HYMANS ROBERTSON

Scottish Friendly Assurance Society Limited

Supplementary Report on a proposed transfer of business from Canada Life Limited pursuant to Part VII of the Financial Services and Markets Act 2000

Stephen Makin FFA CERA
With-Profits Actuary, Scottish Friendly

For and on behalf of Hymans Robertson LLP
11 October 2019

Strictly Confidential

Contents

1 Background and overview

Introduction

1.1 Scottish Friendly Assurance Society Limited ("Scottish Friendly") has agreed to acquire a block of long-term insurance business (the "transferring business") from Canada Life Limited ("Canada Life"). The proposed transfer to Scottish Friendly will be achieved by a Scheme of Transfer ("the Scheme") pursuant to Part VII of the Financial Services & Markets Act 2000 ("FSMA"). The Scheme is subject to approval by the High Court. The Scheme Effective Date is expected to be 1 November 2019, at which point the transferring business will transfer from Canada Life to Scottish Friendly.

1.2 To ensure the effective transfer of certain transferring policies held by policyholders who are resident in Jersey or Guernsey, Scottish Friendly and Canada Life are also proposing to implement separate schemes to be presented to the Royal Court of Jersey and the Royal Court of Guernsey (the "Jersey Scheme" and the "Guernsey Scheme" respectively). These schemes will provide for the transfer of policies on the same terms as the Scheme and are expected to be implemented on the same date as the Scheme.

1.3 In my capacity as Scottish Friendly's With-Profits Actuary I prepared a report dated 7 June 2019 (the "Original Report") which outlined the proposed Scheme and assessed its expected impact on the interests of Scottish Friendly's existing with-profits policyholders and on the membership rights of all existing policyholders. Specifically, I considered how the proposed Scheme is expected to affect the security of future benefits, the benefit expectations, and the fair treatment of existing Scottish Friendly with-profits policyholders prior to and beyond the transfer.

1.4 Following the Directions Hearing held on 28 June 2019, correspondence with Canada Life policyholders and Scottish Friendly Delegates, and further discussions with the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), the High Court will next be asked to approve the proposed transfer at the Sanctions Hearing, scheduled for 22 October 2019.

1.5 Within that context, the purpose of this "Supplementary Report" is:

- to consider any material developments since my Original Report relating to the Scheme and supporting arrangements, to Scottish Friendly, or in external factors such as the economic and regulatory environments,
- to comment on the interactions and discussions with Scottish Friendly Delegates in response to the intended transfer, any feedback received from existing Scottish Friendly with-profits policyholders, and, where relevant to the rights and interests of existing Scottish Friendly with-profits policyholders and other members, those received by Canada Life from the transferring Canada Life policyholders, and
- to consider whether the conclusions presented in my Original Report remain valid in light of these developments.

1.6 I have written this Supplementary Report at the request of the Board of Scottish Friendly. It covers only the impact of the transfer on the interests of existing Scottish Friendly with-profits policyholders (in the SF Main Fund and the existing sub-funds) and on the membership rights of all existing policyholders. While I consider comments received from transferring Canada Life policyholders, I do so only from the perspective of considering their relevance to the rights and interests of existing Scottish Friendly with-profits policyholders and other members. I do not consider the transfer from the perspective of the transferring Canada Life policyholders.

1.7 I understand that a copy of my Supplementary Report will accompany the requisite application to the High Court requesting the sanctioning of the Scheme, and accordingly that it may be made available to policyholders and other parties affected by the Scheme.

1.8 Additionally, my Supplementary Report will be made available:

- to Mr Simon Grout, who has been retained by the Boards of Scottish Friendly and Canada Life to report in the capacity as Independent Expert pursuant to Section 109 of FSMA in connection with the proposed transfer,
- to Mr Alan Rankine, Scottish Friendly's Chief Actuary,
- to Mr Chris Lewis, Canada Life's Chief Actuary,
- to Mr Hitesh Shah, Canada Life's With-Profits Actuary,
- to the PRA and the FCA, and
- on Scottish Friendly's website as part of its publicity of the proposed transfer.

