Scottish Friendly Assurance Society Limited

Report of the With-Profits Actuary on the proposed transfer of the business of Marine & General Mutual Life Assurance Society Ltd into Scottish Friendly

Prepared by
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With-profits Actuary

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1. Introduction

1.1. I have been requested by Scottish Friendly Assurance Society Limited (SF) to prepare a report in my capacity of With-profits Actuary on the proposed transfer of the business of Marine and General Mutual (M&G) into SF (the Transfer). This will be achieved by a Scheme of Transfer pursuant to Section 109(1) of the Financial Services and Markets Act (FSMA).

Purpose

1.2. The purpose of the Scheme to is transfer the long term insurance business of M&G into SF.

1.3. I understand that it is the intention of SF and M&G to make an application to the High Court under Section 107 of the FSMA for an Order under Section 111 sanctioning the Scheme and making provision under Section 112 for its implementation.

1.4. I understand that a copy of this Report will accompany the application to the High Court for the Scheme to be sanctioned and will be sent to the PRA and the FCA. I am aware that in accordance with the relevant applicable legislation, copies of this Report may be made available to policyholders and all other parties affected by the Transfer.

Credentials and Declaration of Interest

1.5. I qualified in 1982 as a Fellow of the Institute of Actuaries and I hold a current life practising certificate (including with profits). I have been the with-profits actuary of SF since 15 March 2010 and before that I filled the role of the Independent Person with respect to with-profits governance for the years 2006 to 2009.

1.6. I have no financial interest in M&G and no financial interest in SF apart from the fees payable to my employer for my services as with-profits actuary. I do not hold policies with either company.

1.7. I have been engaged by SF to produce this report under the existing terms of business with my employer, OAC plc. The conclusions described in this Report are mine.

Scope and Access to Information

1.8. The scope of my report is to review the Scheme to ensure that the interests of the existing SF members are not adversely affected by the proposal. This includes both with-profits and non-profit policyholders and policyholders in the existing sub funds.

1.9. In preparing this report I have had full access to documents held by SF. I have been provided with all the information which I have requested and had all my questions answered.

Compliance

1.10. The proposed Transfer is within the Scope and Authority of the Technical Actuarial Standards published by the Financial Reporting Council and therefore my report is required to comply with those standards. The relevant standards are the Insurance TAS, the Transformations TAS, and the generic TAS's, TAS(D) – Data, TAS(M) – Modelling and TAS(R) – Reporting.

1.11. In terms of Data and Modelling I have relied on the information provided to me. I am satisfied that both data and models are suitable for the use to which they have been put.

1.12. I believe that this report is compliant with the Insurance TAS, the Transformations TAS and the requirements of TAS(R).

Reliances and Limitations

1.13. I have relied on the accuracy of the information which has been supplied to me, particularly where that information was in published documents such as the statutory returns. I have reviewed the calculations in workbooks supplied to me to ensure that the numbers are suitable for the purpose for which they are being used. I am satisfied with the reasonableness of the information and the calculations.

1.14. I have relied on the report produced by the Actuarial Function Holder who is the holder of a Life Practising Certificate (including with-profits) and whose report has been prepared in accordance with Actuarial Technical Standards.

1.15. This report is produced for the Board of Scottish Friendly, however I understand that it will also form part of the documentation supporting the Scheme. I am content for it to be used by the Independent Expert and read by the PRA and the FCA

1.16. This report must be read as a whole as any attempt to rely on a part of it invalidates the report.

1.17. The opinions expressed in this report are valid only for the purpose of the report.

1.18. OAC shall not have any liability to any third party in respect of the contents of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations contained in it.

2. Background information

Scottish Friendly Assurance

2.1. SF is a Friendly Society registered and incorporated under the Friendly Societies Act 1992 with No. 3 COLL (S). The registered office of SF is situated at Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.

2.2. SF is an authorised person for the purposes of FSMA and has Part 4A permission under FSMA to carry out long term insurance business in classes I, III and IV as set out in Part II of Schedule 1 to the RAO.

2.3. A summary of the long term insurance business of SF is set out in Appendix 2.

Marine & General Mutual

2.4. M&G is a company incorporated in England and Wales with registered number 00000006. The registered office of M&G is situated at M&G House, Heene Road, Worthing, West Sussex, BN11 3AT.

