OLIVER WYMAN

SUPPLEMENTARY REPORT OF THE INDEPENDENT EXPERT ON THE PROPOSED TRANSFER OF THE LONG-TERM BUSINESS OF MARINE AND GENERAL MUTUAL LIFE ASSURANCE SOCIETY TO SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED

15th May 2015

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Report qualifications/assumptions and limiting conditions

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1. Introduction

1.1. Introduction

I was jointly appointed by Marine and General Mutual Life Assurance Society ("M&G") and Scottish Friendly Assurance Society Limited ("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 ("FSMA"). My report dated 22 January 2015 (the "Main Report") sets out the details of my review.

My views in the Main Report were formed having taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer, namely:

- 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
  - Expenses and charges
  - Benefit expectations and bonus prospects
  - Risk profile and capital management policy
- Administration and governance
- Membership rights and policyholder communications
- Tax

As indicated in the Main Report, I have prepared this report (the "Supplementary Report"), which is intended to be read in association with the Main Report, to set out my considerations of relevant updated information received since the Main Report was written, in relation to:

- Financial position of M&G and SF as at 31 December 2014
- Funding position of MGM Assurance Staff Pension Plan ("Staff Pension Plan") as at 31 December 2014
- Update on Solvency 2 developments relevant to the Transfer
- Progress on the novation of M&G's existing reinsurance arrangements to SF
- SF's policy for potential distribution of profits emerging from the sub-funds
- Consideration of any objections or complaints raised in advance of the Court hearing

In this report, I have used the same defined terms as the Main Report and a glossary of terms can be found as an appendix to the Main Report.

In section 3, I have considered the impact of updated information on the financial position of M&G and SF pre and post Transfer, including the effect of any material developments with respect to Solvency 2.

In section 4, I have considered the impact of updated information on the financial effect of the Transfer on M&G and SF policyholders.

In section 5, I have considered the responses to the policyholder communications and the objections or complaints that policyholders have raised.

In section 6, I have set out any other considerations that I regard as relevant to this report.

1.2. Regulatory and professional guidance

I have produced this report in accordance with the following Technical Actuarial Standards (TAS) issued by the Financial Reporting Council's Board for Actuarial Standards: Insurance TAS, Transformations TAS, TAS D (Data) and TAS R (Reporting Actuarial Information).

1.3. Terms of reference

Full details of my terms of reference, which have been discussed and agreed with M&G and SF, are set out in the Main Report. The terms have been reviewed and approved by the PRA and FCA.

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.

1.4. Peer Review

This report has been reviewed by Neil Reynolds who is a Principal from Oliver Wyman Limited’s actuarial practice in the UK with similar experience and standing to me, and he agrees with my conclusions as set out in this report.

1.5. Information requested and data used

In producing this report I have relied on information provided by M&G, SF and their respective professional advisers without independent verification of the accuracy or completeness of information provided. However, wherever possible, I have reviewed the information for reasonableness and consistency and against my understanding of generally accepted market practice.

Furthermore, I have relied on the judgement and conclusions reached by the Actuarial Function Holders and With-Profits Actuaries for the respective funds in M&G and SF, as documented in the Actuarial Function Holder and With-Profits Actuary reports (including relevant supplementary reports) produced in connection with the Transfer.

Details of the further information that I have been provided with are set out in Appendix A.

2. Main Conclusions

In the Main Report, I made the following main 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

Having reviewed the updated information and conducted further analysis as described in this report, I remain satisfied that all of my conclusions are valid.

3. Updated financial analysis

In the Main Report, I 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 on 1st January 2016. In this report, I review updated financial data provided to me (in particular the respective financial positions as at 31 December 2014) and consider its impact on my conclusions as set out in the Main Report.