1.9 Permission is hereby granted for such distribution and publication on the condition that the entire Supplementary Report is so distributed or published. I am content for my Supplementary Report to be relied upon by Mr Grout, Mr Rankine, Mr Lewis, and Mr Shah, as well as by the PRA and the FCA.

Summary conclusions

1.10 My opinion remains that:

- the Scheme does not have a materially adverse effect on the security of benefits, benefit expectations, or the fair treatment of Scottish Friendly's existing with-profits policyholders,
- the Scheme does not result in a significant dilution of membership rights, and that
- there is no reason, in those terms, why the transfer should not proceed.

1.11 The basis for this continued conclusion is developed throughout the rest of my Supplementary Report, which must be read both in its entirety and in conjunction with my Original Report.

Status, credentials and declarations of interest

1.12 I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1999. I have held the Chartered Enterprise Risk Actuary designation since 2011. I hold the Chief Actuary (Life), Chief Actuary (Life, Non-Directive), and With-Profits Actuary practising certificates issued by the IFoA.

1.13 I held the role of Interim Chief Actuary of Scottish Friendly from 16 April 2018 to 19 November 2018. During this time the Business Transfer Agreement for this transfer of business was signed, in advance of which I advised the Board of Scottish Friendly on the expected impact of, and the principal risks associated with, the proposed transfer. The Board is now advised by Mr Rankine in these matters.

1.14 I am a partner of Hymans Robertson LLP ("Hymans Robertson"). Beyond the fees payable to Hymans Robertson by Scottish Friendly under the terms of a Service Order effective 3 December 2018, I have no financial interest in either company. Specifically, neither I nor my immediate family have any policies, investments, or other holdings in Scottish Friendly, Canada Life, or in any parent, sister or subsidiary company.

1.15 Other partners and staff of Hymans Robertson have advised, and continue to advise, Scottish Friendly on various matters. This has not influenced my Supplementary Report and its conclusions.

Other advice and opinions

1.16 In their capacities as described in paragraph 1.8 above, Mr Grout, Mr Rankine, Mr Lewis and Mr Shah have also each prepared supplementary reports on the Scheme. I have read drafts of these and considered their conclusions. I have relied on Mr Rankine's supplementary report and in particular his conclusions in respect of the impact of the proposed Scheme on the solvency position of Scottish Friendly.

Reliances and limitations

1.17 Other than as set out in paragraph 1.9, my Supplementary Report and the opinions and conclusions it contains are for the sole use of the directors of Scottish Friendly to help them to understand the expected impact of the proposed Scheme. It may not be relied upon by any other person or for any other purpose. Draft versions of my Supplementary Report must not be relied upon by any person for any purpose.

1.18 In preparing this Supplementary Report I have relied without independent verification on the accuracy and completeness of information provided by Scottish Friendly, including information received orally. Appendix A sets out the documents supplied to me and which I have considered in preparing my report.

1.19 To the extent that the information supplied in connection with the proposed transfer and associated agreements is incomplete or inaccurate, or should these change, this may materially impact my Supplementary Report and its conclusions.

1.20 Hymans Robertson accepts no liability to any third parties unless it has accepted such liability in writing. Other than as envisaged in paragraph 1.9, my Supplementary Report must not be recited, referred to, published, quoted, distributed, released, replicated, reproduced or modified (in whole or in part) except as required by law, regulatory obligation, or as set out in the Service Order referred to in paragraph 1.14, without prior written consent. Should consent be given, my Supplementary Report may only be released in its entirety and without modification.

1.21 My Supplementary Report should not be interpreted as fact or likelihood or expectation of a particular financial outcome. Investment, demographic, expense and other experience may ultimately differ (either positively or adversely) from the assumptions underlying this Supplementary Report.