2.5. M&G has a Part 4A permission under FSMA to effect and carry on Long Term Business in the United Kingdom in classes I, II, III, VI and VII set out in Part II of Schedule 1 to the RAO. As at the date of this Scheme, the business which M&G carries out falls within classes I and III set out in Part II of Schedule 1 to the RAO.

2.6. M&G is closed to new business. The business in the closed fund includes with-profits policies, non-profit policies, term assurance business, permanent health insurance business and annuity business. The annuity business includes with-profits annuities.

2.7. A summary of the long term insurance business being transferred is set out in Appendix 3.

Other Information

2.8. A list of the documents supplied to me and which I have considered is shown in Appendix 1.

Other reports

2.9. I have read and considered the reports produced by the Actuarial Function Holder of SF. I have relied on the information in the report produced by the Actuarial Function Holder of SF, although I have reviewed the information to ensure that it is reasonable and that any conclusions drawn from it are reasonable.

3. Summary of the Scheme

Transferring Business

3.1. The long term business written by M&G is to be transferred to SF. The unit-linked business and non-profit term assurance business will be transferred into the SF Main Fund and the remaining business will be transferred into a separate notional sub fund within the SF Fund (the M&G sub fund).

3.2. The business to be transferred into the M&G sub fund includes the following types:

- with profits endowment, deferred annuity and whole life business
- non-profit endowment and whole life business
- permanent health insurance contracts
- vested non-profit annuities
- with-profits annuities

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

3.4. SF will pay M&G the sum of £10million representing an allowance for the profits expected to emerge from the unit-linked and non profit term assurance business. This sum will be paid into the new M&G sub fund.

Jurisdiction of Policyholders

3.5. The policyholders in the SF Main Fund are domiciled in the UK.

Effect of the Transfer

3.6. I have been provided with a copy of the Scheme in respect of the proposed transfer.

3.7. Under the Scheme the unit-linked business and non-profit term assurance business will be transferred into the Main Fund of SF. All the remaining business (with-profits business, annuity business and other minor classes of business) will be transferred into a notional sub fund with SF, known as the M&G sub fund.

3.8. All premiums and other sums payable to M&G in respect of the transferred business will, from the Effective Date, become payable to SF.

3.9. SF will assume all the liabilities in respect of the transferred business, including the responsibility to pay claims.

Assets Transferred

3.10. The amount of assets transferred into the SF Main Fund to match the liabilities of the transferred unit-linked and term assurance business is £392.9m based on the business in force at 31 December 2013. This comprises the value of the linked funds in which the unit-linked policies are invested, an amount in respect of sterling reserves (which is negative) for the transferring unit-linked policies and an amount to cover the reserves required for the term assurance business. The regulatory capital for this business will be provided from the existing free capital within the SF Main Fund.

3.11. The amount of assets to be transferred into the M&G sub fund is the balance of the assets in the M&G fund plus a contribution of £10million payable by SF from its Main Fund as an allowance against the profits expected to emerge in the Main Fund from the transferred business.

Operation of Sub Funds

3.12. The M&G sub fund will have its own notional asset pool and the accounting will be carried out separately.

3.13. The M&G sub fund will have its own Principles and Practices of Financial Management (PPFM) document. The With-Profits Actuary of SF will be responsible for recommending bonuses for the M&G sub fund.

3.14. There will be no changes to the current sub funds operated by SF.

Capital Support Mechanism

3.15. The Scheme provides a mechanism for support to be given to the M&G sub fund to ensure it can always cover its liabilities. In the event that capital support is required it will be provided by the SFA Main Fund. The amount loaned to the M&G sub-fund will be subject to interest at 4% p.a. above Base Rate for the first £10 million and 6% p.a. above Base Rate for any amount over £10m.

Reinsurance Treaties

3.16. SF has reinsurance treaties in force for some of its existing term assurance business. None of these treaties are affected by the proposed transfer.

3.17. There are reinsurance treaties in force for the M&G business and these will be included in the transfer and there will be no change in the provisions of these treaties. Where the business to which they relate is transferred into the SF Main Fund then the reinsurance treaty will apply to that fund.

