Marine and General Mutual Life Assurance Society

Policyholder Information Booklet

Proposed transfer of the long-term insurance business of Marine and General Mutual Life Assurance Society to Scottish Friendly Assurance Society Limited

Contents

1. Summary

1.1 Overview

This booklet describes our proposal to transfer all of the long-term insurance business of Marine and General Mutual Life Assurance Society (referred to as “the Society”, “us”, or “Marine & General” in this document) to Scottish Friendly Assurance Society Limited (referred to as “Scottish Friendly” in this document). This proposed transfer includes the policy, or policies, you have with us.

The Society’s Board expects the security of your policy benefits to be improved by the proposed transfer and none of the terms or conditions of your policy will be affected. In addition, the proposed transfer is expected to result in higher benefits over time for our with-profits policyholders and make it significantly easier to manage the run-off of the Society’s business than if it were not to occur. In particular the proposed transfer will significantly reduce the costs and risks currently involved in running the Society. These points are discussed in sections 5 and 6 of this booklet.

Scottish Friendly is one of the most financially strong mutual life insurers in the UK, and is committed to administering your policy to at least the same standard of service that you currently receive. It has significant experience of receiving transfers of business from other mutuals, and has a strong culture of treating its customers fairly. Further details about Scottish Friendly are set out in section 3 of this booklet.

1.2 Why this is good news

There are four key aspects of the proposed transfer that make the Board confident that it is in your best interests:

1. There will be materially lower expenses incurred in administering your and other policies and in running the Society. We have estimated that the potential future savings are in excess of £30 million, net of the costs of the proposed transfer.

2. In addition to these future expense savings, the **M&G Sub-fund** (explained in section 4) will receive an immediate contribution of £10 million in respect of the expected future savings in relation to the Unit Linked and Term business being transferred to the **Main Fund** (as explained in section 6).

3. The current significant risks associated with being an independent mutual in **run-off** will be materially reduced (as explained in sections 2 and 5).

4. The future management of the M&G Sub-fund will make it much easier to plan to distribute the capital to with-profits policyholders than is currently the case (as explained in section 6).

Further, there are appropriate governance arrangements to continue to protect the interests of your policy, including the creation of a **Monitoring Committee** (as explained in sections 4 and 6).

The Board of the Society has therefore unanimously concluded that this transfer is in your best interests. The rest of this document:

- explains why the Board reached this conclusion,
- describes Scottish Friendly,
- explains the nature of the transfer and
- sets out the process by which your interests have been considered and protected.

1.3 What you need to do

The legal process to implement the proposed transfer includes a hearing at the High Court in England to consider the **Scheme** that sets out the details of the proposed transfer. This is described in the letter to all policyholders accompanying this booklet but is explained further in section 4 below.

The process also requires the appointment of an **Independent Expert** (who is an independent consulting actuary not connected to either ourselves or Scottish Friendly) to report on the likely effects of the proposed transfer on our policyholders. We appointed Simon Grout, a Principal of Oliver Wyman, and his appointment was approved by the **Regulators**. In his report the Independent Expert has concluded that:

- the security of benefits for all Marine & General policyholders will be significantly enhanced by the transfer, and that

- with-profits policyholders in the M&G Sub-fund will not be adversely affected by the transfer with respect to benefit expectations and bonus prospects

A summary of his report is set out in section 7 of this booklet.

If you are a **member** of the Society you will also have received a separate letter with additional material and information about an Extraordinary General Meeting. You are encouraged to read that letter and to use your vote to support the proposed transfer. Our members are in general holders of with-profits policies and would have been invited to our Annual General Meetings in the past.

If you are not a member then you do not need to take any action as a result of having received this booklet. However we recommend that you read this booklet including the "Some Questions You May Have" section. You may also find the Glossary useful as it explains certain terms that are **in bold** in the booklet when they are first used.

If, after having read this booklet, you still have questions or concerns, please contact us using the details set out in the covering letter.

2. Why are we doing this?

2.1 Overview

The Society is currently in a satisfactory financial and operational position. However, as set out in our Report and Accounts for the year ended 31 December 2013 the Society's objectives are to:

- manage the Society for the benefit of our existing members and policyholders;
- ensure adequate security for all policyholders;
- provide our customers with good and efficient service in relation to all aspects of the administration of their policies; and
- ensure that our operations remain efficient and cost effective.

Our strategy is to achieve these objectives in the most efficient manner. As a consequence, your Board has been actively investigating whether members and policyholders would be best served by the Society remaining an independent mutual or by transferring part or all of the Society into one or more insurance companies or friendly societies. We called this investigation "Project Safe Haven". The proposed transfer is the result of this investigation and the Board consider it to be the best way to achieve these objectives.

2.2 Recent history of the Society

This section of the booklet sets out some background information before discussing the current proposed transfer and why it meets the Board's objectives.

The first stage in the overall project to achieve the objectives was the transaction with ICE Acquisitions SARL ("ICE"), a company established by funds managed by the private equity company TDR Capital LLP. That transaction completed on 2 December 2013 and was described in our Report and Accounts for 2013 as "the ICE transaction". As a result of the ICE transaction the Society:

- closed to new business and entered into run-off;
- entered into a 10 year outsourcing contract with MGM Advantage Services Limited, a new administration company established by ICE; and
- reinsured all its **enhanced annuities** to MGM Advantage Life Limited, a new life insurance company established by ICE.

We also sold our infrastructure to these new companies and most of the Society's staff transferred to the new entities. Our members voted to accept this transaction at an Extraordinary General Meeting on 25 November 2013.

The ICE transaction strengthened our capital position through the terms by which we reinsured all our enhanced annuities. We also received payment for selling our new business franchise.

In our Report and Accounts for 2013 we explained that after the ICE transaction there were still significant risks facing the Society and our policyholders. These risks came from the other non-enhanced annuity business left within the Society, the potential future inefficiencies that any fund in run-off will face over time, and the strategic risk arising from our reliance on the outsourcing contract with MGM Advantage Services.

During 2014 we addressed some of these risks by replacing the reinsurance arrangement for the enhanced annuities with a transfer of this business to MGM Advantage Life Limited and by reinsuring the remaining annuities with a specialist reinsurance company. These two transactions further improved our capital position but do not address the long term challenges of managing a fund in run-off.

2.3 Issues facing a fund in run-off

Our main remaining risks are therefore those arising from being an independent insurer in run-off that is also reliant on a significant outsourcing agreement.

An independent life company in run-off, such as the Society, has a material amount of fixed or overhead costs, even with a suitable outsourcing contract. These costs arise mainly from the required governance and oversight functions that are a key part of any independent regulated financial institution in the UK. The Board recognised that without further action these costs would become an increasing proportion of the overall costs of running the Society.

We are also exposed to the ongoing changes within the financial services industry, and the potential costs that these can bring – for example those arising from the introduction of new European regulation such as **Solvency 2**, which we have discussed in our past Annual Report and Accounts. Without action, the Society would be liable for the increased costs arising from these changes, since they are not included in the guaranteed costs within the existing outsourcing contract.

The Board also wants to find a suitable method for distributing the available capital in the Society to its with-profits policyholders over time. As explained in our Report and Accounts for 2013, before any capital in the fund can be distributed it is important to ensure that there is reasonable certainty over the fund's future development. This requires any assets within the fund (including those related to the emergence of future surplus on some types of policy) to be suitable for paying policy benefits, and for future expenses to be known to a high degree of certainty. We cannot have certainty on these items while we are still an independent entity with our mix of business and reliance on the current outsourcing contract. Our current status therefore restricts our ability to make any distributions from the available capital.

Hence, as we described in our Report and Accounts for 2013, the Board investigated whether our policyholders would be better served by a transfer of our business to another insurer such as Scottish Friendly or to stay as an independent mutual in run-off reliant on a significant outsourcing contract. These were the only two options available. The following section of this booklet sets out the outcome of that investigation, which we termed "Project Safe Haven".