3.1. Financial impact of the Transfer on Pillar 1 basis

SF's reported financial position and solvency ratios as at 31st December 2014 are summarised below:

£m	SF Main Fund	SL Sub-Fund	LANMAS Sub-Fund	RS Sub-Fund	SF Total
Peak 1 calculations					
Assets	687.3	100.7	24.4	10.6	823.0
Liabilities	(555.1)	(61.6)	(16.0)	(6.9)	(639.6)
Available Capital	132.2	39.1	8.4	3.7	183.4
Capital Requirement	(27.6)	(2.2)	(0.4)	(0.3)	(30.5)
Free Assets	**104.6**	**36.9**	**8.0**	**3.4**	**152.9**
Peak 2 calculations					
Assets	688.0	100.7	24.4	10.6	
Liabilities (excluding planned enhancements)	(609.1)	(73.8)	(21.3)	(9.8)	
Planned enhancements	-	(26.9)	(3.1)	(0.7)	
Available Capital	79.0	-	-	-	
Capital Requirement	5.2	-	-	-	
Free Assets	**73.7**	**-**	**-**	**-**	
Reported Pillar 1 position					
Assets	687.3	100.7	24.4	10.6	823.0
Liabilities	(555.1)	(61.6)	(16.0)	(6.9)	(639.6)
Available Capital	132.2	39.1	8.4	3.7	183.4
Capital Resources Requirement	(58.5)	(39.1)	(8.4)	(3.7)	(109.7)
Free Assets	**73.7**	**-**	**-**	**-**	**73.7**

Source: SF PRA Returns as at 31st December 2014

	SF Main Fund	SL Sub-Fund	LANMAS Sub-Fund	RS Sub-Fund	SF Total
Peak 1 Capital Ratio	**24%**	**63%**	**53%**	**54%**	**29%**
Peak 2 Capital Ratio	**13%**	**36%**	**15%**	**7%**	

Source: Oliver Wyman analysis

M&G's reported financial position and solvency ratios as at 31st December 2014 are summarised below (with liabilities and Peak 1 capital requirements for the unit linked and term assurance business split out for information):

£m	Unit linked and term assurance	Other	M&G Total
Peak 1 calculations			
Assets			753.3
Liabilities	(361.3)	(310.4)	(671.7)
Available Capital			81.6
Capital Requirement	(3.6)	(35.2)	(38.8)
Free Assets			**42.8**
Peak 2 calculations			
Assets			753.3
Liabilities (excluding planned enhancements)	(355.9)	(350.0)	(705.9)
Planned enhancements			(47.4)
Available Capital			-
Capital Requirement			-
Free Assets			**-**
Reported Pillar 1 position			
Assets			753.3
Liabilities	(361.3)	(310.4)	(671.7)
Available Capital			81.6
Capital Resources Requirement			(81.6)
Free Assets			**-**

Source: M&G PRA Returns as at 31st December 2014

	M&G Total
Peak 1 Capital Ratio	**12%**
Peak 2 Capital Ratio	**7%**

Source: Oliver Wyman analysis

Note that the figures above include the effects of:

- Completion of the reinsurance of M&G's Standard and Select annuities in November 2014
- Completion of the Part VII transfer of the EA policies to MGMA in November 2014
- Distribution of £9m to M&G members and payment of £9m into the Staff Pension Plan in December 2014

The pro-forma post Transfer combined financial position and solvency ratios as at 31st December 2014 are summarised below:

£m	SF Main Fund	M&G Sub-Fund	SL Sub-Fund	LANMAS Sub-Fund	RS Sub-Fund	SF Total (post Transfer)
Peak 1 calculations						
Assets	1,033.3	389.0	100.7	24.4	10.6	1,558.0
Liabilities	(896.7)	(290.0)	(61.6)	(16.0)	(6.9)	(1,271.2)
Available Capital	136.6	99.0	39.1	8.4	3.7	286.8
Capital Requirement	(31.3)	(37.0)	(2.2)	(0.4)	(0.3)	(71.2)
Free Assets	**105.3**	**62.0**	**36.9**	**8.0**	**3.4**	**215.6**
Peak 2 calculations						
Assets	1,054.4	389.0	100.7	24.4	10.6	1,579.1
Liabilities (excluding planned enhancements)	(965.1)	(323.0)	(73.8)	(21.3)	(9.8)	(1,393.0)
Planned enhancements	-	(66.0)	(26.9)	(3.1)	(0.7)	(96.7)
Available Capital	89.3	-	-	-	-	89.3
Capital Requirement	5.2	-	-	-	-	5.2
Free Assets	**84.1**	**-**	**-**	**-**	**-**	**84.1**
Reported Pillar 1 position						
Assets	1,033.3	389.0	100.7	24.4	10.6	1,558.0
Liabilities	(896.7)	(290.0)	(61.6)	(16.0)	(6.9)	(1,271.2)
Available Capital	136.6	99.0	39.1	8.4	3.7	286.8
Capital Resources Requirement	(52.5)	(99.0)	(39.1)	(8.4)	(3.7)	(202.7)
Free Assets	**84.1**	**-**	**-**	**-**	**-**	**84.1**