Circularisation of policyholders

3.18. Notification of the Scheme will be published in national newspapers. All individual policyholders of M&G will be contacted directly, where this is possible. It is not SF's intention to circularise its policyholders and a dispensation will be requested from the Court. The main reasons for not notifying SF policyholders are as follows:

3.18.1. The exercise would be disproportionately expensive given that there is no practical impact on the SF policyholders.

3.18.2. There will be no change to the administration or claims handling of the SF policies as a result of the transfer.

Costs of the Scheme

3.19. The costs of the Scheme are being shared equally between M&G and SF.

Transfer

3.20. The rights under the contracts will not be changed as a result of the transfer.

3.21. It is proposed that the transfer will take place on 1 June 2015.

Reserving and Regulatory Capital

3.22. The regulatory capital requirements in respect of the unit-linked and term assurance business will be met by assets already held in the SF Main Fund. The assets transferred into the M&G sub fund are sufficient to provide the required regulatory capital for the business being transferred into that fund.

4. The Effect of the Scheme - Security

4.1. As the with-profits actuary for SF my responsibility is to consider the interests of the existing with-profits policyholders and to report on the effect of the scheme on their security and benefit entitlements. The scope of my report also extends to the other policyholders of SF. In this section I consider the Scheme as it affects the security of the policyholders who are all members of SF. The effect on benefit expectations and other contractual conditions is considered in Section 5.

Capital and Solvency

4.2. The current security of the policyholders relies on the margins which exist in the reserving bases adopted, in the capital required by the PRA Rules, and in the free reserves.

4.3. In accordance with the requirements of the Prudential Sourcebook for Insurers (INSPRU) M&G and SF have set up reserves using prudent assumptions. I have reviewed the report produced by the SF Actuarial Function Holder at 31 December 2013. This describes the various prudential margins included in the assumptions, compared with the actual experience and I am satisfied that the methods and assumptions adopted in calculating the technical provisions are sufficiently prudent.

4.4. In addition to technical provisions calculated on a prudent basis every insurer that writes long term business is required to calculate and hold a long term insurance capital requirement (LTICR). This is an amount calculated in proportion to the mathematical reserves and sums at risk and is intended as protection against adverse experience or other adverse circumstances.

4.5. Firms transacting long term insurance business are also required to test the resilience of their portfolio to changes in the value of the assets backing the mathematical reserves, and to hold additional capital if necessary. This is known as the resilience capital requirement (RCR) and is in addition to the LTICR.

4.6. The total Capital Resources Requirement (CRR) is equal to the LTICR plus the RCR. However it is also subject to a fixed minimum amount, the Base Capital Resources Requirement regardless of the size of the insurer.

4.7. I have relied on the figures in the report of the SF Actuarial Function Holder. These show that the effect on the Pillar 1 position is an increase of £10m in the free capital in the SF Main Fund. This is because the present value of the surplus expected to emerge from the unit-linked business can be counted as an asset in the realistic balance sheet. There is no change to the amount of free capital in each existing sub fund.

4.8. While the fund is accepting additional risks with the business which is transferred in, the capital position is improved and therefore there is no detriment to the security of the existing policyholders as a result of the transfer on the regulatory capital basis.

4.9. In addition the PRA requires all insurance firms to carry out an Individual Capital Assessment which assesses all the specific risks of the business and requires firms to demonstrate that they are sufficiently well capitalised to provide the capital needed to cover those risks. This is known as the Pillar 2 calculation.

4.10. The PRA is empowered to give Individual Capital Guidance if it considers that a firm's Pillar 2 calculations may not have provided sufficiently for all the risks to which it is subject. M&G and SF have both been given such guidance.

4.11. I have relied on the report of the SF Actuarial Function Holder. This shows that on the Pillar 2 basis the available amount of free capital increases and the capital coverage reduces, however the amount of free capital remains comfortably above the amount which is consistent with SF's risk appetite and I therefore do not consider that the transfer is detrimental to the interests of the existing policyholders.

Existing Sub Funds

4.12. The proposed transfer will make no difference to the existing sub funds which will continue to operate as currently.

