:

(i) such property being a Residual Asset; or

- (ii) such property being outside the jurisdiction of the Court; or
 - (iii) any other reason; or
- (B) any Residual Asset is not, or is not capable of being, transferred to and vested in SF by the Order on the Subsequent Transfer Date applicable thereto; or
- (C) the transfer of any Transferred Asset or Residual Asset outside the jurisdiction of the Court is not recognised by the laws of the jurisdiction in which such property is situated; or
- (D) in any circumstances M&G and SF shall agree in writing before the Effective Date (or, in the case of any Residual Asset, before the Subsequent Transfer Date applicable thereto) that it is expedient not to effect a transfer of any property of M&G,

then M&G shall, from the Effective Date, hold any such Transferred Asset or Residual Asset referred to in sub-paragraphs (A) and (D) of this paragraph 9.1 as trustee for SF.

- 9.2 M&G shall be subject to SF's directions in respect of any property referred to in sub-paragraphs (A) to (D) of paragraph 9.1, from the Effective Date, until the relevant property is transferred to or otherwise vested in SF or is disposed of (whereupon M&G shall account to SF for the proceeds of sale thereof), and SF shall have authority to act as the attorney of M&G in respect of such property for all purposes.
- 9.3 In the event of any payment being made to, property being received by or right being conferred upon M&G after the Effective Date in respect of the Transferred Business, any Transferred Asset, any Residual Asset or any asset referred to in paragraph 9.1, M&G shall, as soon as is reasonably practicable after its receipt, pay over the full amount of such payment or (to the extent to which it is able to do so) transfer such property or right to, or in accordance with the directions of, SF and SF shall indemnify M&G on demand against any costs incurred in making any such payment or transfer.
- 9.4 The CRR Amount shall only be subject to the provisions of this paragraph 9 insofar as such provisions shall be consistent with M&G continuing to satisfy the requirements of GENPRU 2.1 (or such regulatory capital requirements as may be implemented from time to time).

10. INDEMNITIES IN FAVOUR OF M&G

- 10.1 With effect from the Effective Date, SF shall discharge on M&G's behalf or, failing that, shall indemnify M&G against charges, costs, liabilities, losses and claims arising in respect of all Transferred Liabilities and Residual Liabilities, provided that where such a liability is, whether wholly or in part, the subject of a policy of indemnity insurance or a claim or right of recovery against a third party, the indemnity given by SF hereunder shall only apply to the extent that M&G, having made a claim under such a policy or against such third party, shall have failed to recover any such amount pursuant to rights it may have under such policy, claim or right of recovery (having used all reasonable endeavours to do so) provided always that SF shall indemnify M&G in respect of any

reasonable costs, claims, charges and other liabilities incurred by M&G in recovering the same.

- 10.2 Where M&G is entitled to receive an amount pursuant to paragraph 10.1, it shall be entitled to receive such amount as, after taking into account the payment of any liability to Tax in respect of the amount receivable and the amount and timing of any Tax benefit obtained by M&G to the extent that such Tax benefit is attributable to the underlying matter giving rise to the entitlement to receive such amount pursuant to paragraph 10.1, will result in the receipt of an amount equal to the liability indemnified against.

11. CANCELLATION OF M&G PART 4A PERMISSION

SF shall apply to the Regulator for cancellation of M&G's Part 4A permission under FSMA as soon as reasonably practicable following the Effective Date or (if applicable) as soon as reasonably practicable following the last Subsequent Transfer Date.

PART D – ESTABLISHMENT OF M&G SUB-FUND AND ALLOCATIONS

12. ESTABLISHMENT OF THE M&G SUB-FUND

With effect from the Effective Date, SF shall establish the M&G Sub-Fund as a separate with-profits sub-fund of the SF Long Term Fund (and in addition to any other separate sub-funds maintained by SF within the SF Long Term Fund).

13. PURPOSE OF ALLOCATIONS

Any allocation of property or attribution of liabilities, and any reallocation or reattribution of the same, which is made under the terms of this Scheme is for the purpose of establishing or recognising respective policyholder entitlements from time to time and shall not be taken to limit the availability of any or all the property from time to time of SF to meet the liabilities which it is obliged by law to meet.

14. ALLOCATION OF POLICIES

14.1 With effect from the Effective Date,

- (A) the Unit and Term Policies shall be allocated to the SF Main Fund;
- (B) all of the Transferred Policies other than those allocated to the SF Main Fund in accordance with paragraph 14.1(A), including (without limitation) the:
 - (i) With-Profits Policies; and
 - (ii) M&G Annuities;

shall be allocated to the M&G Sub-Fund.

15. ALLOCATION OF ASSETS

15.1 At the Effective Date, each of the following shall be allocated to the SF Main Fund:

- (A) any Transferred Assets comprised in the M&G Long Term Fund that are attributable to the Unit and Term Policies, including the assets backing the Unit and Term Policies detailed in Schedule 4;
- (B) to the extent that the same relate to any Long Term Business to which any Transferred Asset falling within paragraph 15.1(A) relates:
 - (i) all rights and benefits arising under the reinsurance arrangements set out in paragraph 7 above and under the indemnity set out in paragraph 10.1; and
 - (ii) the beneficial interest in all property held on trust pursuant to paragraph 9.1, and the right to receive any payment, property or right pursuant to paragraph 9.3 to the extent that, but for falling within the provisions of

paragraph 9.1, such property (or the property to which such payment, property or right relates) would have fallen within the provisions of this paragraph 14.1.