1.22 It is assumed that readers of my Supplementary Report have (or are advised by others who have) appropriate knowledge of matters relating to transferring portfolios of long-term insurance business and to the management of with-profits business, as this is required to understand the analysis and opinions presented.

1.23 Nothing in this Supplementary Report should be considered to be investment, accounting, tax or legal advice, all of which are outside of the scope of my engagement. My Supplementary Report is based upon my understanding of circumstances and events as at its date.

Compliance with professional standards

1.24 The Financial Reporting Council sets out technical actuarial standards for members of the IFoA. This Supplementary Report is subject to and complies with the following standards:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work
- Technical Actuarial Standard 200: Insurance

1.25 In addition, the IFoA sets professional standards for its members. This Supplementary Report has been prepared having due regard to the requirements of the following Actuarial Profession Standards:

- APS L1: Duties and Responsibilities of Life Assurance Actuaries. I believe that I have had access to sufficient information and resources, including the opinion of Scottish Friendly's Chief Actuary, in preparing my Supplementary Report.

- APS X2: Review of Actuarial Work. This Supplementary Report is subject to and complies with the requirements for independent peer review set out in APS X2.

Glossary of terms

1.26 Throughout this Supplementary Report, including in this introduction, a number of terms and abbreviations are used. These are typically defined where first used, but they are summarised in the glossary of terms in Appendix B.

Structure of Report

1.27 The remainder of this Supplementary Report is structured as follows:

- Section 2 considers developments since my Original Report,
- Section 3 provides an updated view of the expected impact of the Scheme on Scottish Friendly's existing with-profits policyholders and members,
- Section 4 comments on the communications received in response to the intended transfer from Scottish Friendly Delegates and from transferring Canada Life policyholders, and
- Section 0 sets out my conclusions.

There then follow two appendices. Appendix A sets out the documents supplied which I have considered in preparing my Supplementary Report, and Appendix B lists the various terms and abbreviations used in my Supplementary Report.

2 Developments since my Original Report

Changes to the Scheme

2.1 No material changes to the Scheme have been made between the date of my Original Report and the date of this Supplementary Report, although a number of minor changes have been made, two of which I comment upon below.

2.2 The first amends the scope of the review that would need to be carried out by an independent actuary in the event that an application is made to amend the Scheme in the future. The second amends the definition of "Excluded Liabilities", in particular to clarify that liabilities in respect of policy loans in connection with the transferring business will not transfer to Scottish Friendly.

2.3 I am satisfied that none of these minor changes, including the two discussed above, affect the analysis and conclusions drawn in my Original Report.

Changes to the scope of the transferring business

2.4 Scottish Friendly and Canada Life have agreed to include within the scope of the transferring business a number of policies where a claim has been incurred but not settled by the Scheme Effective Date. Scottish Friendly will become responsible for settling these claims, with the value of the transferring assets being updated to cover these claim costs.

2.5 I am satisfied that this minor change to the scope of the transfer does not affect the analysis and conclusions drawn in my Original Report.

Permissions and clearances

2.6 Since my Original Report Scottish Friendly has received the necessary tax clearances from Her Majesty's Revenue and Customs in respect of the transfer.

Developments in the political environment: Brexit

2.7 The UK's planned withdrawal from the European Union ("EU") is currently scheduled to occur on or before 31 October 2019. While there remains uncertainty as to when Brexit may occur and what form it might ultimately take, the most recent statements made by Her Majesty's Government suggest that the UK will leave the EU on 31 October 2019 even if no withdrawal agreement has been reached.

2.8 As detailed in my Original Report, Scottish Friendly has c. 21,000 policyholders who currently reside in the EU but outside of the UK, over 90% of whom are in the Republic of Ireland. Given the lack of agreed Brexit terms there remains uncertainty around "contract continuity", i.e. whether Scottish Friendly will be able to collect premiums and pay benefits for that business after Brexit. Notwithstanding the recent statements made by the UK Government, Scottish Friendly's working assumption is unchanged since my Original Report, that it will be permitted to service existing business in EU countries after Brexit. The risk that this is not the case exists regardless of the proposed Scheme.