The M&G Sub Fund

4.13. This is a new sub fund for the with-profits business, the annuity business and the miscellaneous classes of business. It will contain all the surplus assets transferred from the M&G business and the contribution of £10m. The estimated financial strength of the M&G sub-fund is satisfactory with £80m of capital which will ultimately be used to enhance the benefits of the M&G with-profits policyholders. As explained in the next section, should the capital in the sub fund prove insufficient then support is available from the SF Main Fund.

Capital Support Mechanism

4.14. In addition the Scheme provides for capital support to be given to the M&G sub fund should this be necessary. This support will be provided from the free capital of SF which is held in the SF Main Fund.

4.15. A charge will be made for this capital. The amount loaned to the M&G sub-fund will be subject to interest at 4% p.a. above Base Rate for the first £10 million and 6% p.a. above Base Rate for any amount over £10m. This arrangement ensures that the existing policyholders of SF will not suffer any detriment to their security should such support be necessary because the interest rate represents a fair return on the capital employed.

Solvency 2

4.16. The current regulatory capital regime for insurers is due to be replaced by a new European Directive, referred to as Solvency II. This is expected to be implemented with effect from 1 January 2016. The Directive framework has been agreed and the implementing measures are in the draft stage, but the precise rules for assessing solvency have not been finalised.

4.17. While it is likely that the new requirements of Solvency II will have an impact on the capital position of SF and its sub funds the impact cannot be ascertained with complete certainty because the final details of the technical calculations are not known.

4.18. SF is well advanced in its preparations for Solvency 2 and the Actuarial Function Holder has tested the effect of the Solvency 2 requirements (as currently known) on the combined portfolio and is satisfied that the results demonstrate sufficient capital strength and that the transfer will not have a material adverse impact on the existing policyholders.

4.19. I have reviewed the results produced by the Actuarial Function Holder and am satisfied that they are reasonable and I am content to rely on his conclusions.

4.20. I therefore do not consider that the Transfer will make a material difference to the relative financial strength of the two firms under the Solvency II regime.

Capital management

4.21. In addition to the regulatory requirements around capital adequacy, SF also has internal tolerances around capital adequacy, primarily relating to the capital coverage on a Pillar 2 basis. These are outlined in the risk appetite within the Risk Management Framework, which feeds into the Own Risk Solvency Assessment.

4.22. It is not expected that the Scheme will result in these tolerances being breached, nor is it expected that the Scheme will require the tolerances to be changed.

4.23. There remains a degree of uncertainty as to how capital management will operate in a Solvency II environment with regards to “ring-fencing” of funds. If (as expected) it is necessary to demonstrate capital adequacy on a “ring-fenced” basis for each of the notional sub-funds outlined in section 5.2, the new M&G sub-fund, and the SF Main Fund, then the position allowing for the Scheme is that there is no change in the solvency for each of the notional sub-funds, and the SF Main Fund shows an increase in the solvency position as a result of the Scheme.

Other

4.24. The Scheme provides for a transfer of significant volumes of annuity business from M&G to SF. At present, SF do not have material volumes of annuity business

4.25. However, ahead of the Scheme it is expected that external reinsurance arrangements will be established by M&G such that there is no material exposure to longevity risk and credit risk in respect of the annuity business being transferred over under the Scheme. In the event the reinsurance is not concluded, the risk will be retained in the M&G subfund, and so is unlikely to adversely affect the security of the SF policyholders.

4.26. As long as these agreements are in place I do not consider that there is likely to be any exposure to additional risk at a level which would be to the detriment of existing policyholders.

4.27. I have consulted the actuarial function holder of SF and I consider that there are no material operational risks arising from this transfer which would affect the security of the SF policyholders. This is because, as explained in paragraph 5.13, there will be no change to the operational and administrative arrangements as a result of the transfer.

Conclusion

4.28. My conclusion is that the proposed Scheme has no adverse effects on the security of the policyholders in the SF Main Fund, as the free capital is increased on the Pillar 1 basis and the reduction in free capital on the Pillar 2 basis is not significant in the context of SF’s appetite for risk. The expected flow of surplus arising from the transferred business should enhance the capital position as the business unwinds. I also conclude that the security of the policyholders in the SF sub funds remains secure. The amount of capital in the sub funds is unaffected by the transfer, and there would only be an impact in the unlikely event that they required support from the Main Fund and the solvency of the Main Fund was compromised.