- 15.2 At the Effective Date, each of the following shall be allotted to the M&G Sub-Fund:
- (A) all Transferred Assets other than those allocated to the SF Main Fund in accordance with paragraph 15.1(A);
 - (B) to the extent that the same relate to any Long Term Business to which any Transferred Asset falling within paragraph 15.2(A) relates:
 - (i) all rights and benefits arising under the reinsurance arrangements set out in paragraph 7 above and under the indemnity set out in paragraph 10; and
 - (ii) the beneficial interest in all property held on trust pursuant to paragraph 9.1, and the right to receive any payment, property or right pursuant to paragraph 9.3 to the extent that, but for falling within the provisions of paragraph 9.1, such property (or the property to which such payment, property or right relates) would have fallen within the provisions of this paragraph 15.2; and
 - (C) all rights and benefits arising under the Sole Member Policy (including, without limitation: (i) the right to participate in the surplus in M&G (if any) on winding up; and (ii) the right to receive distributions of surplus made by M&G prior to winding-up (if any)).
- 15.3 On the Effective Date, SF shall make the Contribution to the M&G Sub-Fund.
- 15.4 On and with effect from the applicable Subsequent Transfer Date each Residual Asset to which the Subsequent Transfer Date relates shall be allocated to the SF Main Fund or the M&G Sub-Fund depending on where it would have been allocated in accordance with the provisions of the paragraphs above had it been a Transferred Asset.

16. ALLOCATION OF LIABILITIES

- 16.1 At the Effective Date, each of the following shall be allocated to the SF Main Fund:
- (A) all Transferred Liabilities attributable to the Unit and Term Policies allocated to the SF Main Fund in accordance with paragraph 14.1(A) including the liabilities backing the Unit and Term Policies detailed in Schedule 4;
 - (B) all liabilities attributable to the reinsurance arrangements set out in paragraph 7 above to the extent that such liabilities relate to the Long Term Business to which any Transferred Asset falling within paragraph 15.1(A) relates;
 - (C) the liability to discharge on M&G's behalf or, failing that, to indemnify M&G pursuant to paragraph 10.1, to the extent that such liability relates to the Long

Term Business to which any Transferred Liability falling within paragraph 15.1(A) relates; and

- (D) any liabilities and any other financial obligations due to or in respect of any MGM Advantage Services Employees to the extent that such arise as a result of SF failing to comply with any of its obligations as a “Replacement Provider” (as defined in the Services Agreement) under clause 16 of the Services Agreement.

16.2 At the Effective Date, each of the following shall be allocated to the M&G Sub-Fund:

- (A) all Transferred Liabilities other than those allocated to the SF Main Fund in accordance with paragraph 16.1;
- (B) all liabilities attributable to the reinsurance arrangements set out in paragraph 7 above to the extent that such liabilities relate to the Long Term Business to which any Transferred Asset falling within paragraph 15.2(A) relates;
- (C) all liabilities in respect of the Pension Scheme;
- (D) all liabilities and any other financial obligations due to or in respect of the Employees or any MGM Advantage Services Employees (whether under or in connection with their contracts of employment or otherwise) which have accrued or otherwise relate to the Employees or MGM Advantage Services Employees, save for any financial obligations due to or in respect of any M&G Services Employee to the extent that such arise as a result of SF failing to comply with any of its obligations as a “Replacement Provider” (as defined in the Services Agreement) under clause 16 of the Services Agreement; and
- (E) the liability to discharge on M&G’s behalf or, failing that, to indemnify M&G pursuant to paragraph 10.1, to the extent that such liability relates to the Long Term Business to which any Transferred Liability falling within paragraph 15.2(A) relates.

16.3 Without prejudice to paragraph 17, as at the Effective Date, all the Transferred Liabilities allocated to the M&G Long Term Fund and not otherwise allocated pursuant to paragraphs 16.1 and 16.2 above shall be allocated to the SF Main Fund.

16.4 On and with effect from the applicable Subsequent Transfer Date each Residual Liability to which that Subsequent Transfer Date relates shall be allocated to the SF Main Fund or the M&G Sub-Fund depending on where it would have been allocated in accordance with the provisions above had it been a Transferred Liability.

17. DISPUTES IN RELATION TO ALLOCATIONS

17.1 If any doubt or difference shall arise as to the allocation or attribution of any Transferred Policy, Transferred Asset, Transferred Liability, Residual Asset or Residual Liability in accordance with this Scheme, having regard to the obligation to treat policyholders fairly, the same shall be determined by the SF Board, having taken appropriate advice including from the Monitoring Committee.

PART E – OPERATION OF THE M&G SUB-FUND

18. MAINTENANCE

- 18.1 Subject to the provisions of this Scheme, at all times after the Effective Date, SF shall procure that:
- (A) the M&G Sub-Fund is separately maintained as a separate sub-fund of the SF Main Fund;
 - (B) separate accounting records for the M&G Sub-Fund are at all times maintained which are sufficient to enable the separate identification of the property and liabilities allocated to the M&G Sub-Fund; and
 - (C) the policies held within the M&G Sub-Fund are at all times managed to the same applicable services standards as all other SF policies.
- 18.2 SF shall manage the M&G Sub-Fund in accordance with the M&G Sub-Fund FFM.
- 18.3 SF shall, on and from the Effective Date, establish and maintain Principles and Practices of Financial Management in relation to the M&G Sub-Fund which are consistent with the M&G Sub-Fund FFM.
- 18.4 SF shall maintain the Monitoring Committee in accordance with the Terms of Reference set out at Schedule 3.
- 18.5 The provisions of paragraphs 18.2 and 18.3 shall be subject to amendment in accordance with paragraph 18.6.
- 18.6 The SF Board may amend the M&G Sub-Fund FFM if such amendment:
- (A) is, in the opinion of the SF Board (having obtained appropriate advice, including from the Monitoring Committee and/or the With-Profits Actuary), necessary to:
 - (i) respond to changes in the business or economic environment;
 - (ii) protect the interests of Policyholders; or
 - (iii) respond to any change in, or new interpretation of, any law, regulation, policy or practice;
 - (B) is necessary to correct an error or omission;
 - (C) would improve the clarity or presentation of the M&G Sub-Fund FFM without materially affecting the substance of them; or
 - (D) is immaterial,

PROVIDED THAT, where the law or rules of the Regulators requires SF to do so, SF shall notify the Regulators prior to effecting such amendments and, to the extent necessary, shall obtain the prior approval of the Regulators.