2.9 Around 1,100 transferring policyholders are believed to currently reside outside of the UK. Given the small number of such policyholders I do not consider that the transfer will lead to a significant increase in risk to Scottish Friendly and its existing policyholders from the perspective of its operations after Brexit.

Insurance regulation

2.10 There have been no updates to regulations or regulatory guidance since writing my Original Report that I consider to have a material bearing on the Scheme or on my conclusions on the expected impact of the Scheme.

2.11 In my Original Report I noted that, following a thematic review by the FCA, Scottish Friendly has been implementing a number of actions relating to how it manages its with-profits business. The implementation of these has continued, as planned, and all significant actions have been completed. While some actions have still to be completed, I remain satisfied that they are not financially material to Scottish Friendly and that their ultimate completion will not invalidate the conclusions in my Supplementary Report.

Management of income protection policies

2.12 I noted in my Original Report that Scottish Friendly currently has no material exposure to health underwriting risk and that this will change when c.7,600 income protection policies are transferred to Scottish Friendly under the terms of the Scheme. These policies will require careful claims management and a key focus of the preparatory work being undertaken is to ensure that appropriate processes are in place to manage this potential exposure. While the fair treatment of income protection policyholders is outside the scope of my Supplementary Report, it is appropriate for me to consider whether the administration of income protection business poses an operational risk to Scottish Friendly that could materially affect the benefit security or expectations of existing with-profits policyholders.

2.13 In that regard, Scottish Friendly has decided, in consultation with the major reinsurer of these income protection policies, to outsource claims management to a specialist provider. Potential suppliers have been shortlisted, and the selection process is well advanced. The resulting outsourcing arrangement is expected to lead to appropriate controls on risks relating to income protection claims management, and as such I am content that this should not materially affect the benefit security or expectations of existing with-profits policyholders.

Manulife sub-fund

2.14 I noted in my Original Report that the bonuses for with-profits policies in Canada Life's Manulife Fund are determined using the North American Contribution Method, and that this practice (among others) will continue after its transfer to Scottish Friendly. I additionally noted that Scottish Friendly does not currently use this method and so it would face some additional requirements in setting up the processes required to determine bonuses for Manulife policyholders. Scottish Friendly is at an advanced stage in transferring knowledge and practical operations, and from a governance perspective the Principles and Practices of Financial Management ("PPFM") for the new Manulife sub-fund, to take effect from the Scheme Effective Date, were approved by Scottish Friendly's Board on 31 July 2019. I therefore remain satisfied that this does not constitute a material risk to Scottish Friendly's existing with-profits policyholders.

3 Expected impact of the Scheme on with-profits policyholders and members

3.1 In this section I discuss the impact that the Scheme is expected to have on Scottish Friendly's existing with-profits policyholders and on the membership rights of all policyholders.

3.2 As set out in my Original Report, existing with-profits policyholders may be affected if the Scheme is expected to alter their benefit expectations. Their interests may also be affected if the Scheme impacts Scottish Friendly's ability to meet its obligations to them. I therefore consider the impact of the Scheme on Scottish Friendly's financial strength.

3.3 Additionally, I consider:

- the impact on membership rights of all policyholders,
- whether the Scheme is consistent with the fair treatment of customers,
- the impact of the Scheme on policy administration, and
- the impact of the Scheme on Scottish Friendly's tax position.

Background

3.4 UK insurance companies are required, by law, to maintain a minimum level of capital resources to reduce the risk that they are unable to meet their future obligations to policyholders following adverse events. Under Solvency II, the current regulatory requirement for insurers and reinsurers in the EU, this calculation is performed on two different bases. I discussed these bases – referred to as Pillar 1 and Pillar 2 respectively – in detail in my Original Report.