3. Why Scottish Friendly?

3.1 The selection process

After the Board had determined that it was likely that a full transfer of the Society's business to another insurer would be in the interests of our policyholders, we carried out a rigorous process to find suitable partners. A set of criteria were developed against which all proposals were measured. These were:

- how the proposal could affect the security of policyholder benefits;
- how the proposal could impact the potential benefits payable on with-profits policies;
- the culture of the potential partner including their approach to members and other customers; and
- the costs and risks involved in implementing the proposal, including the experience of the potential partner.

Numerous different organisations were contacted to assess their interest in the potential transfer of the Society. After due consideration of the final versions of the proposals received, the Board unanimously concluded that the proposal received from Scottish Friendly was the most appropriate for our members and policyholders.

We asked our auditors, KPMG, under a separate engagement, to independently review the process we used to find a partner and the nature of our assessment of the proposals. They concluded that:

1. the process which we undertook to identify potentially interested insurers was thorough;
2. the evaluation criteria used were reasonable;
3. our assessment of the detailed proposals received against these criteria was thorough and comprehensive; and
4. they agreed with our conclusion that the proposal offered by Scottish Friendly was the best of those received and is beneficial to our policyholders compared to the Society remaining an independent mutual organisation with our current administration arrangements.

In addition the Society's Actuarial Function Holder and With-Profits Actuary has confirmed that he supports the proposed transfer.

The Board has estimated that the Scottish Friendly proposal will result in net expense savings over time of in excess of £30 million after allowing for the costs of the transaction, compared to those which could be expected if the transfer did not proceed.

In addition to the substantial savings in future expenses, Scottish Friendly has a strong focus on customer service and, based on our due diligence, the Board is confident that our policyholders will receive excellent administration and customer support from Scottish Friendly.

Scottish Friendly also has an excellent track record in carrying out transactions of this kind, and demonstrated a strong commitment and ability to achieve the transfer as soon as possible - which would be to the benefit of our policyholders.

3.2 Who is Scottish Friendly?

Scottish Friendly is a friendly society founded in 1862 with over 400,000 members who hold over one million policies across the United Kingdom and Republic of Ireland. It is a with-profits mutual life insurer with a focus on the customer as the owners of the business. Its premium income for 2013 was £64 million and assets under management were £824 million as at 31 December 2013 (excluding assets within subsidiaries).

It was rated the fourth strongest with-profits life insurer in the UK in the Money Management survey (August 2014) of financial strength, based on the ratio of available capital to liabilities.

A core part of Scottish Friendly's strategy is to take on the business of other friendly societies and insurance companies, and it has carried out six such transfers of engagements in recent years. It has been successful in such transactions because of its focus on efficient policy administration. This enables it to take on additional blocks of business from third parties in a cost-effective manner for the mutual benefit of both the transferring organisation and Scottish Friendly.

Other components of its strategy include the continued sale of simple with-profits business, and the sale of other life insurance products – either through direct offerings to customers or through partnership arrangements with other specialist financial services organisations.

In recent years Scottish Friendly has won the Financial Services Company of the Year award from Scottish Business Awards, and a Gold award from the National Business Awards for Scotland.

The following table sets out some key financial information on Scottish Friendly, and the impact of the proposed transfer.

£million	**Pro-forma financial information on Scottish Friendly as at 31 December 2013**	
	Without the Marine & General transfer	With the Marine & General transfer
Assets under management, excluding subsidiaries	824	1,591

4. Key aspects of the Scheme

4.1 Introduction

This section provides a summary of the Scheme that would implement the proposed transfer of the Society's long-term insurance business to Scottish Friendly.

The proposed transfer is to be carried out under section 111(1) of the Financial Services and Markets Act 2000. The transfer will not proceed unless an order sanctioning the Scheme is given by the High Court of England and Wales. If the Court approves the Scheme, the long-term insurance business of the Society will transfer to Scottish Friendly. It is expected that the transfer will become effective at 00.01 on 1 June 2015 (the **Effective Date**).

The Scheme documents govern in a precise manner how the Society's business will be managed by Scottish Friendly in the future. The Board consider that the Scheme will improve the security for our policyholders' benefits, reduce the level of risk to which they are exposed and cut significantly the expected future costs of administering the business. This is expected to lead to increased benefits over time for our with-profits policies compared to the expected position if the transfer were not to occur.

If approved by the Court, all of the insurance policies issued by the Society and in force on the Effective Date, other than any **Excluded Policies** (discussed below), will be transferred to Scottish Friendly (the **Transferring Policies**).

4.2 Transferring policies

Subject to approval from the Court, the Transferring Policies will be transferred from the Society to Scottish Friendly, who will become responsible for all aspects of the policy administration after the Effective Date.

The transfer will not affect the terms and conditions of your policy (including all charges on your policy where relevant) and you will be entitled to the same rights within Scottish Friendly in respect of your policy as you have with the Society.

All our policyholders (including Trustees of pension schemes who hold policies on behalf of their scheme members) will become members of Scottish Friendly, while the current members of the Society will lose their membership rights in the Society, in exchange for membership rights in Scottish Friendly. This change in membership rights is discussed by the Independent Expert in his report.

4.3 Creation of the M&G Sub-fund within Scottish Friendly

All of the Society's with-profits policies, including the Flexible Income Annuities, will transfer to a new sub-fund to be created and maintained within Scottish Friendly (the **M&G Sub-fund**). This sub-fund will exist solely for the benefit of the transferring with-profits policies, and will be governed by the terms of the Scheme. These terms include clear rules on the amount of expenses that can be charged to the M&G Sub-fund in the future.

Section 6 of this booklet describes the treatment of the Society's with-profits business in more detail.

The Society's Unit Linked and Term business will not be allocated to the M&G Sub-fund but will instead be allocated to Scottish Friendly's Main Fund. The M&G Sub-fund will be immediately credited with an additional £10 million in respect of the expected value of future expense savings on this Unit Linked and Term business. This amount helps to defray some of the costs of implementing the Scheme as described below.

The M&G Sub-fund will also contain the Society's remaining annuity business (which is fully reinsured) and a small amount of other non-with-profits business not included in the Unit Linked and Term business being transferred to the Main Fund.

The terms of the Scheme allow for a **Capital Support Mechanism** to provide, at a defined cost, additional short-term capital to the M&G Sub-fund from the Main Fund if required in the future.

The creation of the M&G Sub-fund along the terms outlined above will assist the orderly distribution of capital to with-profits policyholders over time. This is discussed in more detail by the Independent Expert in his report.

The structure of the M&G Sub-fund is such that it is protected from the risks and benefits that arise in the rest of Scottish Friendly in the normal course of business.

There will be a Monitoring Committee, discussed later in this booklet, to provide additional governance over the management of the M&G Sub-fund.

4.4 Policy administration

From the Effective Date, Scottish Friendly will become responsible for all aspects of the administration of your policy. Scottish Friendly will take over responsibility for all personal information relating to the Transferring Policies.

This means that from the Effective Date Scottish Friendly will become the data controller of any personal data. Scottish Friendly will be under the same duty to respect the confidentiality and privacy of this information as currently applies to the Society and will be bound by any specific notice or consent given, or request made, by a data subject. Scottish Friendly carry out all their administration in the UK.

You will receive a welcome letter from Scottish Friendly on the completion of the transfer setting out how to contact them with any future queries you may have on your policy.

4.5 Investment strategy and fund management

Scottish Friendly currently intends to retain the same investment strategy for the M&G Sub-fund as is currently in place. It will review the current use of external fund managers and investigate whether efficiencies can be made in the future.

The current range of funds available to our Flexible Income Annuity and Unit-Linked policyholders will not change as a result of the proposed transfer.