19. COSTS AND EXPENSES

With effect from the Effective Date until the cessation of the M&G Sub-Fund in accordance with paragraph 24, the costs and expenses attributable to the M&G Sub-Fund shall be:

- (A) the per policy annual administration charges set out in Part A of Schedule 1, subject to increases on 31 December 2015 and annually thereafter in accordance with increases in the Average Earnings Index;
- (B) the investment management charges calculated in accordance with Part B of Schedule 1;
- (C) in the event that the SF Board, having consulted with the With-Profits Actuary and the Monitoring Committee determines that an investment policy incorporating alternative or additional investment asset classes to the Existing Investment Classes is required, any additional costs associated with such new investment classes;
- (D) any costs incurred in applying to the Regulator for cancellation of M&G's Part 4A permission or otherwise arising in connection with the winding-up of M&G;
- (E) any exceptional cost (including any cost incurred as a result in changes to legal, regulatory or Taxation requirements) relating exclusively to the Transferred Business that exceeds £30,000, provided always that such cost shall be subject to review by the With-Profits Actuary and the Monitoring Committee. For the avoidance of doubt, any exceptional cost of £30,000 or less shall be borne by the SF Main Fund;
- (F) any amounts relating to the redundancy or transfer to SF of the Employees or the MGM Advantage Services Employees attributable to the M&G Sub-Fund in accordance with paragraph 16.2(D);
- (G) any costs arising directly in connection with breach of the terms of the Transferring Policies or any act or omission by M&G in connection with the Transferred Business occurring prior to the Effective Time;
- (H) the other direct charges set out in Part C of Schedule 1;
- (I) the Capital Support Charges; and
- (J) such other amounts which are determined by the SF Board (having taken appropriate advice, including from the Monitoring Committee and/or the With-Profits Actuary) in accordance with the principles underlying this Scheme.

20. CAPITAL SUPPORT

With effect from the Effective Date until the cessation of the M&G Sub-Fund in accordance with paragraph 24, in the event that the M&G Sub-Fund has a Capital Shortfall, such Capital Shortfall shall be made available by the SF Main Fund. Any Capital Shortfall that is transferred into the M&G Sub-Fund to meet its Realistic Liabilities in line with paragraph 7 of Schedule 2 will be in the form of assets for the exclusive use of the M&G Sub-Fund. Any other Capital Shortfall made available by the SF Main Fund to the M&G Sub-Fund shall not be for the exclusive use of the M&G Sub-Fund but shall be made available on such terms as the SF Board, having considered the views of the With-Profits Actuary, shall determine, provided that the SF Board shall not be permitted to increase the charges set out in Part D of Schedule 1.

21. CREDITS TO THE M&G SUB-FUND

21.1 With effect from the Effective Date, there shall be credited to the M&G Sub-Fund all of the following:

- (A) all property transferred or allocated to the M&G Sub-Fund in accordance with Part C and Part D (including any Residual Assets transferred or allocated to the M&G Sub-Fund on a Subsequent Transfer Date);
- (B) the Contribution made pursuant to paragraph 15.3;
- (C) all amounts received by SF in respect of the Excluded Policies Reinsurance in respect of any Excluded Policy which, had it been a Transferred Policy, would have been allocated to the M&G Sub-Fund;
- (D) all premiums and other amounts attributable to the Transferred Policies if and for so long as such Policies are attributed to, and included within, the M&G Sub-Fund;
- (E) all payments from third parties arising from any Proceedings continued by or against SF to the extent that such Proceedings relate to Policies, property or liabilities allocated to the M&G Sub-Fund pursuant to Part D;
- (F) all investment gains, earnings, income and profits arising from the property and business allocated to the M&G Sub-Fund;
- (G) all amounts resulting from the sale of any property allocated to the M&G Sub-Fund; and
- (H) any other amounts which are:
 - (i) required by this Scheme to be credited to or received by the M&G Sub-Fund; or
 - (ii) which are determined by the SF Board (having taken appropriate advice, including from the Monitoring Committee and/or the With-Profits Actuary) in accordance with the principles underlying this Scheme to be

properly attributable to or properly received and arising from the property and business of the M&G Sub-Fund.

22. DEBITS FROM THE M&G SUB-FUND

22.1 With effect from the Effective Date, there shall be debited from, and charged to, the M&G Sub-Fund, all of the following:

- (A) all amounts paid by SF in respect of those liabilities which are transferred or allocated to the M&G Sub-Fund pursuant to Part C and Part D (including any Residual Liabilities transferred or allocated to the M&G Sub-Fund on a Subsequent Transfer Date);
- (B) all amounts paid by SF in respect of the Excluded Policy Reinsurance in respect of any Excluded Policy which, had it been a Transferred Policy, would have been allocated to the M&G Sub-Fund;
- (C) all amounts paid by SF pursuant to the indemnities contained in paragraph 10, if and to the extent that such amounts relate to Transferred Liabilities, Residual Liabilities, costs and any other liabilities which are allocated to the M&G Sub-Fund pursuant to Part D;
- (D) all payments to third parties arising from any Proceedings continued by or against SF, to the extent that such Proceedings relate to Policies, property or liabilities allocated to the M&G Sub-Fund pursuant to Part D;
- (E) all amounts payable by SF in respect of Transferred Policies allocated to the M&G Sub-Fund in accordance with Part D;
- (F) all amounts payable by the M&G Sub-Fund pursuant to paragraph 15.2;
- (G) all amounts to be debited from or charged to the M&G Sub-Fund pursuant to paragraph 19 and Schedule 1; and
- (H) any other amounts which are:
 - (i) required by this Scheme to be debited from or charged to the M&G Sub-Fund; or
 - (ii) which are determined by the SF Board (having taken appropriate advice, including from the Monitoring Committee and/or the With-Profits Actuary) in accordance with the principles underlying this Scheme to be properly debited from or properly charged to the M&G Sub-Fund.