5. The Effect of the Scheme – Benefit Expectations

Benefits, Guarantees and Options

5.1. The contractual benefit expectations of all the SF policyholders remain unchanged by the Scheme.

Bonus Expectations

5.2. The SF main fund remains financially strong and, in the long term, the charges from the M&G business and the surplus released from the business transferred into the main fund will increase the free capital of SF and should enhance its capacity to pay bonuses. I therefore do not consider that the Transfer will have an adverse effect on the bonus earning capability of the SF Main Fund. I therefore consider that the bonus expectations of the with-profits policyholders in the SF Main Fund will not be adversely affected as a result of the Transfer.

5.3. The existing sub funds which contain business transferred from Scottish Legal Life, The London Aberdeen and Northern Assurance Society, and Rational Shelley will be unaffected by the transfer and there will be no change to the bonus expectations of the with-profits policyholders in these sub funds.

Charges and Expenses

5.4. Charges will be made to the M&G sub fund in accordance with the Schedule included in the Scheme. These charges will increase annually in line with National Average Earnings.

5.5. These charges are greater than the amount which it is expected to cost SF to administer the M&G business and will therefore provide a source of surplus to the SF main fund. At the same time the effect of the overheads in the SF business will be spread across a larger group of policies. This means that it is expected that the actual administration costs per policy for the policies in the SF Main Fund should be slightly reduced, and this reduction should feed through into an increase in asset shares, which should enhance the payouts made on claim.

5.6. There will be no effect on the charges made to the existing sub funds.

Investment Policy

5.7. The current practice of SF is that the investment policy is considered separately for the Main Fund and each of the sub funds. The Investment policy takes into account the different profiles of the separate funds and ensures that the investment policy matches the profile.

5.8. For the sub funds the policy takes account of the fact they are closed to new business and allows for the remaining outstanding term of the business in force. For the SF Main Fund the investment profile reflects the fact that the fund is open to new business and the aim is to secure the best possible return on the funds, subject to ensuring that all contractual benefits can be met as they fall due. For each separate fund the investment policy is set out in the PPFM.

5.9. The transfer of the M&G unit-linked and term assurance business into the SF Main Fund is not expected to alter the investment profile of that fund. The unit linked business will be matched by appropriate unit linked funds, and the reserves required for the term assurance business will be matched by appropriate fixed interest stocks, but the amount of these reserves is relatively small in terms of the size of the main fund and, in any case, it is SF's policy to match its existing non-profit business in this way and to consider separately the investment of the assets backing with-profits business.

5.10. I therefore do not consider that the transfer of the M&G business into the Main Fund will have any adverse effect on the investments backing the with-profits policies.

5.11. The M&G sub fund will have its own PPFM and the investment policy will be governed by that.

Administration and Service Standards

5.12. SF is taking all the business transferred from M&G on to its own systems. The increase in the number of policies is roughly 70,000. At present these policies are administered under a third party arrangement, involving two key administration systems. One of these is Talisman, which is the same system that SF uses, and this will be transferred to SF's operations. The business administered on the other system will be transferred to SF's Talisman system.

5.13. SF has a very good reputation for service and the increase in policies does not represent a significant increase in the total number of policies administered as SF currently has roughly 1 million policies on its books. I therefore do not consider that the transfer is likely to cause deterioration in the service offered to existing policyholders.

Membership Rights

5.14. All membership rights of existing members of Scottish Friendly will be preserved and remain unaffected by the Transfer. All policyholders of M&G will become members of Scottish Friendly. The increase in membership as a result of the Transfer means that there will be a slight dilution in the membership rights of existing SF members, but I do not consider that this has a material impact on their security or benefit expectations.

Existing Sub Funds

5.15. As I have said above the existing sub funds will be unaffected by the transfer.

Governance of with-profits business

5.16. Following the Scheme, the SF Board will continue to provide governance over existing SF policyholders, non-profit and with-profits, and will also assume these duties in respect of the policies and with-profits fund transferring from M&G.

5.17. With-profits business governance will continue to be provided by the SF With-Profits Actuary and Independent Person, both being the same individuals who currently oversee the SF Main Fund, and also (for the M&G sub fund) by the M&G sub-fund Monitoring Committee. The costs of the M&G sub-fund Monitoring Committee will be borne by the SF Main Fund, but are not expected to be material.