Future changes in the range of funds made available for the Flexible Income Annuity policies and the Unit Linked policies may be made if it is efficient to do so, but any such change will be subject to review under Scottish Friendly's governance arrangements.

4.6 The Staff Pension Plan

The financial responsibility for meeting our obligations to the members of the Society's Staff Pension Plan (**SPP**) will in future rest with the M&G Sub-fund. Scottish Friendly will become the statutory employer for the purposes of the Pensions Act 1995 and 2004. The trustees of the SPP have been involved in this process to ensure the interests of the SPP members have been taken into account.

4.7 The Society's directors and employees

It is not expected that any of the Society's four directors or small team of employees will be retained by Scottish Friendly after the Effective Date, except for the roles on the Monitoring Committee discussed in section 6 of this booklet.

Severance payments will be paid to the directors and employees in accordance with their existing contracts of employment or contracts of service.

4.8 The Society

As part of the overall transaction with Scottish Friendly, our members will be asked to vote to approve the transaction and to approve changes to the Articles that involve giving up their membership rights within the Society. This is necessary to give effect to the Scheme. The Society will remain in existence for a short period of time to allow for the management of any Excluded Policies, and the de-authorisation of the Society. Scottish Friendly will become the sole member of the Society for this period and the remaining capital within the Society will become part of the assets of the M&G Sub-fund.

4.9 Costs of the Scheme

With the exception of certain specified costs, the Society and Scottish Friendly will each cover their own costs incurred in connection with the Scheme. However the costs of the Independent Expert's Report (and any supplementary report) and the costs and expenses of the jointly appointed counsel in respect of the Scheme will be shared equally by the Society and Scottish Friendly.

In addition to the direct costs of the Scheme, the Society will be making various payments to the MGM Advantage group of companies to terminate the existing services contract. These include a break fee of £10m under the outsourcing agreement and a payment of £8m under the Reinsurance Intermediation Agreement (as explained in our Report and Accounts for 2013). These payments, and other related costs of the transfer, have been allowed for in the Board's assessment of the Scheme.

4.10 Excluded policies

The Scheme is intended to transfer all of the Transferring Policies to Scottish Friendly. However, the Scheme also contains provisions for the Scheme to proceed if for any reason the Court is unable to transfer a particular Transferring Policy. This could occur if the state of a commitment of a particular policy, which is in general the country where the policy was taken out, was not the UK but elsewhere in the European Economic Area ("EEA") and the consent of the regulator in that EEA state had not been obtained. That policy would be an "Excluded Policy" for the purposes of the Scheme and, in those circumstances, that Excluded Policy would not transfer and would remain a liability of the Society, but would continue to be reassured in its entirety to Scottish Friendly on the terms set out in the Scheme.

With effect from the Effective Date, Scottish Friendly will have formal responsibility for the administration of Excluded Policies.

If all consents or other requirements for the transfer of an Excluded Policy from the Society to Scottish Friendly are subsequently obtained, that Excluded Policy will be transferred to Scottish Friendly and thereafter be treated in all respects as if it were a Transferring Policy.

4.11 Continuity of Proceedings

With effect from the Effective Date, any proceedings or applications to any authority in respect of which the Society is a party or would have been a party but for the Scheme concerning Transferring Policies, shall be continued or commenced against Scottish Friendly. Scottish Friendly shall be entitled to all defences, claims, rights of set-off and other rights that would have been available to the Society in relation such proceedings or applications.

Any judgment or order obtained by or against the Society to the extent it relates to the Transferring Policies and which is not fully satisfied prior to the Effective Date shall, to the extent it was enforceable by or against the Society, become enforceable by or against Scottish Friendly (in place of the Society) from the Effective Date.

4.12 Conditions

The Scheme will not become effective unless it is approved by the Court and certain tax clearances have been obtained or waived.

5. What does this mean for you?

5.1 Overall impact

The Board considers that the proposed transfer provides enhanced security for your benefits, maximises certainty around the future administration of your policy, reduces the expected burden of future costs, and will make it easier to achieve a distribution of the Society's capital to with-profits policyholders over time.

The Board reached these conclusions because of the following features of the proposed transfer:

- our policyholders will be transferring to a stronger insurer than the current Society, and hence the security of your policy benefits will be enhanced by the transfer.

- Scottish Friendly has a proven administrative capability, and a culture that is centred on their members. The Board is confident that they will provide an efficient and customer-centred service to our policyholders.

- the contribution to the M&G Sub-fund of £10 million in respect of the Unit Linked and Term business improves the capital position and stability of the M&G Sub-fund and assists in the distribution of capital to with-profits policyholders, compared to the Society's current position.

- the charges for expenses that can be made to the M&G Sub-fund by the Main Fund are significantly less than the current fees paid to our existing administrator. In addition there is much greater certainty over what items are included in these charges. This, coupled with the removal of the direct costs incurred by the Society, leads to an expectation of future expense savings in excess of £30 million after allowing for the costs of the transaction, including the various payments to the MGM Advantage group of companies. This is in addition to the £10m mentioned above.

- the risks currently faced by the Society mean that it is currently inappropriate to start to distribute the capital within the Society without the proposed transfer. After the proposed transfer the M&G Sub-fund will have increased financial strength compared to the current Society and a much lower level of uncertainty around its future operation. Hence it should be possible to start making distributions of capital to the with-profits policies much sooner than would be the case without the proposed transfer.

- there is no material change to the Society's current obligations to the SPP, with these obligations becoming the responsibility of the M&G Sub-fund.

The advice from our Actuarial Function Holder supports this reasoning.

The first two points are discussed in the following paragraphs while the other points are discussed in section 6, which considers the issues for the with-profits policyholders in more detail.

The summary of the Independent Expert's report in section 7 includes comments on the impact of the proposed transfer on different groups of policyholders.

5.2 Security of your benefits

The security attaching to the benefits of a life insurance policy is affected both by the current financial strength of the insurer and its future prospects. Scottish Friendly has a materially stronger balance sheet than the Society and our policyholders will therefore benefit from this increased financial security after the proposed transfer.

The Independent Expert has also considered the issue of security of policy benefits very carefully and has concluded that the security of benefits for all Marine & General policyholders will be significantly enhanced by the Transfer. A summary of the report from the Independent Expert is set out in section 7 of this booklet.

The proposed transfer has also been considered and reported on by the Society's Actuarial Function Holder and With-Profits Actuary, John McKenzie, who is a Principal in Milliman LLP and independent from the Society. He has concluded that the Scheme will materially improve the security of benefits for all Marine & General policyholders.

5.3 Charges on your policy

The Scheme does not make any changes to the charges on your policy, regardless of what type of policy you have and whether your policy is allocated to the M&G Sub-fund or the Main Fund of Scottish Friendly.

Where your policy has terms that are subject to regular reviews, such as fund charges or premiums, the Scheme commits Scottish Friendly to apply the same governance arrangements over these future reviews as are in place for other Scottish Friendly policies.

5.4 Administration of your policy

Scottish Friendly will take on full responsibility for the administration of your policy immediately after the transfer, and all future communication will be from Scottish Friendly rather than from the Society. You will receive a welcome letter from Scottish Friendly soon after the transfer completes.

Under the terms of the Scheme, Scottish Friendly has committed to apply the same policy administration standards to the Transferring Policies as apply to all other existing policies within Scottish Friendly. The Board is satisfied that these standards are at least equal to those currently in place with our outsourcing arrangement and so is confident that you will experience no reduction in the service that you have received from us over the years.

Scottish Friendly is able to achieve these levels of service because of the combination of its customer-centred culture and its award-winning integrated automated work-flow. The latter is based on a single administration platform used for all types of policy and funds. This enables virtually all calls to be handled immediately without the need for follow-up work.