23. NEW BUSINESS

No new business shall be written in the M&G Sub-Fund after the Effective Date, other than:

- (A) Excluded Policies which are novated to SF and allocated to the M&G Sub-Fund pursuant to paragraph 7 and Part D;
- (B) contractual and other automatic increases to premiums and benefits, including, without limitation, any increases (or new Policies) required by the Regulator, on Transferred Policies allocated to the M&G Sub-Fund; and
- (C) any annuities issued to meet obligations under the Pension Scheme.

24. CESSATION OF THE M&G SUB-FUND

With effect from the earlier of:

- (A) 1 January 2030; or
- (B) the date on which the number of With-Profits Policies (including FIA Policies) reduces to 8,000 or less; or
- (C) the date on which the number of FIA Policies exceeds 80% of the total number of With-Profits Policies (including FIA Policies).

SF may, acting on the advice of the With-Profits Actuary and following consultation with the Monitoring Committee notify the Regulator of SF's intention to be released from its obligation under the Scheme to maintain the M&G Sub-Fund and may, provided that the Regulator does not object, amalgamate the M&G Sub-Fund into the SF Main Fund in accordance with the principles set out in the M&G Sub-Fund FFM (including for the avoidance of doubt the distribution of any surplus of assets over the liabilities attributable to the M&G Sub-Fund).

25. FIA POLICIES

SF shall inform MGM Advantage Life Limited of any proposed changes to: (i) the mortality credit; (ii) the annual bonus rate; or (iii) any of the charges, in respect of the FIA Policies in force as at the Effective Date or any other action in relation to those policies which would require a change to the "MGM Advantage Principles and Practices of Financial Management" document in force as at June 2012 (a "**FIA Management Action**") as soon as reasonably practicable after SF determines to take a FIA Management Action but, in any event, no less than 30 days prior to the making of such FIA Management Action by SF. M&G and SF agree that this paragraph 25 shall be directly enforceable by MGM Advantage Life for the purposes of the Contracts (Rights of Third Parties) Act 1999.

PART F - OPERATION OF THE SF MAIN FUND

26. FUND MAINTENANCE

26.1 Nothing in this Scheme shall at any time prevent SF from:

- (A) establishing and maintaining other Long Term Funds or other sub-funds of the SF Main Fund and writing in or reinsuring to any such other Long Term Funds or sub-funds any new Long Term Business or any business of other Long Term Funds or sub-funds of SF;
- (B) writing in or reinsuring to the SF Main Fund any new business; or
- (C) writing in or reinsuring to any Fund, Policies issued pursuant to rights or options under the terms of the Transferred Policies.

27. ALLOCATION OF EXPENSES AND CHARGES

All expenses and charges other than those attributable to the M&G Sub-Fund in accordance with paragraph 19 shall be allocated to the SF Main Fund.

28. UNIT AND TERM POLICIES

Any reviews after the Effective Date of the charges pursuant to any Unit and Term Policies allocated to the SF Main Fund shall be subject to the same governance arrangements that are in-force from time to time for all other policies within the SF Main Fund.

29. LINKED FUNDS

29.1 On and with effect from the Effective Date the property and any associated liabilities comprised in each Linked Fund of M&G shall be allocated to and become comprised in a corresponding Linked Fund of SF within the SF Main Fund (the “**SF-M&G Linked Funds**”), as applicable in accordance with paragraphs 15 and 16, comprising immediately following the Effective Date the same number and value of units as were comprised within the relevant Linked Fund of M&G immediately prior to the Effective Date.

29.2 On and with effect from the Effective Date:

- (A) subject always to the provisions of this paragraph 29, in relation to any benefits under Transferred Policies which are linked to a SF-M&G Linked Fund pursuant to paragraph 29.1, SF shall become entitled to the same rights and powers and be subject to the same duties and liabilities as applied to M&G in relation to the corresponding Linked Fund of M&G immediately prior to the Effective Date; and
- (B) benefits under any Transferred Policy which, immediately prior to the Effective Date, were linked to any one or more Linked Fund(s) of M&G shall become linked to the corresponding SF-M&G Linked Fund(s) and SF shall as at the

Effective Date allocate to each such Transferred Policy the same number and classes of units in the corresponding SF-M&G Linked Fund(s) as the number and classes of units in the relevant Linked Fund(s) of M&G which were allocated to the Transferred Policy immediately prior to the Effective Date.

- 29.3 If any property comprised in a Linked Fund of M&G falls within the provisions of paragraph 9.1, all interests and rights in relation to such property shall be allocated to the relevant SF-M&G Linked Fund to which such property would, had it been a Transferred Asset, have been allocated. On and with effect from the relevant Subsequent Transfer Date each Residual Asset which is comprised in a Linked Fund of M&G shall be allocated to the SF-M&G Linked Fund to which it would have been allocated pursuant to this paragraph 29 had it been a Transferred Asset.
- 29.4 The SF-M&G Linked Funds shall initially be established with the same investment objectives, investment restrictions and investment policies as were applied by M&G to the corresponding Linked Fund of M&G immediately prior to the Effective Date.
- 29.5 SF shall be at liberty at any time and from time to time to open new Linked Funds, close any SF-M&G Linked Funds, to merge or otherwise amalgamate or transfer any SF-M&G Linked Fund or any part or parts thereof with or to (as the context requires) any other Linked Fund (including any other SF-M&G Linked Fund) or any part or parts thereof or to divide any SF-M&G Linked Fund into one or more Linked Funds, to change the investment objectives, investment restrictions and/or investment policies of the SF-M&G Linked Funds or to effect any combination of the aforesaid, in each case whether or not M&G would, prior to the Effective Date, have been so entitled in respect of the corresponding Linked Fund of M&G.