5.18. The existing PPFM of the SF Main Fund will be adjusted to reflect the inclusion of an additional sub fund. The PPFM of the existing sub funds will remain unaltered. The M&G sub fund will have its own PPFM which preserves the existing Principles and Practices of the M&G fund, but also reflects the fact that the transfer has removed a number of business risks from the M&G business.

Taxation

5.19. SF has received advice that there not expected to be any adverse tax consequences of the proposed transfer and I understand that the appropriate clearances are being sought from HMRC. The Scheme provides for any tax benefits arising from the transfer to be shared equally between the M&G Sub Fund and SF.

Summary

5.20. I consider that the benefit expectations of the SF with-profits policyholders will not be adversely affected by the Transfer.

5.21. I consider that the benefit expectations of the SF non-profit policyholders will not be adversely affected by the Transfer.

5.22. I consider that the membership rights of the existing members of the SF Main Fund will not be adversely affected by the transfer in any material way.

5.23. I consider that the membership rights and benefit expectations of the policyholders in the current SF Sub funds are unlikely to be affected by the transfer.

5.24. I consider that the bonus prospects of policyholders with with-profits policies will not be diminished as a result of the transfer.

5.25. I consider that service standards for existing policyholders will be maintained.

6. Conclusion

6.1. It is my opinion that the proposed Transfer does not have any adverse impact on the existing with-profits policyholders of SF. I do not consider that it has an adverse impact on the policyholders with non-profit policies, or those in the current sub funds.

6.2. It is my opinion that the transfer does not introduce any significant additional operational risks into SF which could adversely affect the interests of the existing members.

6.3. It is my opinion that there will be no detriment to the administration of the existing policies as a result of the Scheme.

6.4. I therefore conclude that there is no reason, in terms of maintaining the interests of existing members, why the transfer should not proceed.

6.5. I consider that there is no need for any additional covenants or undertakings from SF or M&G other than those given in, or pursuant to, the terms of the Scheme.

6.6. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

D. J. Lechmere

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Head of Insurance Consulting
OAC Actuaries and Consultants

Appendix 1 - Documents Reviewed

The report of the Actuarial Function Holder of SF

The Implementation Agreement and the Scheme Document

The report of the Independent Expert

The opinion on tax prepared by Deloitte

Appendix 2 - SF Business in force

SF Main Fund	Policy count	Gross reserves (£m)	Net of reinsurance reserves (£m)
CWP	135,941	222	222
UWP	23,646	38	38
Unit-linked life	18,321	193	193
Unit-linked pensions	1,830	36	36
Whole of life	297,919	41	41
Term assurance	31,925	65	1
Other	2,981	22	16
Total	512,563	617	547

Scottish Legal	Policy count	Gross reserves (£m)	Net of reinsurance reserves (£m)
CWP	2,754	15	15
UWP	592	3	3
Unit-linked life	2,060	11	11
Unit-linked pensions	195	1	1
Whole of life	607,800	30	30
Term assurance	1,596	1	1
Other	5,578	2	2
Total	620,575	64	64

LANMAS	Policy count	Gross reserves (£m)	Net of reinsurance reserves (£m)
CWP	-	-	-
UWP	1,396	7	7
Unit-linked life	939	8	8
Unit-linked pensions	79	1	1
Whole of life	-	-	-
Term assurance	314	0	0
Other	30	1	1
Total	2,758	17	17

Rational Shelley	Policy count	Gross reserves (£m)	Net of reinsurance reserves (£m)
CWP	790	2	2
UWP	-	-	-
Unit-linked life	-	-	-
Unit-linked pensions	-	-	-
Whole of life	2,972	4	4
Term assurance	30	0	0
Other	14	0	0
Total	3,806	7	7

Appendix 3 – Business Transferring In

Type of business	Number of policies	Pillar 1 liabilities [1] (after reinsurance)
Conventional with-profits	3,557	£87.3m
FIA	8,442	(£17.9m)
Unitised with-profits – other	7,540	£127.5m
Unit-linked	26,978	£405.6m
Non-profit – Standard and Select annuities	13,941	£299.7m
Non-profit – other	15,407	£5.3m
Total	**75,865**	**£907.7m**