All current Scottish Friendly customers can choose to interact with it directly on-line, by telephone or in writing, and can choose to receive paper correspondence or on-line material only. The option to use paperless functionality will be gradually introduced for transferring Marine & General policyholders following the transfer.

There will be no change in the way your premiums are collected by Scottish Friendly or in the way in which policy payments are made. Instructions with regard to the payment of premiums will automatically be altered on your behalf to make Scottish Friendly the payee instead of the Society and you will be notified before this happens. The Direct Debit

Guarantee will continue to apply. Therefore you need take no action with regard to the payment of your premiums or receipt of payments under any of your policies.

5.5 Investment management and unit-linked funds

There will be no change arising from the Scheme to the current investment strategy underlying the mix of assets within the conventional with-profits, unitised with-profits, unit-linked and Flexible Income Annuity portfolios. Scottish Friendly may in the future review the Society's current range of external fund managers and will consider whether there are opportunities to reduce costs by consolidating the use of these external fund managers.

Further, no changes to the current range of unit-linked funds are currently proposed as part of the Scheme although Scottish Friendly may in the future consider whether there are benefits to be made by consolidating the range of funds available.

No changes will be made without the approval of the governance arrangements within Scottish Friendly including, where relevant, the review by the Monitoring Committee for the M&G Sub-fund, discussed further in section 6 of this booklet.

5.6 Membership of Scottish Friendly

All transferring policyholders will be given membership rights within Scottish Friendly, even those who are not currently members of Marine & General.

Membership of Scottish Friendly will not give a right to participate in the surplus of Scottish Friendly other than for with-profits policies within the M&G Sub-fund. Membership does however convey other benefits such as, at present, potential high-street discounts.

5.7 Options and other rights under your policy

You will continue to have the same rights to alter or renew your policy as exist in your current policy, although the Scheme provides for Scottish Friendly to issue an equivalent policy if it is not issuing the exact same type of policy when the option to take out a new policy is exercised.

6. Treatment of with-profits policies

6.1 Overview

This section is relevant to you if you have a with-profits policy of any type, including a Flexible Income Annuity. With-profits policies participate in the surplus of the Society and the Board has carefully assessed whether their future prospects will be enhanced by the proposed transfer. This section of the booklet describes the important features of the Scheme for with-profit policies and why the Board has concluded that the future policy benefits for with-profit policyholders are expected, over time, to be greater after the Scheme than if it were not to occur.

6.2 The M&G Sub-fund and the Fundamentals of Financial Management

All the assets and liabilities of the Society, other than those supporting the Unit-Linked and Term policies which transfer to the Scottish Friendly Main Fund, are transferred to the M&G Sub-fund. The future management of this sub-fund will be governed by the terms of a **Fundamentals of Financial Managemen**t or **FFM** that is specified in the Scheme. The Scheme and FFM set out certain principles including:

- confirming that the capital (the excess of assets over the liabilities) in the M&G Sub-fund is to be used solely to support benefits for with-profits policies within the M&G Sub-fund, and cannot be used to support other business within Scottish Friendly;
- how the M&G Sub-fund can use capital from elsewhere within Scottish Friendly if necessary, and the charges for any such use;
- setting out guaranteed administration charges and very clear rules as to when other additional charges could be made for exceptional items;

- how the investment strategy will be determined;
- how the commitments to the SPP will be managed;
- establishing a Monitoring Committee to provide both continuity of knowledge of the Society's business, and to support the existing corporate governance arrangements within Scottish Friendly; and
- arrangements for the eventual transfer of the policies within the M&G Sub-fund to the Scottish Friendly Main Fund when the M&G Sub-fund reaches an appropriately small size.

These features are described in more detail in the following paragraphs.

The FFM will also be used to guide future versions of the M&G Sub-fund's Principles and Practices of Financial Management, a document that is required by regulation to be maintained for all with-profits funds, and which is described in section 6.10 of the booklet.

Other than to meet any obligations to existing policyholders, and potentially to issue policies directly so as to meet the obligations towards the SPP, the M&G Sub-fund will remain closed to new business.

6.3 Contribution of £10 million

The Scheme provides for a contribution of £10 million to be made from the Main Fund into the M&G Sub-fund to reflect the value of future expected expense savings on the Unit Linked and Term business being transferred to the Main Fund. This contribution eases the planning for the run-off, and also helps to defray some of the costs of implementing the Scheme, including the payments to the MGM Advantage group of companies.

The Board has assessed that the contribution to be received will be more than the with-profits policies could expect to receive from the Unit Linked and Term business if the transfer were not to proceed.

6.4 Distribution of capital

The FFM clarifies that the M&G Sub-fund is to be managed so that the entire fund, including the capital, is used for the benefit of the existing with-profits policyholders. This is expected to result, over time, in benefits on conventional and unitised with-profits policies and Flexible Income Annuities being higher than if we were not able to make such distributions.

The method of distributing the capital over time and across different groups of with-profit policyholder will be reviewed by the Monitoring Committee for the M&G Sub-fund (described below) and the existing with-profits governance arrangements within Scottish Friendly. It is expected that distributions will be made by enhancing future benefits on with-profits policies so that they would be in excess of what they would have been under the process that is currently in place.

The distribution of capital will also consider the remaining risks within the Sub-Fund so as to ensure that there remains appropriate security for all policyholders as distributions of capital are made.

Under the terms of the Scheme the M&G Sub-fund can have access, at a cost, to the capital in the Main Fund if necessary to meet its regulatory obligations. These arrangements are expected to assist in achieving a smooth distribution of capital since they provide greater flexibility for the management of the M&G Sub-fund.

6.5 Expense charges on the M&G Sub-fund

The Scheme sets out charges for the administration of the M&G Sub-fund. These are expressed as a combination of per-policy amounts, which increase with inflation, and a fund charge. This schedule of charges is guaranteed for the entire duration of the M&G Sub-fund. The annual amount of these charges is materially less than the equivalent fee payable to our existing outsource provider both now and in the future. In addition, the fees to our current outsource provider were only guaranteed for the first 10 years of the contract.

Since we are a mutual, it is our with-profits policyholders that absorb the costs of administration of the Society, other than those costs that can fairly be covered by charges on our Unit-Linked and other policies.

A beneficial feature of the Scheme is how the costs of future regulatory change are dealt with. Under our current outsourcing contract any future changes in regulatory requirements, such as Solvency 2, would result in increased charges to the Society. However with the proposed transfer to Scottish Friendly, the cost of all such changes is included in the guaranteed charges levied to the M&G Sub-fund. The only exception to this is if special costs arose solely in respect of the Transferred Policies within the sub-fund and not from any other aspect of Scottish Friendly's business, such as from any policy types that were unique to the M&G Sub-fund.

In addition, compared to the current contract with our existing outsource provider, there is a significantly reduced risk of any conflict of interest between the M&G Sub-fund and the rest of Scottish Friendly over the appropriate response to unexpected future events.

The Board has assessed that the value of the future expense savings arising from the proposed transfer are in excess of £30 million and the impact of these savings will, over time, benefit our with-profits policies.

6.6 Investment strategy

Under the terms of the Scheme there will be no change in the investment strategy that is in place immediately before the Scheme. However Scottish Friendly has committed to carry out a review within the first year following the proposed transfer to investigate whether changes can be made that would be beneficial to policyholders. The results of that review would be considered by the Monitoring Committee before any material change was made.

6.7 Meeting the obligations to the Staff Pension Plan

The M&G Sub-fund will bear the costs of meeting the Society's obligations to the SPP. A new Framework Agreement will be put in place between the Trustees of the SPP, the Society and Scottish Friendly to reflect this commitment. Scottish Friendly will work with the Trustees to implement the most efficient method of meeting the commitments to the members of the SPP. This may involve issuing deferred annuities and annuities in payment within the M&G Sub-fund. Any such solution would be reviewed by the Monitoring Committee.