Source: SF and M&G analysis

	SF Main Fund	M&G Sub-Fund	SL Sub-Fund	LANMAS Sub-Fund	RS Sub-Fund	SF Total (post Transfer)
Peak 1 Capital Ratio	**15%**	**34%**	**63%**	**53%**	**54%**	**23%**
Peak 2 Capital Ratio	**9%**	**20%**	**36%**	**15%**	**7%**	**13%**

Source: Oliver Wyman analysis

The post-Transfer Pillar 1 solvency position of the M&G Sub-Fund takes into account:

- The transfer of the unit-linked business and term assurance business into the SF Main Fund
- £10m contribution by the SF Main Fund into the M&G Sub-Fund
- The fixed per policy annual administration fees and investment management charges agreed under the terms of the Transfer

In the table below, I repeat the relevant observations and comments from the Main Report (which were based on the 31 December 2013 financial positions) and provide an updated assessment based on the 31 December 2014 financial positions:

Observations and comments from the Main Report based on 31 December 2013 financial positions	**Updated assessment based on 31 December 2014 financial positions**
The overall size of SF would grow significantly, with total assets (net of existing reinsurance arrangements) doubling from £0.8bn to £1.6bn	Comments remain valid
The financial position of SF's existing sub-funds is unchanged due to the ring-fenced nature of the funds	Comments remain valid
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. Peak 2 remains the biting constraint for the fund.	Comments remain valid
The SF Main Fund's Peak 1 Capital Ratio would fall from 22% to 15% as a result of the Transfer. Its Peak 2 Capital Ratio would also fall from 14% to 10% as a result of the Transfer. This is primarily due to the transfer of unit-linked business which increases the size of liabilities by around £400m. In my opinion, this does not signal a weakening of the SF Main Fund's solvency position, because unit-linked business requires a much lower level of Available Capital to support its operation (when compared against with-profits business) due to the absence of investment guarantees. Therefore, in my opinion, policyholders in the SF Main Fund would not be materially adversely impacted by the reduction in Capital Ratios. Indeed, if the unit-linked liabilities are excluded, the Peak 1 and Peak 2 Capital Ratios would be 25% and 16% respectively following the Transfer, i.e. higher than the corresponding figures before the Transfer.	Corresponding figures at 31st December 2014 have changed but comments remain valid. Peak 1 Capital Ratio falls from 24% to 15% and Peak 2 Capital Ratio falls from 13% to 9% as a result of the Transfer. However, if the unit-linked liabilities are excluded, the Peak 1 and Peak 2 Capital Ratios would be 25% and 15% respectively following the Transfer.
The Peak 1 Free Assets for M&G improves significantly following the Transfer, driven by the combination of significant cost savings arising from the Transfer and the £10m contribution from SF.	Comments remain valid
The reported Peak 2 Free Assets for the M&G Sub-Fund would be zero. This is because the excess Peak 2 capital is classified as "planned enhancements" under the regulations. I consider this effect to be mainly presentational, as it does not actually	Comments remain valid

change the true financial position of the funds.	
The level of "planned enhancements" is lower compared to the year-end position. However, this largely reflects events prior to the Transfer, including the £9m distribution to members and the reinsurance of the standard 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.	Following the Transfer, the level of "planned enhancements" is £19m higher compared to the Peak 2 Free Asset position as at 31st December 2014
In terms of solvency ratios, M&G's solvency position would improve following the Transfer. Its Peak 1 Capital Ratio would increase from 9% to 26% as at 31st December 2013, and similarly its Peak 2 Capital Ratio increases from 6% to 17%.	Corresponding figures at 31st December 2014 have changed but comments remain valid Peak 1 Capital Ratio would increase from 12% to 34% while Peak 2 Capital Ratio would increase from 7% to 20% following the Transfer.
Furthermore, I understand that SF has no intention to reduce target capital levels for the M&G Sub-Fund following the Transfer.	Comments remain valid

In the Main Report, I concluded that:

- 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 position 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 Transfer results in an increase in Peak 2 excess capital of £19m.