Financial impact of implementing the Scheme

3.5 Scottish Friendly's Chief Actuary has estimated the impact that implementing the Scheme is expected to have on Scottish Friendly's financial position. The table below shows:

(i) Scottish Friendly's Pillar 1 regulatory balance sheet as at 30 June 2019, and

(ii) a pro-forma balance sheet with the existing Scottish Friendly business and allowing for the business to be transferred under the Scheme. Note that this allows for Scottish Friendly's costs of effecting the Scheme, as well as the beneficial impact that the administrative efficiencies arising from the Scheme are expected to have on the firm's expenses.

Pillar 1 position as at 30 June 2019 (£m)	Pre Canada Life	Post Canada Life

	transfer	transfer
Assets [A]	2,745.5	5,191.6
Liabilities [B]	2,550.2	4,931.3
Excess of assets over liabilities [C] = [A]-[B]	195.3	260.3
Impact of ring-fencing [D]	(87.3)	(87.3)
Own funds [E] = [C]+[D]	108.0	173.0
Solvency Capital Requirement ("SCR") [F]	63.0	107.9
Solvency coverage ratio [G] = [E]/[F]	171%	160%

Source: Scottish Friendly Chief Actuary's supplementary report on the Scheme

3.6 By way of comparison, the equivalent results at 31 December 2018, as presented in my Original Report, were similar, as follows:

Pillar 1 position as at 31 December 2018 (£m)	Pre Canada Life transfer	Post Canada Life transfer
Assets [A]	2,633.2	5,005.2
Liabilities [B]	2,447.1	4,761.2
Excess of assets over liabilities [C] = [A]-[B]	**186.1**	**243.9**
Impact of ring-fencing [D]	(75.3)	(75.3)
Own funds [E] = [C]+[D]	**110.8**	**168.6**
SCR [F]	**58.8**	**98.2**
Solvency coverage ratio [G] = [E]/[F]	**188%**	**172%**

Source: Scottish Friendly Chief Actuary's report on the Scheme

3.7 Between 31 December 2018 and 30 June 2019, equity markets have generally risen (the FTSE 100 having risen by c.10%) and interest rates have fallen (the yield on 10-year UK government bonds falling from c.1.3% to c.0.8%). These movements are reflected in the updated financial position.

3.8 Consistent with the position as described in my Original Report, the Scheme is expected to lead to an initial reduction in Scottish Friendly's solvency coverage ratio, arising entirely because of the impact of the Scheme on the SF Main Fund. Again consistent with the position as described in my Original Report, Scottish Friendly is expected to continue to comfortably meet its regulatory capital requirements immediately following the implementation of the Scheme. In the fullness of time, the Scheme is ultimately expected to enhance Scottish Friendly's financial position as the risk margin and SCR associated with the transferring business runs off.

3.9 I described Scottish Friendly's risk appetite framework in my Original Report. Following the implementation of the Scheme, the Pillar 1 solvency position – as set out in the table in paragraph 3.5 above – is expected to continue to satisfy Scottish Friendly's risk appetite framework. The supplementary report of Scottish Friendly's Chief Actuary notes that the coverage ratio on a Pillar 2 basis is also expected to continue to satisfy the risk appetite framework. This analysis has been shared with me and, having reviewed its results, I am satisfied with the position that it shows.

3.10 It therefore continues to be my opinion that the expected reduction in coverage ratio does not constitute a materially adverse effect on benefit security of with-profits policyholders, provided that Scottish Friendly continues to comply with its risk appetite framework.

Capital support arrangements

3.11 As discussed in my original report, the operation of the capital support arrangements between the SF Main Fund and the existing sub-funds is not affected by the Scheme but the capital support available to the existing sub-funds will be diluted owing to having to support a new sub-fund, the Manulife sub-fund, containing the with-profits and non-profit business currently in Canada Life's Manulife ring-fenced with-profits fund.