Some of the capital within the M&G Sub-fund is likely to be needed to help finance the commitments to the SPP.

6.8 Initial financial position of the Sub-Fund

As a result of the above features (and after allowing for the payments to the MGM Advantage group of companies and the other costs of the proposed transfer) the Board has considered the expected financial position of the M&G Sub-fund immediately after the transfer, and how this compares to the financial position of the Society immediately before the transfer. This is set out in the table below, using the same approach as required to be submitted in the Returns to the **Prudential Regulatory Authority ("PRA")**.

The figures for the M&G Sub-fund allow for the effect of the much lower expenses on the fund and the contribution of £10m received for the Unit Linked and Term business.

Pro-forma balance sheets as if transfer had occurred as at 31 December 2013:

£m	Immediately before proposed transfer		M&G Sub-fund	
	"Regulatory" Requirement – Pillar 1 Peak 1	"Realistic" Requirement for with-profits business – Pillar 1 Peak 2	"Regulatory" Requirement – Pillar 1 Peak 1	"Realistic" Requirement for with-profits business – Pillar 1 Peak 2
Value of assets	784	357	385	349
Value of liabilities	720	321	305	295
Available capital	63	36	80	55
Required capital	38	n/a	37	n/a
Surplus	25	36	43	55

This shows that the M&G Sub-fund is expected to be in a stronger financial position after the proposed transfer than the Society is in immediately before the transfer. This is because of the reduction in future expenses and the treatment of the Unit-Linked and Term business.

6.9 Monitoring Committee

The Scheme provides for the creation of a Monitoring Committee to support the implementation of the Scheme and provide a review of the management of the M&G Sub-fund. The Monitoring Committee will consist of five members, of which two will be appointed by the Society's current Board. This will provide continuity of knowledge of the business within the M&G Sub-fund as well as providing support to the existing governance arrangements within Scottish Friendly.

The Monitoring Committee will stay in existence for at least three years unless it decides that its role is no longer needed before then. After three years it will continue in existence if a majority of its members consider it appropriate to do so.

The Society's Board considers that this arrangement, coupled with Scottish Friendly's existing governance arrangements that review the financial management of its with-profits business, provide comfort that the Scheme and the FFM will be followed by Scottish Friendly after the proposed transfer.

6.10 Termination of the M&G Sub-fund

The Scheme specifies that the M&G Sub-fund may cease on the earlier of 1 January 2030, when the number of with-profits polices falls below 8,000 or when Flexible Income Annuities account for more than 80% of all with-profits policies.

When this occurs, all the with-profits policies then in existence will be transferred to the Scottish Friendly Main Fund on terms that enable them to benefit from all the remaining capital within the M&G Sub-fund. The policies that transfer out of the M&G Sub-fund will not be entitled to benefit from any distributions of the capital in the Scottish Friendly Main Fund.

6.11 New Principles and Practices of Financial Management

As a result of the proposed transfer there will be a new PPFM for the M&G Sub-fund. These will apply from the effective date of the Scheme and a copy is enclosed with this booklet for all with-profits policyholders, and is also available on our website at: **www.marineandgeneralmutual.co.uk/safehaven**

Most of the changes to the current version in-force for the Society are to clarify the naming of the organisations and funds involved. Minor changes to the Practices are also included to ease the future administration of the M&G Sub-fund.

In addition it is intended that the following changes will be made to the Principles compared to those currently in place for the Society's existing PPFM. These are all consistent with the objectives of the proposed transfer and the details of the Scheme.

Overarching Principles:

- Specify the requirement for Scottish Friendly to comply with the terms of the Scheme and the FFM (paragraph 3.2 of the proposed new PPFM)
- Clarify what the required capital is for the M&G Sub-fund (paragraph 3.2)

Business Risk Principles:

- Confirm that in the normal course of business the M&G Sub-fund does not participate in the business risks and benefits of the Main Fund (paragraph 9.1)

Charges and Expenses:

- Confirm that the expenses charged to the M&G Sub-fund are restricted to those allowed by the Scheme (paragraph 10.1)
- Confirm that the charges made to a policy's asset share continue to be made in the same manner as before the Scheme, with any difference between these total charges and the actual expenses levied on the M&G Sub-fund being credited to, or financed by, the Estate (paragraph 10.4 and 10.5)

Management of the Estate:

- Clarify the use of the Estate to meet the M&G Sub-fund's capital requirements (paragraph 11.2)
- Clarify the intention to distribute the Estate over time (paragraph 11.3)

Conclusions

As a result of the above features of the M&G Sub-fund, and the other terms in the Scheme, the Board considers that the Society's with-profit policyholders can expect higher benefits to be paid over time than if the proposed transfer did not occur.

7. Summary of the IE Report

The following is a copy of the "Executive Summary and Conclusions" section of the report (referred to as the "Report" in the extract below) written by Simon Grout, the Independent Expert who is a Partner in Oliver Wyman Limited's European Insurance Practice and the head of the actuarial practice in the UK. He is independent of the companies involved in the Scheme (referred to as "the Transfer" in the extract) and his appointment has been approved by the PRA.

The Independent Expert will also produce a supplementary report shortly before the Court hearing, which will be published on our website as soon as it is available.

You can see the full version of Mr Grout's Report on our website at

www.marineandgeneralmutual.co.uk/safehaven

or you can obtain a paper copy by writing to us at Marine & General Mutual Life Assurance Society, MGM House, Heene Road, Worthing, West Sussex, BN11 3AT or by calling **01903 836074.**

In the following extract, the terms used have the same meaning as set out in the Glossary in section 9 of this booklet, other than for "M&G" which refers to the Society, and "SF" which refers to Scottish Friendly.

7.1 Context

I have been jointly appointed by M&G and SF to act as the Independent Expert in relation to the proposed transfer of the long-term business of M&G to SF (the "Transfer") under section 109 of Part VII of the Financial Services and Markets Act 2000.

In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. I have considered the following factors:

- Terms of the transfer
- Reinsurance arrangements
- Financial position of M&G and SF pre and post Transfer
- Financial effect of the Transfer on M&G and SF policyholders in relation to:
- Security of benefits
  - Investment strategy
  - Expense and charges
  - Benefit expectations and bonus prospects
  - Risk profile and capital management policy
- Administration and governance
- Membership rights and policyholder communications
- Tax

I have considered the impact of the Transfer against the likely position of M&G and SF if the Transfer is not completed. With respect to M&G, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the pro-forma balance sheet position of M&G under the various solvency bases as set out in a document provided to M&G's Board on 16th September 2014, with due regard for the M&G Board's stated strategy to actively investigate opportunities to transfer its business into other insurance companies and friendly societies. However, I have not considered any other possible alternative arrangements to the Transfer.

The Report assesses the likely impact of the Transfer on the existing policyholders of M&G and SF. It does not consider the impact of the Transfer on any new policies written into SF following the Transfer.

I have produced this report in accordance with the guidance set out in chapter 18 of the Supervision manual ("SUP") of the Regulatory Handbook.

7.2 Terms of the Transfer

The key terms of the Transfer are set out below:

- All assets and the business of M&G (excluding unit-linked and term assurance business) will be transferred to a newly established fund (the "M&G Sub-Fund") within SF, which will operate as a closed with-profits fund, ring-fenced from the other funds of SF

- The assets and liabilities of the unit-linked and term assurance business will be transferred to the SF Main Fund. The amount of assets transferred will be based on defined components of liability for the transferring business, as published in the annual returns submitted to the PRA ("PRA Returns") as at 31st December 2014, adjusted for the period from that date until the Effective Date.

- The SF Main Fund will pay £10m into the M&G Sub-fund.

- SF will charge the M&G Sub-fund fixed per policy annual administration fees in respect of the transferring policies (the level of charges depends on the type of policies). The per policy fees will apply for the entire duration of the policy and increase annually in line with the Average Weekly Earnings Index published by the Office of National Statistics.