Taking into account my updated assessment as shown in the table above, I remain satisfied that all of the conclusions remain valid.

3.2. Financial impact of the Transfer on Pillar 2 basis

In the Main Report, I made the following observations and conclusions 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.

I have reviewed updated Pillar 2 information as at 31st December 2014 which were provided by M&G and SF, and remain satisfied that all of the conclusions remain valid.

3.3. Financial impact of the Transfer under Solvency 2

In the Main Report, I made the following observations 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 would 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.

I have reviewed the material prepared by M&G and SF around Solvency 2 positions as at 31st December 2014. This work has been prepared on a best endeavours basis and I am satisfied that this approach, coupled with the qualitative analysis set out by M&G and SF, is appropriate for my purposes. Having reviewed the updated information, I remain satisfied that all of my conclusions above with respect to Solvency 2 remain valid.

More generally, there have been several developments in recent months related to Solvency 2. These are summarised below:

- In October 2014, the PRA published the consultation paper *"CP22/14: The Prudential Regulation Authority's approach to with-profits insurance"*, which included proposed changes in regulation in anticipation of Solvency 2
- In December 2014, EIOPA published its second set of draft Implementing Technical Standards and guidelines required under the Solvency 2 Directive (EIOPA-CP-14/043 to EIOPA-CP-14/055 and EIOPA-CP-14/057 to EIOPA-CP-14/062)
- In December 2014 and February 2015, EIOPA published its Final Reports and feedback statements relating to the "Set 1" series of Level 3 guidelines
- In January 2015, the PRA published the consultation paper *"CP3/15: Solvency II: transitional measures and the treatment of participations"*
- In February 2015, the PRA published the consultation paper *"CP5/15: Solvency II: applying EIOPA's Set 1 Guidelines to PRA-authorised firms"*
- In February 2015, the PRA and FCA jointly published the consultation paper entitled *"Approach to non-executive directors in banking and Solvency II firms & Application of the presumption of responsibility to Senior Managers in banking firms"*
- In March 2015, the UK government published the statutory instrument entitled "Solvency 2 Regulations 2015", which will effectively implement the Solvency 2 Directive into UK law on 1st January 2016
- In March 2015, the PRA published the Policy Statement *"PS2/15: Solvency 2: a new regime for insurers"* together with a series of supervisory statements with respect to the implementation of the Solvency 2 Directive

- The PRA has issued a series of monthly "Solvency 2 Directors' Update" letters to UK insurers summarising key Solvency 2 related issues and developments

I have reviewed the publications listed above within the context of the Transfer and am satisfied that they do not affect the conclusions I made in the Main Report. This opinion also applies to my views on SF's Solvency 2 preparedness which is discussed further in section 6.

4. Financial effect of the Transfer on policyholders

4.1. Financial effect of the Transfer on M&G policyholders

In the Main Report, I made the following observations in relation to the 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 Main 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.

I have reviewed updated information as described in this report and I remain satisfied that all of the conclusions described above remain valid.

4.2. Financial effect of the Transfer on SF policyholders

In the Main Report, I made the following observations in relation to the 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.

Furthermore, in the Main Report:

- I took into account the underlying risk exposures arising from the liabilities relating to the Staff Pension Plan as it is possible that the Staff Pension Plan could be a significant source of “burn through” risk for the SF Main Fund. My analysis took into account, inter alia, the funding position of the Staff Pension Plan and assessment of a theoretical "buyout cost" to assess the potential financial implications under such a scenario. I arrived at the opinion that pension scheme liabilities are manageable and do not give rise to material additional risk of "burn through" in relation to the M&G Sub-Fund.