3.12 However, I continue to be satisfied that the likelihood of the Manulife sub-fund "burning through" its own capital and requiring capital support from the SF Main Fund is limited. Mr Shah has confirmed that Manulife Fund continues to have a significant terminal bonus cushion (c.£38m at 30 June 2019) which is expected to be able to comfortably absorb a loss equal to the size of the SCR (estimated to be c.£15m at 30 June 2019, before allowing for the impact of the loss-absorbing capacity of technical provisions). SCRs are calibrated to an extreme 1-in-200 one-year level, and the Manulife Fund's capital buffer is significantly in excess of its SCR.

3.13 It therefore remains my opinion that having to support the new Manulife sub-fund is not expected to materially weaken the ability of the SF Main Fund to provide capital support to the M&GM, Scottish Legal, LANMAS and Rational Shelley sub-funds following the implementation of the Scheme.

Balance of risks affecting benefit security

3.14 Scottish Friendly's Chief Actuary has analysed the impact that the implementation of the Scheme is expected to have on the risk profile of the SF Main Fund. The table below shows a breakdown of the SF Main Fund's SCR into various risk categories. This is shown as at 30 June 2019 without the implementation of the Scheme, for the transferring business in isolation, and for the hypothetical position had the Scheme been implemented on 30 June 2019. The figures are based on Pillar 1 SCR, prior to any diversification effects.

Risk category	SF Main Fund pre-transfer	Transferring Business	SF Main Fund post transfer
Market	23%	37%	31%
Counterparty default	8%	0%	4%
Life underwriting	62%	51%	55%
Health underwriting	0%	7%	4%
Operational	7%	5%	6%

Source: Scottish Friendly Chief Actuary's supplementary report on the Scheme

3.15 By way of comparison, the equivalent results at 31 December 2018, as presented in my Original Report, were similar, as follows:

Risk category	SF Main Fund pre-transfer	Transferring Business	SF Main Fund post transfer
Market	22%	31%	26%
Counterparty default	9%	0%	5%
Life underwriting	61%	56%	58%
Health underwriting	0%	8%	5%
Operational	8%	5%	7%

Source: Scottish Friendly Chief Actuary's report on the Scheme

3.16 For both the SF Main fund and the transferring business, the balance of risks of the has not changed materially since the date of my Original Report. The quantification of market risk attaching to the transferring business is slightly higher, reflecting an updated view on the assets held in respect of this block of business. As such, and subject to my comments in paragraph 2.12, I remain satisfied that the Scheme will not significantly alter the balance of risks affecting the benefit security of existing with-profits policyholders.

Changes since 30 June 2019

3.17 Since 30 June 2019, equity markets have fallen (the FTSE 100 having fallen by c.4.7%) and interest rates have continued to fall (the yield on 10-year UK Government bonds falling from c.0.8% to c.0.5%). Equity markets have been relatively volatile over this period, with the FTSE 100 falling to around 4.8% below its 30 June position on 15 August, and then subsequently recovering most of this ground by 27 September, before falling by 4.7% between 27 September and 3 October.

3.18 I note that Scottish Friendly has taken steps to monitor the impact of this volatility. Scottish Friendly's Chief Actuary has noted that the actuarial team monitor the effect of market movements on the financial position on a monthly basis, including any change to the expected impact of the transfer. The Chief Actuary has stated that he will review this analysis and, if relevant, highlight any significant changes to the expected post-transfer position. I have asked the Chief Actuary to share this analysis with me. I will update the Board accordingly should this cause me to alter any of my conclusions.