30. TAXATION

- 30.1 Taxation attributable to the M&G Sub-Fund shall be calculated on the basis that the M&G Sub-Fund is a separate mutual life assurance company, and the amount so calculated shall be charged or credited (as the case may be) to the M&G Sub-Fund.
- 30.2 Any benefits arising from tax synergies with other funds held by SF shall be shared equally between SF and the M&G Sub-Fund, subject to review by the With-Profits Actuary and by the Monitoring Committee. Any loss or disadvantage arising from such tax synergies shall be borne by SF.
- 30.3 All stamp, transfer, registration and other similar taxes, duties and charges payable in respect of the transfer to SF of M&G underlying investments shall be met out of the M&G Sub-Fund, but otherwise no charge shall be made to the M&G Sub-Fund in respect of any taxation arising as a result of or in connection with the transfer of the Transferred Business or the transfer of any of the Residual Assets or the Residual Liabilities, in each case pursuant to this Scheme.
- 30.4 The calculation under paragraph 30.1 shall be made on the basis that all appropriate allowances, credits, reliefs and rights to repayments of tax which would reasonable be expected to be available to the M&G Sub-Fund (on the assumption that it was a separate mutual life assurance company) have been successfully claimed and utilised.

PART G – MISCELLANEOUS PROVISIONS

31. EFFECTIVE DATE

- 31.1 Subject to paragraph 31.3, this Scheme shall become effective at a time and date (no later than 00.01 a.m. on 1 June 2015) as is agreed in writing in advance by the SF Board and M&G Board (or, in each case, any duly constituted committee thereof), or on such other time and date as SF and M&G may agree (being a date and time falling after the making of the Order sanctioning this Scheme but before 00.01 a.m. on 1 June 2015).
- 31.2 Unless this Scheme shall become effective in its entirety on or before 00.01 a.m. on 1 June 2015 or such later date and/or time, if any, as the Court may allow upon the application of SF and M&G, it shall lapse.
- 31.3 This Scheme shall not become effective on the Effective Date unless:
- (A) the Order shall have been made; and
 - (B) the Tax Clearances have been obtained or waived

32. MODIFICATIONS OR ADDITIONS

- 32.1 M&G and SF may consent for and on behalf of themselves and all other persons concerned (other than the Regulators) to any modification of or addition to this Scheme or to any further condition or provision affecting the same which, in each case prior to its sanction of this Scheme, the Court may approve or impose.
- 32.2 At any time after the sanction of this Scheme, SF shall be at liberty to apply to the Court for consent to amend its terms, provided that in any such case:
- (A) the Regulators shall be notified of, and have the right to be heard at, any hearing of the Court at which such application is considered; and
 - (B) such application shall be accompanied by a certificate from an independent actuary (who shall first be approved for the purpose by the Regulators) to the effect that in his opinion the proposed amendment will not adversely affect the reasonable expectations of the Policyholders of Transferred Policies or Excluded Policies.
- 32.3 If such consent is granted, SF may amend the terms of this Scheme in accordance with such consent.
- 32.4 The consent of the Court shall not be required in relation to minor and/or technical amendments to the terms of this Scheme (including amendments to correct manifest errors) that are:
- (A) prior to the Effective Date agreed by M&G and SF;

- (B) after the sanction of this Scheme, made by SF; or
- (C) amendments to the Scheme that are necessary to reflect compliance with such of the requirements of the UK's implementation of Directive 2009/138/EC (including for the avoidance of doubt any rules or regulations made by the Regulators) as apply to SF and (to the extent applicable) M&G,

provided that the Regulators have been notified of the same and have indicated that they do not object thereto.

33. THIRD PARTY RIGHTS

Subject to paragraph 25, a person who is not a party to this Scheme may not enforce any term of this Scheme pursuant to the Contracts (Rights of Third Parties) Act 1999.

34. COSTS AND EXPENSES

34.1 Subject to paragraphs 34.2 to 34.4, M&G and SF shall meet their own costs and expenses (including any Transfer Tax chargeable in connection with this Scheme) incurred in connection with this Scheme.

34.2 The following costs and expenses incurred in connection with this Scheme shall be borne equally by M&G and SF:

- (A) the fees (if any) of the Regulators;
- (B) the costs and expenses of the Independent Expert;
- (C) the costs and expenses of any jointly appointed barrister; and
- (D) the costs and expenses of any jointly appointed third party tax adviser.

34.3 The following costs and expenses incurred in connection with this Scheme shall be borne by M&G:

- (A) the costs and expenses of its external legal adviser retained in connection with this Scheme;
- (B) any costs incurred by M&G in connection with the publication of notices in accordance with paragraph 3(2)(a) of the FSMA Regulations and as directed by the Court;
- (C) any costs incurred by M&G in connection with the sending of any notice required under paragraph 3(2)(b) of the FSMA Regulations and as directed by the Court to Policyholders of Transferred Policies; and
- (D) any costs incurred in giving a copy of the Report and/or the Summary Scheme Document to any person who requests such document in accordance with paragraph 3(4) of the FSMA Regulations;

(E) any costs charged by MGM Advantage Services.

34.4 The following costs and expenses incurred in connection with the Scheme shall be borne by SF:

- (A) the costs and expenses of its external legal adviser retained in connection with this Scheme;
- (B) any costs incurred by SF in connection with the publication of notices in accordance with paragraph 3(2)(a) of the FSMA Regulations and as directed by the Court;
- (C) any costs incurred by SF in connection with the sending of any notice required under paragraph 3(2)(b) of the FSMA Regulations and as directed by the Court;
- (D) any costs incurred in giving a copy of the Report and/or the Summary Scheme Document to any person who requests such document in accordance with paragraph 3(4) of the FSMA Regulations; and
- (E) any costs incurred in connection with Data Migration but excluding those charged by MGM Advantage Services or otherwise payable by M&G.

35. EVIDENCE OF TRANSFER

The production of a copy of the Order with any modifications, amendments and/or additions made under paragraph 32 shall for all purposes be evidence of the transfer to and vesting in SF of the Transferred Business.

36. RELEASE OF SCHEMES

With effect from the Effective Date, the provisions of this Scheme shall replace the MGMI Scheme in its entirety and the MGMI Scheme shall thereafter cease to have any effect.

37. GOVERNING LAW

This Scheme shall be governed by and construed in accordance with English law.