- SF will also charge the M&G Sub-fund an annual investment management charge of 0.2% per annum with respect to assets invested in the M&G Sub-fund (excluding assets backing the FIA unit funds).

- SF will assume the role of statutory employer with respect to the Staff Pension Plan. However, the cost of funding the Staff Pension Plan will be fully allocated to the M&G Sub-fund.

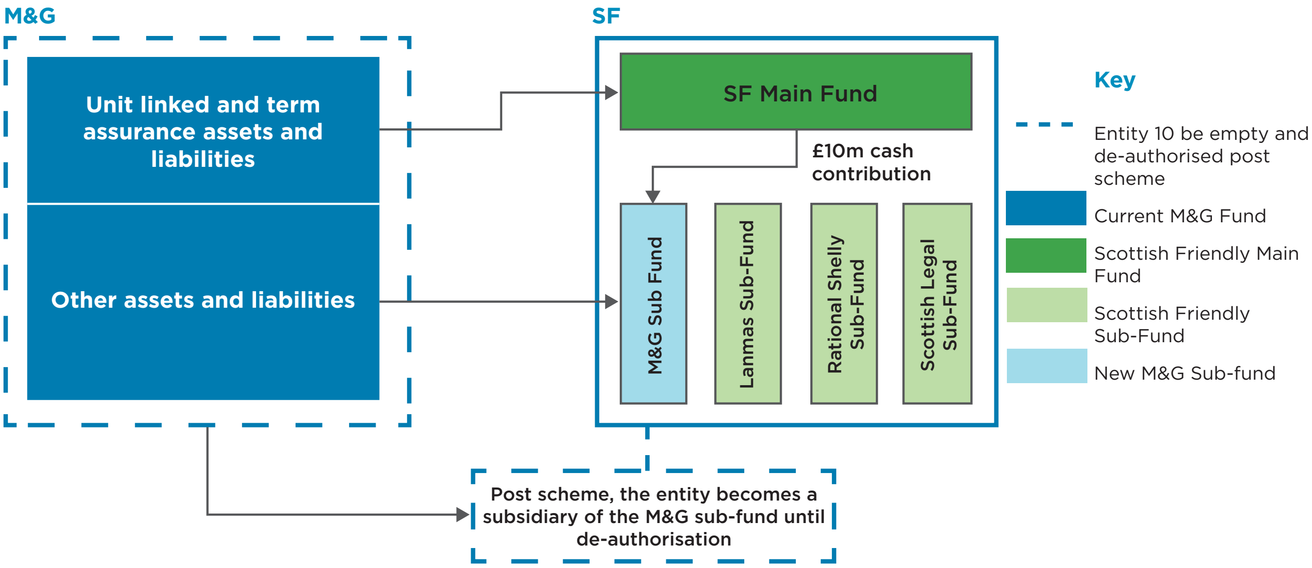
- SF will provide capital support to the M&G Sub-fund in the event of a capital shortfall. The charge for this capital support to the M&G Sub-fund will be 4% per annum for any amount under £10m and 6% per annum for any amount over £10m, above the base rate of Barclays Bank plc.

- The Transfer is conditional on M&G having at least a specified minimum level of solvency capital on a Pillar 2 basis at the Effective Date.

- A Monitoring Committee will be established to provide independent oversight of the M&G Sub-fund and oversee its integration. The committee will be made up of five members, three of which will be nominated by SF and two by M&G.

- All M&G policyholders will become members of SF.

An illustrative diagram of the Transfer is shown below:



Note: M&G has a subsidiary, MGM Assurance (Trustees) Limited (not shown in the diagram), which will become a subsidiary of SF; it has an issued share capital of £1,000 and a de-minimis value which would be attributed to the M&G Sub-fund. I do not consider the subsidiary to be relevant or material to assessing the impact of the Transfer.

Under the terms of the Transfer, the current members of M&G will give up their membership and voting rights in M&G at the Effective Date. Immediately after that, SF will be granted sole membership of M&G and become responsible for the governance and administration of M&G while it continues in existence until it can be formally dissolved.

Both managements and Boards of SF and M&G are supportive of the Transfer and believe that the Transfer will have a positive impact on their respective members and policyholders.

7.3 Financial position pre and post Transfer

I have considered the financial impact of the Transfer under three separate solvency bases: two of these (Pillar 1 and Pillar 2) are currently in force while the third (Solvency 2) is expected to come into effect in the near future.

In relation to the Pillar 1 financial impact:

- The overall size of SF would grow significantly, with total assets (net of existing reinsurance arrangements) doubling from £0.8bn to £1.6bn

- The financial position of SF's existing sub-funds are unchanged due to the ring-fenced nature of the funds

- The SF Main Fund would grow in size as a result of the transfer of unit-linked and term assurance business from M&G. Its solvency would be strengthened, with Free Assets increasing under both Peak 1 and Peak 2. This is mainly because of the expense margins it expects to make in administering the M&G policies as a result of the Transfer.

- The Peak 1 Free Assets for M&G (the Sub-Fund after the Transfer) improves significantly following the Transfer, driven by the combination of significant cost savings arising from the Transfer and the £10m contribution from SF.

- The level of Peak 2 "planned enhancements" for the M&G Sub-fund is lower compared to the position at 31 December 2013. However, this largely reflects events prior to the Transfer, including the £9m distribution to members and the reinsurance of the Standard and Select annuities (which reduced liabilities by roughly a third). When viewed in isolation, the Transfer results in an increase in Peak 2 Free assets of £19m.

In relation to the Pillar 2 financial impact:

- M&G provided a detailed analysis of the impact of the Transfer on its ICA position as at 31st December 2013. I have reviewed the underlying methodology and assumptions behind the analysis and consider them to be reasonable.

- An insurer's Pillar 2 capital position is not publicly disclosed and contains commercially sensitive information. Due to this commercial sensitivity I have avoided quoting the full detailed results of M&G's analysis in my report. However, the results indicate that the Transfer would be beneficial to the policyholders of M&G in terms of the Pillar 2 financial position. The analysis also showed that the M&G Sub-fund would retain a healthy level of Pillar 2 Free Assets after the Transfer.

- SF performs a separate ICA calculation for the SF Main Fund and each of the sub-funds. The SF Main Fund's Pillar 2 position will improve as a result of the expected expense savings following the Transfer. Due to their ring-fenced nature, the Pillar 2 position of the sub-funds will not be affected by the Transfer.

In relation to the Solvency 2 financial impact:

- I have received from both SF and M&G their submissions to the PRA which show their respective financial positions as at 31st December 2013 under the draft technical rules underpinning the latest data collection exercise undertaken by the PRA in August 2014. I have further received additional analyses from SF covering the estimated post Transfer combined financial position as at 31st December 2013.

- These analyses show that SF and M&G both expect the Transfer to significantly improve the financial position under Solvency 2. Furthermore, the information provided suggests that SF expects each of the respective sub-funds (including the M&G Sub-fund and SF Main Fund) to be able to comfortably cover the capital requirements of Solvency 2 (defined as the "Solvency Capital Requirement" under Solvency 2).

- In the event that the M&G Sub-fund is at risk of being unable to cover its Solvency Capital Requirements, further management actions could be taken to preserve the solvency of the M&G Sub-fund. For example, the Solvency Capital Requirement would be lower if planned management actions are in place in the event of adverse scenarios occurring which would threaten solvency. In the event that the M&G Sub-fund is unable to cover its Solvency Capital Requirements, SF is committed under the terms of the Transfer to provide capital support to the M&G Sub-fund.

- It must however be noted that the rules applicable under Solvency 2 remain in draft form and could be subject to changes. The above therefore cannot be relied upon for the actual financial position for the combined entity when Solvency 2 comes into force. However, I do not expect any major changes in the proposed Solvency 2 rules which would jeopardise the solvency position of SF or the M&G Sub-fund after the Transfer.