- I noted that SF was, at the time, in the process of formalising a policy such that the profits emerging from sub-funds (and profits emerging from subsidiaries and non-profits business within the SF Main Fund) will be determined each year and will be presented to the With-Profits Actuary so that it can determine how much of this should be distributed through bonuses. The formalisation of the policy was expected to be in place for the end of 2014.

I have reviewed updated information as described in this report and I remain satisfied that all of the conclusions described above remain valid. In particular:

- As at 31st December 2014, the Staff Pension Plan had a deficit of £1.8m on an "IAS19 basis", down from a deficit of £5.6m as at 31st December 2013. This indicates that the funding position of the Staff Pension Plan has improved over the year and although M&G had previously anticipated the plan to be fully funded at the end of 2014, the level of deficit is manageable and in my opinion the analysis set out in the Main Report remains valid.
- It should also be noted that the Staff Pension Plan completed a de-risking of its investment portfolio in December 2014, which culminated in an increase in the proportion of assets held in index-linked and nominal gilts from 32% to 70%. The market risks associated with the Staff Pension Plan have therefore reduced as a result and consequently the risk of "burn through" has also reduced.
- SF has confirmed that, as expected, a policy in relation to the profits emerging from sub-funds (and profits emerging from subsidiaries and non-profits business within the SF Main Fund) was formalised at the end of 2014.

5. Policyholder communications, responses and objections

As noted in section 8 of the Main Report, it is my opinion that M&G's and SF's planned communications strategies for the Transfer have been reasonable, fair and not misleading. In addition, the PRA, FCA, any affected policyholder, reinsurer or any person (including an employee of SF or M&G) who alleges that the person would be adversely affected by the carrying out of the Transfer have the right to raise their objections to the Court. Communication materials for M&G policyholders clearly sets out those rights and the process by which policyholders can make their representations.

M&G completed the mailing of information packs to its policyholders and notices of the application for the Transfer were published in appropriate newspapers and its website in March 2015. As at 14th May 2015, M&G has received 484 responses from its policyholders, of which:

- 281 were general administrative queries not directly related to Transfer (vast majority by telephone, with the rest via the website, email or post)
- 184 were requests for additional information regarding the Transfer where no objections or complaints were lodged (vast majority by telephone, with the rest via the website, email or post)
- 19 were objections or complaints which I have considered in further detail below

With respect to the objections or complaints received:

- Eight M&G policyholders objected to the Transfer on the basis that the business would be transferred to a company registered in Scotland. No specific additional issues were raised in connection with their objections.
  - Taking into consideration the fact that both M&G and SF are both regulated by the FCA and PRA, in my opinion the Scottish domicile of SF is not a factor that is relevant to my assessment of the Transfer.
  - I have nevertheless reviewed M&G's written response to these objections and consider its content to be appropriate. In addition, M&G stated that it had specifically considered the possible impact of the Scottish referendum in 2014 and concluded that even if Scotland were to become independent in the future it is very unlikely that M&G policyholders would be affected.
  - I understand that SF had developed a robust set of contingency plans in the run up to the Scottish Referendum in 2014, and if necessary, it would be able to implement those plans relatively quickly should the need arise.

- One M&G policyholder objected to the Transfer and believed *"the board should focus on delivering the objectives by applying themselves to their current business, not playing the corporate organisational shuffling activities"*
  - As I have indicated in the Main Report, the Board of M&G has been actively investigating the possibility of transferring all or part of M&G's business to other insurance companies or friendly societies as an efficient strategy to achieve its stated business objectives as set out in its Strategic Report and Summary Financial Statements for the year ended 31st December 2013.

- One M&G policyholder submitted a written complaint for several reasons: (i) the policyholder believed the booklet detailing the proposed changes was vague and requested clarification on several points, (ii) the same policyholder does not agree he must waive his membership prior to the Transfer taking place, (iii) the policyholder is not familiar with SF and preferred a transfer to a large firm which would be safer and more cost effective and (iv) the policyholder did not read about the Transfer in financial press.
  - I have reviewed M&G's written response to the policyholder, which provided additional clarification points requested by the policyholder, and in my opinion the content of the letter is an appropriate response in relation to (i).