Dated this [•] day of [•]

SCHEDULE 1**Regular Charges****PART A: Administration Charges (per annum)***(A) With-Profits Business*

Business Block	Administration Costs
Unitised with-profits - life	£34.00
Unitised with-profits – pensions	£56.00
Conventional with-profits – life	£34.00
Conventional with-profits – pensions	£56.00

(B) Flexible Income Annuities

Business Block	Administration Costs
Flexible Income Annuities	£58.00

(C) Annuities (excluding Flexible Income Annuities)

Business Block	Administration Costs
Standard Annuities	£24.00
Select Annuities	£24.00

Part B: Investment Management Charges

The investment management charges attributable to the M&G Sub-Fund in respect of all asset classes and all investment vehicles (excluding FIA Business) and net of the costs of investment management/depository/custodial costs charged at the level of any underlying investment vehicle shall be calculated on a quarterly basis as follows:

Quarterly average Assets Under Management in the M&G Sub-Fund (other than assets which are providing security for reassured assets), which shall be calculated on the last Business Day of each calendar quarter using the valuation prepared for the purposes of PRA regulatory returns; x $\frac{0.2 \text{ percent}}{4}$

In respect of FIA Business, for so long as the FIA Reinsurance Agreement is in place the only investment management charges attributable shall be those investment management, depositary and/or custodial charges levied within the underlying investment vehicle.

Part C: Other Direct Charges

Costs and expenses incurred in relation to:

- (A) the Pension Scheme;
- (B) the M&G Talisman Licence;
- (C) all costs relating to the provision of private medical expenses insurance to certain individuals that were reimbursed by M&G at the Effective Date, details of which have been provided to SF as at the date of this Agreement;
- (D) Taxation to be debited or charged to the M&G Sub-Fund as provided for in paragraph 30 and the M&G Sub-Fund FFM.

Part D: Capital Support Charges

Where it is determined in accordance with the M&G Sub-Fund FFM that the M&G Sub-Fund has a Capital Shortfall and so requires capital support, the M&G Sub-Fund will be charged for that capital support at the following rates:

- (A) in respect of any amount equal to or less than £10 million, a rate of four (4) per cent. per annum; and
- (B) in respect of any amount in excess of £10 million, a rate of six (6) per cent. per annum,

in each case above the base rate from time to time of Barclays Bank PLC, or such other UK bank as the SF Board, in consultation with the With-Profits Actuary and the Monitoring Committee considers appropriate.

The charge will be paid quarterly in arrears based on the average of the required capital support at the start and end of the quarter, calculated in accordance with the M&G Sub-Fund FFM.

SCHEDULE 2**M&G Sub-Fund FFM**

This M&G Sub-Fund FFM may be amended in accordance with paragraph 18 of the Scheme.

Supporting documentation

1. The M&G Sub-Fund PPFM will be maintained in a form that is consistent with the M&G Sub Fund FFM, at all times.
2. The overarching principles as set out in the M&G Sub-Fund PPFM at the Effective Date will be retained for the life of the M&G Sub-Fund, subject to any changes made in accordance with paragraph 18 of the Scheme. Other principles and practices in the M&G Sub-Fund PPFM may be changed in line with regulatory requirements, subject to review by the Monitoring Committee.
3. The following detailed policies (as documented in the M&G run-off plan at the Effective Date) will be maintained for the M&G Sub-Fund at all times. The appropriateness of these policies will be considered by the Board annually triggering further detailed review as appropriate. They will only be changed with the approval of the With-Profits Actuary and subject to review by the Monitoring Committee. The detailed policies for the M&G Sub-Fund are:
 - management action policy;
 - risk appetite;
 - distribution policy; and
 - run-off strategy.

Notional Capital Requirement and Capital Support Mechanism

4. The Notional Capital Requirement for the M&G Sub-Fund will be calculated annually by the Actuary on a basis approved by the With-Profits Actuary. It will be no higher than the regulatory capital requirements for the M&G Sub-Fund on a standalone basis and will be calculated ignoring any liability in respect of Capital Support Charges but including the net asset value of M&G for so long as the Sole Member Policy remains in force.
5. The Notional Capital Requirement will be calculated or estimated for the M&G Sub-Fund monthly. In the event that an estimated value results in a Capital Shortfall, it will be subject to additional review by the With-Profits Actuary before any Capital Support Charges are triggered.
6. When setting the Notional Capital Requirement, the Actuary will consider whether an amount lower than the regulatory capital requirements is appropriate. When carrying out that assessment the Actuary may take into account (inter alia):

- Potential management actions that could be taken but which are not reflected in the capital assessment;
 - Whether assets of the SF Main-Fund are encumbered as a result of a Capital Shortfall within the M&G Sub-Fund;
 - The materiality of any Capital Shortfall which would arise as a result of the determination of the Notional Capital Requirement; and
 - The extent to which the regulatory capital requirements of the M&G Sub-Fund are considered to reflect SF's view of its requirements (for example it may be deemed appropriate to exclude any fixed capital requirements as the M&G Sub-Fund approaches the point of merger).
7. In the event that the M&G Sub-Fund is unable to meet its Realistic Liabilities, the amount of the Capital Shortfall required to meet those liabilities will be transferred into the M&G Sub-Fund under a contingent arrangement. The contingent arrangement will be set in such a way that any repayments of the amounts transferred into the M&G Sub-Fund will not be treated as a liability for the purpose of calculating any regulatory capital requirements of the M&G Sub-Fund or the amount of the Capital Shortfall.

Management Actions

8. The management action policy will be set by the Actuary based on the advice of the With-Profits Actuary with the aim of minimising the need to use the Capital Support Mechanism to the extent that to do so would be consistent with the other principles set out in the M&G Sub-Fund PPFM and supporting documentation. The management action policy will be subject to review by the Monitoring Committee.
9. The management action policy will include the basis on which the implementation of management actions would be triggered and the extent to which the potential benefits of future management actions should be allowed for in calculating the capital requirements.
10. The investment strategy in place at the Effective Date, including the equity backing ratios for the various product classes, shall continue in place until such time as a proposed revision is confirmed as acceptable by the With-Profits Actuary and reviewed by the Monitoring Committee. It is expected that a revision to the investments and the investment strategy, with potential benefits to policyholders, will be appropriate following the Effective Date and as a result of positive impacts of the Scheme. Consequently, the first such review will be carried out within 12 months following the Effective Date.