- I shall continue to monitor the developments in Solvency 2 and assess their implications for the Transfer, and will provide an update (and, where appropriate, the effect of any significant developments on the Transfer) in a supplementary report if necessary.

7.4 Financial effect of the Transfer on M&G policyholders

I have assessed the impact of the Transfer on all groups of policyholders in terms of security of benefits. Based on the relevant factors as described in the Report, in my opinion the security of benefits for all M&G policyholders will be significantly enhanced by the Transfer.

The level of premiums payable for all policies will not be affected by the Transfer. Due to the contractual nature of non-profit business, the benefits of non-profit policies will not be affected by the Transfer.

I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to with-profits (including FIA) and unit-linked policyholders. Based on the relevant factors as described in the Report, in my opinion the with-profits policyholders in the M&G Sub-fund and the transferring unit-linked and FIA policyholders will not be adversely affected by the Transfer in relation to investment strategy.

Furthermore, the with-profits policyholders in the M&G Sub-fund will benefit from significant expense savings as a result of the Transfer and it is SF's intention that the benefits of the cost savings will be distributed to eligible policyholders in the M&G Sub-fund fairly over time once the financial condition of the fund permits such distributions. Unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges.

In addition, I have considered the implications of the Transfer for the benefit expectations and bonus prospects for with-profits policyholders. Taking into account the considerations set out in the Report, in my opinion with-profits policyholders in the M&G Sub-fund will not be adversely affected by the Transfer with respect to benefit expectations and bonus prospects.

Finally, I have evaluated the effect of the Transfer on the risk profile and capital management of the M&G business. It is my opinion that the Transfer will have a positive impact on the risk profile of M&G (and the M&G Sub-fund after the Transfer). With the exception of the provision of capital support by the SF Main Fund and the possible additional distribution of the estate in the future, there are no planned changes to the capital management policy of the M&G business as a result of the transfer.

7.5 Financial effect of the Transfer on SF policyholders

I have assessed the impact of the Transfer on all groups of policyholders in terms of security of benefits. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have an adverse effect on the security of benefits of current SF policyholders in the SF Main Fund or any of the sub-funds.

The level of premiums payable for all policies will not be affected by the Transfer. Due to the contractual nature of non-profit business, the benefits of non-profit policies will not be affected by the Transfer.

I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to current SF with-profits, unit-linked and non-profit policyholders. Taking into account the considerations as set out in the Report, in my opinion the Transfer is unlikely to have a material impact on expense charges for with-profits policyholders in the SF Main Fund relative to the scenario in absence of the Transfer. Furthermore, the Transfer will not result in any changes to the investment strategy of assets invested on behalf of the current SF with-profits, unit-linked and non-profit policyholders.

Moreover, I have evaluated the effect of the Transfer on the benefit expectations and bonus prospects of current SF with-profits policyholders. Taking into account the considerations as set out in the Report, in my opinion the Transfer will not have an adverse effect on the benefits expectations and bonus prospects of current SF with-profits policyholders.

Lastly, I have considered the effect of the Transfer on SF's risk profile and capital management. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have an adverse effect on the risk profile or capital management policy in the SF Main Fund or any of the sub-funds.

7.6 Administration and governance

- In the Report, I have considered the governance arrangements that will be in place following the Transfer. I have taken into account that:

- The Transfer will significantly enhance the security of benefits for all M&G policyholders, and will not adversely affect the benefit expectations of the M&G policyholders

- The principles governing the future management of the M&G Sub-fund have been set out in the Fundamentals of Financial Management as part of the terms of the Transfer

- As part of the Transfer, SF will set up a Monitoring Committee, a sub-committee of the SF Board responsible for providing oversight over the management and operations of the M&G Sub-fund and monitoring adherence to the terms of the Transfer. I understand that the Monitoring Committee will be chaired by a Non Executive Director of SF and will have two members appointed by M&G. In my view this will provide a suitable mix of experience and perspective to enable it to carry out its obligations under its Terms of Reference, which I also consider appropriate. In my opinion, the existence of the Monitoring Committee (together with a provision for any member of the Monitoring Committee to notify the regulators of any matter he/she wishes to bring to its attention) provides significant additional comfort that appropriate governance processes will be in place for the management of policies in the M&G Sub-fund post Transfer.

- The management of the M&G Sub-fund will be governed by Principles and Practices of Financial Management ("PPFM") for the fund. This is a document that provides a comprehensive description of how the relevant with-profits fund is managed, including a statement of the Principles and Practices adopted by the insurer in respect of a wide range of aspects relevant to the management of the fund in question. Based on my review as set out in the Report, I believe that the proposed new PPFM for the M&G Sub-fund is reasonable and an accurate reflection of the terms of the Transfer.

Based on the above and my understanding that the existing governance arrangements for current SF policyholders will not be materially affected by the Transfer, in my opinion adequate safeguards are in place to ensure that the interests and rights of the policyholders of both M&G and SF will be protected post Transfer.

Following the Transfer, the administration of all the policies within the M&G Sub-fund (currently undertaken by MGM Advantage Services Limited ("ServCo")) will be transferred to SF. There is therefore a small risk that M&G policyholders could experience adverse changes to the standards of service following the Transfer as:

- The in-house SF administration team will be, at least initially, relatively inexperienced in administering M&G policies and have limited knowledge of the M&G products (in particular the FIA policies)

- Given the fixed cost agreement, SF may seek to minimise the costs associated with the administration of M&G policies

However, taking into account the provisions under the terms of the Transfer and the fact that the Monitoring Committee has the responsibility to monitor the fair treatment of policyholders in the M&G Sub-fund, in my opinion, adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in standards of service experienced by M&G policyholders following the Transfer. Furthermore, I have been informed and am satisfied that no adverse changes are expected to the standards of service experienced by the SF policyholders as a result of the Transfer.

Furthermore, I have assessed and concluded that SF has a strong understanding of how FIA policies work, the risks associated with the product and can adequately administer these policies, taking into account that:

- SF has already conducted extensive operational due diligence on M&G's product suite (in particular the FIA business) and a detailed IT and operational project plan is in place. In my opinion, SF has a strong understanding of the operational aspects of the FIA policies.

- At the time of my writing of this report, M&G and SF are already in advanced stage of information sharing in relation to the actuarial and financial aspects of the FIA business. I have also take into account that SF has a long established history of managing with-profits business and therefore will already be familiar with general aspects of the product's with-profits elements. It is therefore my opinion that by the Effective Date, SF will have the necessary understanding and knowledge to manage the product from an actuarial and financial perspective.

- Furthermore, the required administrative processes for the FIA product are substantially similar to SF's existing requirements in relation to other products in its portfolio. I am therefore confident that SF can adequately administer these policies.

In my opinion, there has not been a material loss of membership benefits for the transferring M&G members as a result of the Transfer. The rights of SF members will not be affected by the Transfer.

Under the terms of the Transfer, the M&G Sub-fund will be taxed as if it were a stand-alone mutual life insurance entity with the M&G Sub-fund as its sole business.

Taking into account the considerations as set out in the Report, I am satisfied that the Transfer is not expected to have any significant adverse tax impact on the policyholders of SF and M&G, and that no changes are expected to the tax status of M&G policies as a result of the Transfer.

7.7 Main conclusions

Based on the analysis as summarised above and described in detail in the Report, I have made the following conclusions:

The Transfer will significantly enhance the security of benefits for all M&G policyholders, and will not adversely affect the benefit expectations of the M&G policyholders

The Transfer will not adversely affect the security of benefits or benefit expectations of the SF policyholders

8. Some Questions You May Have

1. Why are you doing this?

- We are trying to improve the security of your policy benefits, and, for with-profits policies, improve the expected future benefits through reducing expenses and making it easier to achieve a stable run-off of the fund.