- In relation to (ii), M&G's members would not lose their membership prior to Transfer. In the event that the Transfer does proceed (subject to M&G members voting in favour of the Transfer), M&G members will lose their membership and voting rights in M&G after the Transfer. As stated in the Main Report, it is my opinion that there would not be a material loss of membership benefits for the transferring members as a result of the Transfer.
- In relation to (iii), it is not within the Terms of reference for my role as Independent Expert to consider any other possible alternative arrangements to the Transfer, and I therefore consider it inappropriate to comment further on this point other than to note that M&G's information booklet to policyholders includes an explanation that KPMG had conducted an independent review of M&G's process for selecting SF, which concluded, inter alia, that the selection process was thorough and the evaluation criteria used were reasonable
- In relation to (iv), M&G has been fully compliant with the Financial Services and Markets Act 2000 (Control of Business Transfers)(Requirements on Applicants) Regulations 2001 which requires notice of the application for the Transfer to be published in appropriate newspapers, and I therefore shall not comment further on this point

- One M&G policyholder submitted a written complaint because (i) M&G members were not being asked to vote on the matter prior to incurring the expense of a Court hearing, and consequently (ii) the policyholder feels that their wishes are being ignored
  - Whilst it is true that formal submissions were made to the Court and the Directions Hearing occurred prior to M&G's mailing to policyholders and the subsequent vote on the Transfer, this was a necessary chronological order of events that M&G was required to follow as part of the formal legal process for the Transfer
  - Having reviewed all the documents and materials that I consider to be relevant, I have not seen any evidence suggesting that M&G's policyholders' wishes have been ignored. As I have indicated in the Main Report and this report, it is my opinion that M&G's communications strategy for the Transfer has been reasonable, fair and not misleading

- One M&G policyholder submitted a written objection on the grounds that no specific information on how the transfer would affect his policy was provided, and on the basis that the business would be transferred to a company registered in Scotland
  - I have reviewed M&G's and Slaughter & May's written responses to the policyholder and in my opinion the content of the letters is appropriate
  - I have already set out my opinion above with respect to objections in relation to SF being a company registered in Scotland

- Two M&G policyholders submitted written complaints primarily referring to their respective previous complaints lodged in relation to the performance of the policyholder's endowment policy
  - I do not consider the complaints to be directly relevant to the Transfer and I therefore shall not comment further

- One M&G policyholder submitted a written complaint in relation to an ongoing case with the Financial Ombudsman but did not raise any other specific issues in connection with the Transfer
  - I have reviewed CMS Cameron McKenna's and Slaughter & May's written responses to the policyholder and in my opinion the content of the letters is appropriate and I shall not comment further

- Two M&G policyholders objected to the Transfer, but did not raise any specific issues in connection with their objections.

- One M&G policyholder objected to the Transfer on the basis of an adverse personal experience with Scottish Provident (which is not connected to SF) in the past.
  - M&G has subsequently written to the policyholder to clarify that the Transfer does not involve Scottish Provident and I shall not comment further

- One M&G policyholder submitted a complaint on the basis that the policyholder information pack was excessively complicated
  - Whilst I fully understand that the several sections of the policyholder information pack contain complex and technical information which may appear complicated to some policyholders, such information has direct relevance to the Transfer and in my view, should be included. I am also satisfied that the language and wording used by M&G are appropriate and communicate the information in a clear manner.

An EGM was held by M&G on 1st May 2015 to vote on the proposed Transfer on a show of hands. This was carried with one vote against. The votes on the show of hands were consistent with the proxy votes received which were as follows:

- Votes in favour - 2,575 (96%)
- Votes against - 107 (4%)
- Votes withheld - 32

SF completed the mailing of information packs to its Delegates (who represent the interests of all policyholders) on 26th March 2015. SF subsequently received no queries or objections from its Delegates and policyholders.

An AGM was held by SF on 29th April 2015, which was attended by 26 out of a possible 28 Delegates. Those attending voted unanimously to approve the Transfer.