Charges

11. Policy charges in respect of expenses taken from the asset shares or unit-funds for With-Profit Policies will continue to be taken at the levels in place as at the Effective Date. These levels will be reviewed at least annually for all With-Profits Policies and FIA Policies and may be changed subject to consideration of fairness by the With-Profits Actuary and to review by the Monitoring Committee. The consideration should include (inter alia) reference to:

- the spreading of one-off costs (such as the Services Agreement Break Fee) triggered by this Scheme and absorbed by the M&G Sub-Fund;
 - what would represent a fair split of expenses between product classes; and
 - the appropriateness of alternatively sharing any excess of aggregated allocated charges to policies over the total expenses charged to the M&G Sub-Fund as a distribution of capital.
12. Other policy charges on FIA Policies will continue to be determined in line with the terms and conditions of the contracts and as set out in the management action policy. These will be reviewed at least annually and may be changed subject to consideration of fairness by the With-Profits Actuary and to review by the Monitoring Committee.
13. To the extent there is any discretion in the charges attributable to the M&G Sub-Fund including (inter alia) the exceptional charges set out in paragraph 19 of the Scheme or the sharing of benefits arising from tax synergies set out in paragraph 30 of the Scheme, the operation of such discretion will be subject to review by the With-Profits Actuary and by the Monitoring Committee.

Distribution policy

14. Material transactions and the ultimate cessation of the M&G Sub-Fund may be carried out with the aim of facilitating a fair distribution of the capital in the M&G Sub-Fund. Any such transaction will only be carried out with the approval of the With-Profits Actuary that the terms of the transaction are fair.
15. Capital in the M&G Sub-Fund will be distributed over time to the With-Profits Policies. The membership rights created for the non-profit policies by the Scheme will not create any rights to distributions of capital from the M&G Sub-Fund for those policies.

Run-off Strategy

16. The M&G Sub-Fund shall maintain the arrangements for vesting pensions in place at the Effective Date, subject to consideration of fairness by the With-Profits Actuary and to review by the Monitoring Committee. Under these arrangements the holder of any pension policy that reaches retirement or vesting is able to purchase an annuity from an external insurer, and no further annuities will be issued by the M&G Sub-Fund after the Effective Date (other than if required to meet the obligations to members of the Pension Scheme).
17. If the Pension Scheme is wound-up the With-Profits Actuary and the Monitoring Committee shall assess whether it is in the interests of the policyholders within the M&G Sub-Fund for deferred annuities and annuities in payment to be issued within the M&G Sub-Fund to secure the Pension Scheme benefits, or whether to pursue a full buy-out arrangement with an external insurer.
18. Lines of business may be transferred out of the M&G Sub-Fund, or fully reinsured, prior to the winding-up of the M&G Sub-Fund, subject to receiving the consent of the With-Profits Actuary, and in consultation with the Monitoring Committee, that the terms of such transfer

or reinsurance are not detrimental to both the affected policies and the remaining policies within the M&G Sub-Fund. Any costs associated with such a transfer will not be charged to the M&G Sub-Fund.

Cessation of the M&G Sub-Fund

19. When the M&G Sub-Fund is wound-up under the provisions of paragraph 24 of the Scheme, the remaining capital in the M&G Sub-Fund will be used to enhance the policy benefits of the remaining With-Profits Policies within the M&G Sub-Fund at that time.
20. As part of the transfer of these With-Profits Policies of the M&G Sub-Fund to the SF Main Fund, the terms and conditions of the policies may be modified. It is expected that all With-Profits Policies will be modified so as to remove their right to participate in future surplus.
21. The proposed basis for the modification, including the planned approach to the division of any remaining capital between policies, should be approved by the With-Profits Actuary and notified to the appropriate Regulator not less than 3 months prior to the intended cessation date.

Cessation of Monitoring Committee

22. In the event that the Monitoring Committee is discontinued under the terms of the Scheme, items to be referred to it under the terms of the Scheme shall instead be referred to the SF With-Profits Governance Arrangement.

SCHEDULE 3

Monitoring Committee Terms of Reference

1. The Monitoring Committee's function is to support implementation of this Scheme in accordance with the M&G Sub-Fund FFM and, where appropriate, the M&G Sub-Fund PPFM following the Effective Date, through review of the management and the operation of the M&G Sub-Fund, the SF Framework Agreement and the M&G Sub-Fund PPFM. It shall also support the other governance arrangements within SF by providing a source of knowledge and experience as to the nature of the business within the M&G Sub-Fund.

2. The Monitoring Committee's rights of review shall entitle it to obtain from SF upon reasonable requests of SF from time to time copies of such information as is reasonably required by it to allow it to form a view as to:-
 - (A) the allocation of assets and liabilities to the M&G Sub-Fund in accordance with Part E of this Scheme;
 - (B) the operation of the SF Framework Agreement;
 - (C) the application of the investment policy applicable to the M&G Sub-Fund;
 - (D) whether the charges levied against the M&G Sub-Fund are in accordance with this Scheme, including (without limitation) any exceptional costs which are the subject of a deduction under paragraph 19(E) of Part E of this Scheme;
 - (E) the operation of the M&G Sub-Fund PPFM (including the application of bonuses and the release of surplus from the M&G Sub-Fund to the M&G Policyholders);
 - (F) the quantum of the tax charges to be borne by the M&G Sub-Fund as referred to in paragraph 30 of Part F of this Scheme and the M&G Sub-Fund FFM;
 - (G) the continued appropriateness of the management action policy, risk appetite policy, distribution policy and run-off strategy policy as documented in the Run Off Plan at the Effective Date;
 - (H) the appropriateness of the arrangements for vesting pensions in the M&G Sub Fund in place at the Effective Date;
 - (I) any proposals for the issue of deferred annuities in the M&G Sub Fund in respect of benefits under the Pension Scheme;
 - (J) the transfer or reinsurance of any lines of business from the M&G Sub Fund; and
 - (K) the levels of service provided by SF in respect of the policies held within the M&G Sub-Fund.