2. When will with-profits policyholders start to see increases in bonus?

- This will depend on the overall financial environment. The reduction in expenses and risk for the transferred policies should mean that increases in bonuses become possible in the first few years following the transfer.

3. Why didn't you do this at the same time as ICE?

- The most immediate issue facing the Society at the time of the ICE transaction was our exposure to the enhanced annuities, and the terms offered by ICE were an overall package.

4. Scottish Friendly looks a small organisation, is it really strong and stable?

- The Independent Expert has concluded that the security of our policyholder benefits is significantly enhanced by the proposed transfer – reflecting the nature of Scottish Friendly, including its financial strength. As for all insurers, Scottish Friendly is regulated by the PRA and the FCA who will be reviewing the proposed transfer.

5. What happens to the staff of MGM Advantage Services that currently administer my policy?

- We have worked constructively with MGM Advantage Services to ensure the smoothest possible transition for the staff working on our business. It is hoped that redeployment within MGM Advantage Services will be possible though that will ultimately be a decision for MGM Advantage Services and the individuals involved.

6. Why is there no immediate cash payment to the Society's members or with-profits policyholders?

- Unlike the ICE transaction, there will be no sale of any infrastructure and so it is not appropriate to make any such cash payment.

7. What happens to the Society, and its status as the longest continually registered company in the UK?

- In the short-term the Society will remain as a legal entity but in due course it is expected to be dissolved by Scottish Friendly.

8. Why can your members vote on the transaction but other policyholders cannot?

- The rules of the Society require Members to have a say in whether or not this process should proceed – there is no such mechanism for policyholders. However, all policyholders have the right to comment on the proposed transfer to the Court.

9. What is a "friendly society"?

- A friendly society is a mutual organisation run exclusively for its members. If they are carrying on life insurance and pensions business, like Scottish Friendly are, then they are subject to the same regulatory controls as regards financial strength and conduct of business as any other life insurer.

9. Glossary

Capital Support Mechanism	A facility set out in the Scheme whereby the M&G Sub-fund can, at a cost, use the available capital available in the Main Fund to meet its capital requirements.
Effective Date	The date the proposed transfer becomes effective. This is expected to be 1 June 2015 following the Court Hearing planned for 22nd May 2015.
Enhanced annuities	Annuities sold by the Society prior to its closure to new business on 2 December 2013, where the annuity offered to a policyholder was based on the health status of the policyholder.
Estate	Name used to describe the excess of the available assets in a fund over that which is expected to be needed to meet the future liabilities.
Excluded Policies	Policies that cannot be transferred under the Scheme, including because the necessary regulatory clearance has not been received from the relevant regulator. This is only likely to occur if the policy was taken out in another member country of the European Economic Area other than the UK and the regulator in that other country has objected to the Scheme.
Fundamentals of Financial Management, "FFM"	These are certain long-lasting principles set out in the Scheme that will guide the future financial management of the M&G Sub-fund. They cannot be changed without approval from the Regulators.
Financial Conduct Authority, "FCA"	The regulatory authority in the UK that supervises how insurers (and other financial institutions) carry out their business with particular emphasis on the fair treatment of customers.
Independent Expert	An individual who has a statutory obligation to investigate the impact of the Scheme on various groups of policyholders. Although he is paid by the Society and Scottish Friendly, his appointment and terms of reference have to be approved by the Regulators.
M&G Sub-fund	The new notional internal sub-fund created by Scottish Friendly to receive all the with-profits business from Marine & General, together with some other product lines.
Main Fund	The internal notional fund within Scottish Friendly into which it writes all its new business.
Member	A member of the Society, who has various voting and other membership rights as set out in the Society's Memorandum and Articles of Association. Only policyholders who have a with-profits policy are entitled to membership of the Society.
Monitoring Committee	A new body set up by Scottish Friendly to assist in the supervision of the M&G Sub-fund.
Principles and Practices of Financial Management, "PPFM"	A document, required by regulation, which sets out how a with-profits fund is managed. The version that will be used for the M&G Sub-fund is enclosed with this booklet.
Prudential Regulatory Authority, "PRA"	The regulatory authority in the UK that is responsible for the financial soundness of life insurers, and other financial institutions.
Regulators	The FCA and the PRA.
Run-off	A description of a life insurer that is no longer accepting new business. Such an insurer is also sometimes called a "closed fund".
Staff Pension Plan, "SPP"	The pension scheme that offers defined benefits to ex-employees of the Society. The SPP closed to future accruals of benefits in 2010.
The Scheme	The legal document which sets out how the Society's business is transferred to Scottish Friendly and also sets out certain parameters around how the business will be managed in the future.
Solvency 2	A new set of requirements that will change how insurance companies assess how much capital they need to set aside to reflect the risks in their business.
Unit-Linked and Term business	The polices that are to be allocated to the Main Fund of Scottish Friendly, being all the unit-linked business and most of the other non-profit business other than the annuity business and a few small product lines.

10. Notice of Transfer

In the High Court of Justice
Chancery Division
Companies Court
No.734 of 2015

IN THE MATTER OF MARINE AND GENERAL MUTUAL LIFE ASSURANCE SOCIETY
(a company incorporated in England with number 00000006)
-and-
IN THE MATTER OF SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED
(registered and incorporated under the Friendly Societies Act 1992 with No.3 COLL(S))
-and-
IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE IS HEREBY GIVEN that on 2nd February 2015, an application was made under section 107 of the Financial Services and Markets Act 2000 (the "Act") in the High Court of Justice (the "Court") in London by the above-named Marine and General Mutual Life Assurance Society ("Marine and General") and Scottish Friendly Assurance Society Limited ("Scottish Friendly") for an order under section 111 of the Act sanctioning an insurance business transfer scheme (the "Scheme") providing for the transfer of the whole business and undertaking of Marine and General (the "Business") to Scottish Friendly.

Copies of the report on the terms of the Scheme prepared by an independent expert in accordance with section 109 of the Act (the "Scheme Report"), a statement setting out the terms of the Scheme and a summary of the Scheme Report may, until the effective date of the Scheme, be obtained by any person free of charge, by writing to Marine and General Mutual Life Assurance Society, MGM House, Heene Road, Worthing, West Sussex, BN11 3AT or calling 01903 836074 or by writing to Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ or by calling 0141 275 5000. These documents together with other supporting documents are also available online at www.marineandgeneralmutual.co.uk/safehaven and www.scottishfriendly.co.uk

Any person who has questions relating to the proposed transfer, or requires any further information, should contact Marine and General (by writing to the address above or calling the telephone number above).

The Application is directed to be heard before a Companies Court Judge at the Rolls Building, Fetter Lane, London, EC4A 1NL on 22nd May 2015. If approved by the Court, it is currently proposed that the Scheme will take effect on 1st June 2015. Any person (including any employee of Marine and General or Scottish Friendly) who thinks that he or she would be adversely affected by the carrying out of the Scheme may attend the hearing and express their views either in person or by legal representative. Anyone intending to do so is asked to inform the Solicitors named below in writing or by telephone as soon as possible and in any event prior to the date of the hearing of their grounds of objection. Any person who objects to the Scheme but does not intend to attend the hearing may make representations about the Scheme by notifying Marine and General or Scottish Friendly (as appropriate) or the Solicitors named below of such representations in writing or by telephone prior to the date of the hearing setting out their grounds of objection.

If the Scheme is sanctioned by the Court, it will result in the transfer to Scottish Friendly of all the contracts, property, assets and liabilities of Marine and General, notwithstanding any restriction or right (including any right to consent, terminate, modify, acquire or claim an interest or right or to treat an interest or right as terminated or modified) that might otherwise apply in relation to such transfer. Any such restriction or right will only be enforceable to the extent the order of the Court makes provision to that effect.

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Dated: March 2015