Benefit expectations

3.19 As noted in my Original Report:

- the Scheme will not alter guaranteed benefits for existing with-profits policyholders,
- the Scheme is not expected to result in changes to the investment strategy of the SF Main Fund or any of the existing sub-funds,
- the Scheme is not expected to result in an increase to the charges or expenses levied on existing with-profits policies,
- the Scheme is not expected to result in any changes to the distributions that policyholders receive from the estates of the SF Main or any of the sub-funds, and

- the Scheme is expected to have a positive impact on the distributions made to with-profits policyholders in the SF Main Fund in respect of profits arising on non-profit business and the management of sub-funds.

3.20 As there have been no material changes to the Scheme or its expected impacts, it remains my opinion that the Scheme will not have a materially adverse effect of the expectation of benefits of Scottish Friendly's existing with-profits policyholders.

Expected impact of the Scheme on membership rights

3.21 I noted in my Original Report that all Scottish Friendly policyholders are also members of the Society, with attaching voting rights, irrespective of how they came to be with Scottish Friendly. Transferring policyholders will also become members of Scottish Friendly and so, as described more fully in my Original Report, this will lead to a dilution of the voting rights of existing Scottish Friendly members. In my Original Report I estimated a 14% dilution, based on adding around 100,000 unique transferring policyholders (as at 31 December 2018) to Scottish Friendly's then-current 594,000 members.

3.22 The estimated number of transferring policyholders will have fallen slightly to 30 June 2019, at which point Scottish Friendly had 606,000 members. I am therefore content that the estimated dilution on the voting rights of existing Scottish Friendly members has not changed materially since my Original Report.

3.23 I also noted in my Original Report that the way in which members exercise their voting rights is through a system of Delegate representation. As the physical act of voting is carried out by Delegates on behalf of members, and as there will be no increase in the number of Delegates as a result of the Scheme, the practical effect of the dilution referred to above is further limited.

3.24 Paragraphs 3.21 and 3.23 consider membership rights when considering Scottish Friendly as a going concern. As noted in my Original Report, my understanding is that, if Scottish Friendly were to be dissolved, members would receive an equitable share of surplus assets as determined by the Board on appropriate actuarial advice. As Scottish Friendly is run on a going concern basis for the benefit of its current and future members, my expectation is therefore that dissolution would occur only if it were to experience extreme financial distress. In this scenario it is likely that surplus assets would be negligible, rendering academic the dilution of existing members' rights in that scenario. It therefore remains my opinion that the Scheme will not have a materially adverse effect on the rights of existing members upon dissolution of Scottish Friendly.

3.25 I therefore remain satisfied that the Scheme will not have a materially adverse effect on the rights and interests of existing Scottish Friendly members.

Treating customers fairly

3.26 I noted in my Original Report that:

- the Scheme is not expected to result in any changes to Scottish Friendly's existing PPFMs, that
- there is not expected to be a materially adverse effect on the benefit security or benefit expectations, and indeed that
- there is expected to be an increase in the benefits for existing with-profits policyholders in the SF Main Fund over time.

3.27 There have been no material changes either to the Scheme or to its expected financial impact, so my opinion remains that the Scheme is consistent with the requirements to treat customers fairly.

Expected impact of the Scheme on other matters

3.28 It continues to be the case, as set out in more detail in my Original Report and for the same reasons, that the Scheme is not expected to have any materially adverse effects on:

- the administration of existing Scottish Friendly policies, and
- the tax position of existing Scottish Friendly policyholders or funds.

4 Communications

4.1 Scottish Friendly convened a Special General Meeting ("SGM") on 16 July 2019 to consider a motion to approve the transfer. 22 out of 29 Delegates were present, and the motion was passed unanimously by those voting.

4.2 I have reviewed the minutes and note the active discussion that took place with Delegates, including in relation to transferring risks (Section 3.11 of the minutes), how existing members would benefit from the transfer (Section 3.17), and the dilution of membership rights (Section 3.19). The themes raised by the Delegates are well aligned with the matters covered in my Original Report and I am satisfied that no new matters were raised that would cause me to reconsider my conclusions.