3. The Monitoring Committee's views on the above matters, will be reported by the Monitoring Committee's Chairman to the SF Board after each meeting of the Monitoring Committee. Any member of the Monitoring Committee shall also be permitted to notify the Regulator of any matter, provided such member has given not less than 7 days notice in writing to the other members of the Monitoring Committee and the SF Board.
4. The Monitoring Committee will have five members, and, as at the Effective Date shall be made up of three members nominated by SF and two members nominated by M&G. SF shall have power to fill any vacancy arising on the Monitoring Committee among the members nominated by SF and the members nominated by M&G (or their successors) who continue in office shall have power to fill any vacancy arising among the members nominated by M&G (or their successors) and should such vacancy not be so filled within two months of the members receiving notification of it arising SF shall instead have the power to fill that vacancy.
5. The Chairman of SF shall be the Chairman of the Monitoring Committee.
6. The Monitoring Committee will meet at least twice per year on dates set by the Monitoring Committee and will maintain formal records of its meetings which shall be made available to the SF Board at the SF Board's request. The Monitoring Committee shall have such further meetings (if any) as at least three of its member may from time to time resolve.
7. The remuneration of the Monitoring Committee will be set initially at £2,000 per person per attendance for those members nominated by M&G and shall be reviewed annually by the SFA Board. Such remuneration will be borne by SF without recourse to the M&G Sub-Fund.
8. The Monitoring Committee shall be provided with sufficient resources to undertake its duties and may, on the agreement of the Chairman of the Monitoring Committee obtain appropriate professional external advice, such cost to be borne by the M&G Sub-Fund.
9. Each member of the Monitoring Committee will also be reimbursed by SF, without recourse to the M&G Sub-Fund, for all reasonable travel and accommodation expenses incurred in connection with the business of the Monitoring Committee.
10. The Monitoring Committee may consult with the With-Profits Actuary or the SF Independent With-Profits Adviser concerning any matter falling within these terms of reference.
11. The Monitoring Committee shall remain in place until at least the third anniversary following the Effective Date unless all members of the Monitoring Committee for the time being unanimously resolve that it should be dissolved earlier. The Monitoring Committee shall remain in place beyond the third anniversary of the Effective Date if at least three of its members so resolve and from year to year until three or more of its members shall otherwise resolve.

12. The SF Board, with the agreement of the Monitoring Committee, may amend the terms of reference set out in this Schedule 3 following consultation with the With-Profits Actuary and/or the SF With-Profits Governance Arrangement.

SCHEDULE 4
Unit and Term Business

1. The assets backing the Unit and Term Policies transferring to the SF Main Fund will be the sum of the items shown in the following table as calculated for the realistic balance sheet as at 31 December 2014 and adjusted for the period from that date until the Effective Date as detailed in paragraph 2 of this Schedule 4. The assets to be transferred shall initially comprise the underlying unit holdings and, if required to reflect any necessary adjustments, an appropriate transfer of cash will be made by either SF or M&G (as applicable). The values as at 31 December 2013 are shown for reference and are all linked with the business shown as Unit Linked or Term in the Run-Off Spreadsheet.

Liability description	Value as at 31 December 2013	Supporting notes
	£k	
Peak 1 basis		
Unit Holdings	405,600	For the avoidance of doubt all this business (and no other business) is modelled using the following Prophet products: <ul style="list-style-type: none"> - U_LSP_ - U_LRP* - U_PRP* - U_PSP_ - U_PTA_ * denotes either 1 or 2 (both included). It should be noted that the Peak 1 reserve in aggregate is less than the unit holdings.
Peak 1 Unit linked sterling reserves	-11,853	
Peak 1 Term assurance reserves net of reinsurance	-479	The term assurance and associated reinsurance being transferred is all modelled using the Prophet product "C_LTA_". No other business is modelled using this Prophet product. It should be noted that the Peak 1

		reserve was negative as at 31 December 2013 due to an expectation that the value of future premiums would exceed the value of future claims.
S226 reserve (or other late adjustment)	3,640	This was a late adjustment in the December 2013 valuation so is not expected to be relevant at 31 December 2014 or the Effective Date. In the event there are any such late adjustments in the December 2014 valuation M&G would propose an approach to be agreed by SF (such agreement not to be unreasonably withheld).
Peak 1 adjustments / contingency reserves	0	It is expected that no contingency reserves would be relevant to the transferring business. However, if new contingency reserves are set up for the 31 December 2014 valuation M&G would propose an approach to be agreed by SF (such agreement not to be unreasonably withheld).
Peak 2 adjustments		
Release of Unit Linked margins	-3,269	Includes the adjustments made in line with PS12/04, the cost of holding the LTICR and the release of the margins in the s226 reserve.
Release of Term assurance margins	-721	Includes the adjustments made in line with PS12/04 and the cost of holding the LTICR
Release of adjustments / contingency reserves		
TOTAL	392,918	

2. The adjustments for the period from 31 December 2014 until the Effective Date will be in respect of:

Unit Holdings: the actual value of the unit holdings as at the Effective Date will be used.

Term Assurance (all amounts below to be net of any reinsurance):

a) the value of any premiums received, processed or due during the period, (including any which formed part of the current assets at 31 December 2014) will be added to the total calculated in line with paragraph 1;

b) the value of any policy outgo paid, processed or due during the period (including any which formed part of the current assets at 31 December 2014) less the reserves calculated for those policies as at 31 December 2014, will be subtracted from the total calculated in line with paragraph 1;

Other: to the extent any contingency reserves or late minute adjustment are included in the values calculated in paragraph 1, M&G will propose an adjustment for the period to be accepted by SF (such agreement not to be unreasonably withheld).