Source: M&G PRA Returns as at 31st December 2013

Appendix 4 – Impact of Scheme on Pillar 1 Solvency
Solvency position prior to transfer

The pillar 1 solvency position of SF prior to the Scheme is outlined below (all figures in £m):

	SF Main Fund	LANMAS	RS	SLL	Aggregate SF before transfer
Regulatory Balance Sheet					
Assets	688.1	25.2	10.0	100.3	823.6
Liabilities	562.3	17.7	6.8	68.4	655.2
LTICR	20.6	0.4	0.3	2.5	23.8
Regulatory Excess Capital	105.2	7.1	2.9	29.4	144.6
Capital Resource Available	125.8	7.5	3.2	31.9	168.4
Realistic Balance Sheet					
Assets	420.2	15.9	8.1	75.8	520.0
With-profits Benefit Reserve	306.6	11.9	6.5	43.7	368.7
Cost of Guarantees & options	19.3	-	-	3.7	23.0
Planned Enhancements	-	3.5	1.5	21.6	26.6
Planned Deductions	-5.5	-	-	-	-5.5
Smoothing Costs	3.7	-	-	2.2	5.9
Other Liabilities	-	-	-	0.4	0.4
Current Liabilities	11.8	0.5	0.1	4.2	16.6
RCM	7.1	-	-	-	7.1
Realistic Excess Capital	77.3	-	-	-	77.3
Working Capital	84.4	-	-	-	84.4
WPICC	27.9	7.1	2.9	29.4	67.3
CRR	48.5	7.5	3.2	31.9	91.1
Capital Cover	259%	100%	100%	100%	185%

The figures are calculated as at 31 December 2013, and are shown net of existing SF reinsurance arrangements.

The solvency position gross of existing SF reinsurance arrangements is summarised below (all figures in £m):

Total Assets	894.8
Total Liabilities	725.2
Capital Resources	169.6
Capital Resources Available	168.4
CRR	91.1
Excess Capital Resources	77.3
Capital Cover	185%

Solvency position post transfer

The pillar 1 solvency position of SF after the Scheme is outlined below (all figures in £m):

	SF Main Fund	LANMAS	RS	SLL	M&G	Aggregate SF after transfer
Regulatory Balance Sheet						
Assets	1,071.0	25.2	10.0	100.3	385.0	1,591.5
Liabilities	935.2	17.7	6.8	68.4	305.0	1,333.1
LTICR	24.6	0.4	0.3	2.5	37.0	64.8
Regulatory Excess Capital	111.2	7.1	2.9	29.4	43.0	193.7
Capital Resource Available	**135.9**	**7.5**	**3.2**	**31.9**	**80.0**	**258.5**
Realistic Balance Sheet						
Assets	430.6	15.9	8.1	75.8	349.0	879.4
With-profits Benefit Reserve	306.6	11.9	6.5	43.7	183.7	552.4
Cost of Guarantees & options	19.3	-	-	3.7	-	23.0
Planned Enhancements	-	3.5	1.5	21.6	55.0	81.6
Planned Deductions	-5.5	-	-	-	-	-5.5
Smoothing Costs	3.7	-	-	2.2	-	5.9
Other Liabilities	-	-	-	0.4	-	0.4
Current Liabilities	11.8	0.5	0.1	4.2	110.3	126.9
RCM	7.1	-	-	-	-	7.1
Realistic Excess Capital	**87.6**	**-**	**-**	**-**	**-**	**87.6**
Working Capital	94.7	-	-	-	-	94.7
WPICC	26.6	7.1	2.9	29.4	43.0	109.1
CRR	48.2	7.5	3.2	31.9	80.0	170.8
Capital Cover	**282%**	**100%**	**100%**	**100%**	**100%**	**151%**

The figures are calculated as at 31 December 2013, and are shown net of existing SF reinsurance arrangements.

The solvency position gross of existing SF reinsurance arrangements is summarised below (all figures in £m):

Total Assets	1,662.7
Total Liabilities	1,403.1
Capital Resources	259.5
Capital Resources Available	258.5
CRR	170.8
Excess Capital Resources	87.6
Capital Cover	151%