4.3 In anticipation of the above-mentioned SGM, the High Court granted Scottish Friendly request for a waiver from having to mail its existing policyholders about the Scheme. However, information about the Scheme has been publicised on Scottish Friendly's website and through advertisements in selected newspapers. No objections or other correspondence have been received from Scottish Friendly's existing policyholders in respect of the Scheme.

4.4 I have also monitored the themes raised by the very small number of transferring Canada Life policyholders who have objected to the Scheme or otherwise expressed dissatisfaction, to assess whether any of the underlying themes are relevant in terms of my role to advise the Board in advance of the transfer. The majority of objecting policyholders have not given a reason for their objections but, of those who have, the key theme relates to security of transferring benefits. Having reviewed these broad themes, I am satisfied that these raise no cause for concern from the perspective of the rights and interests of existing Scottish Friendly with-profits policyholders and other members.

5 Conclusions

5.1 For the reasons set out in the preceding sections of this Supplementary Report, it continues to be my opinion that the Scheme is not expected to have a materially adverse effect on:

- the security of benefits for Scottish Friendly's existing with-profits policyholders,
- the benefit expectations for Scottish Friendly's existing with-profits policyholders,
- the balance of risks to which Scottish Friendly's existing with-profits policyholders are exposed,
- the fair treatment of Scottish Friendly existing with-profits policyholders, and
- the membership rights of Scottish Friendly's existing policyholders.

5.2 This report and its conclusions apply equally to the Guernsey Scheme and the Jersey Scheme as they do to the Scheme.

Stephen Makin

………………………………………………………

Stephen Makin FFA CERA
With-Profits Actuary, Scottish Friendly

For and on behalf of Hymans Robertson LLP
11 October 2019

Appendix A: documents considered

The following table lists the main documents supplied to me which I have considered in preparing my Supplementary Report.

Ref	Document	Author	Version / Date
[1]	The supplementary report by the Scottish Friendly Chief Actuary	Alan Rankine	v1.6 / 11 October 2019
[2]	The supplementary report by the Canada Life Chief Actuary	Chris Lewis	v1.4 / October 2019
[3]	The supplementary report by the Canada Life With-Profits Actuary	Hitesh Shah	v1.3 / October 2019
[4]	The supplementary Scheme Report by the Independent Expert	Simon Grout	26 September 2019
[5]	The Scheme of Transfer	Hogan Lovells	October 2019
[6]	The minutes from the SGM on 16 July 2019	Martin Pringle	Final / July 2019

Appendix B: terms and abbreviations used

Term	Meaning
Canada Life	Canada Life Limited
CERA	Chartered Enterprise Risk Actuary
EU	European Union
FCA	Financial Conduct Authority
FFA	Fellow of the Institute & Faculty of Actuaries
FSMA	Financial Services and Markets Act 2000
Hymans Robertson	Hymans Robertson LLP
IFoA	Institute and Faculty of Actuaries
Manulife Fund	A ring-fenced with-profits fund in Canada Life
Manulife sub-fund	The ring-fenced sub-fund of Scottish Friendly into which the business (including assets and liabilities) of the Manulife Fund will transfer under the Scheme
Original Report	Report on a proposed transfer of business from Canada Life Limited pursuant to Part VII of the Financial Services and Markets Act 2000, dated 7 June 2019
PRA	Prudential Regulation Authority
SCR	Solvency Capital Requirement
Scottish Friendly	Scottish Friendly Assurance Society Limited
SGM	Special General Meeting
Solvency II	Directive 2009/138/EC of the European Parliament and of the European Council, dated 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast)
the Scheme	the Scheme of Transfer pursuant to Part VII of FSMA to transfer the Canada Life business to Scottish Friendly

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk

Hymans Robertson LLP (registered in England and Wales - One London Wall, London EC2Y 5EA - OC310282) is authorised and regulated by the Financial Conduct Authority. A member of Abelica Global.

© Hymans Robertson LLP.