6. Other considerations

6.1. General updates

Three changes have been made to the Scheme since it was presented to the Court at the Directions hearing on 2 February 2015. I have reviewed those changes and in my opinion, they all relate to administrative matters which do not affect my conclusions as set out in the Main Report.

Furthermore:

- All relevant tax clearances have been received from HMRC and there have been no changes to the expected tax impact of the Transfer since the completion of the Main Report. Therefore, I remain 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.
- Reinsurer consent for novating the relevant reinsurance arrangements has been obtained with respect to all reinsurance agreements where such consent is needed
- Relevant EU notifications and passporting applications have been made by M&G with the three month consultation period ending on 10th May 2015 and no objections were received. Therefore M&G does not expect there to be any Excluded Policies.

6.2. Administration and governance

I am not aware of any updated information that would lead me to change my conclusions in relation to administration and governance arrangements, namely that:

- 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
- 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 their 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 proposed new PPFM for the M&G Sub-Fund is reasonable and an accurate reflection of the terms of the Transfer.
- 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 both M&G and existing SF policyholders following the Transfer.
- 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
- In my opinion, there will not be 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.

6.3. Solvency 2

In the Main Report, I considered the Transfer's impact on SF's Solvency 2 preparedness and the adequacy of SF's resources to facilitate the work needed for Solvency 2 compliance and made the following observations:

- SF has already made significant progress in relation to Solvency 2 implementation to date, and in my opinion, is not out of line with its peer group in terms of its level of preparedness for Solvency 2
- SF has explicitly incorporated the Transfer into its Solvency 2 plans, including the addition of workstreams to:
  - Assess implications of the Transfer and make changes in relevant workstreams
  - Ensure the Solvency 2 plan takes account of business changes arising from the Transfer
  - Assess the impact of any assets transferred from the Transfer in respect of Solvency 2 requirements
- A potential key area of uncertainty in relation to Solvency 2 relates to how capital management will operate in a Solvency 2 environment with regards to "ring-fencing" of funds. However, even under a scenario where it is necessary to demonstrate capital adequacy on a "ring-fenced" basis for each of the sub-funds, all the sub-funds would remain self-sufficient.

I have reviewed SF's latest Solvency 2 implementation plans (as at February 2015) and remain satisfied that the observations set out above are valid. Therefore, my opinion remains that the Transfer will not adversely impact on SF's Solvency 2 preparedness and the adequacy of SF's resources to facilitate the work needed for Solvency 2 compliance.

6.4. ICE Acquisitions S.A.R.L.

M&G has informed me that it is currently engaged in commercial discussions with ICE Acquisitions S.A.R.L. (ICE) and its subsidiaries (MGM Advantage Life Limited and MGM Advantage Services Limited) in relation to the payment of certain amounts and the repayment of various rebates. I also understand that it is possible that ICE may submit an objection to the Transfer or appear at the Sanctions Hearing. I have concluded that I am not required to consider the merits of any such objection to the extent that it is legal in nature.

M&G have kept me informed of these discussions and I have considered the range of possible outcomes in relation to the commercial discussions with ICE and its subsidiaries and in my opinion, this does not change my conclusions as set out in the Main Report and neither the M&G nor the SF policyholders would be adversely affected.

Appendix A. Data

Information provided by M&G

Item	Date received
Annual Reports and Accounts for the year ended 2014	27th Mar 2015
PRA Returns for the year ended 2014	1st Draft: 16th Mar 2015 Final: 27th Mar 2015
Actuarial Function Holder and With-Profits Actuary Report on proposed transfer to SF	1st Draft: 31st Mar 2015 Final Draft: 5th May 2015
Updated note on Solvency 2 capital impact assessment	16th Mar 2015
Evidence of reinsurers' agreement to novation of reinsurance treaties	2nd Mar 2015
Update on Staff Pension Plan funding position	2nd Mar 2015
Information relating to the Staff Pension Plan's investments	2nd Mar 2015

Information provided by SF

Item	Date received
Annual Reports and Accounts for the year ended 2014	5th May 2015
PRA Returns for the year ended 2014	1st Draft: 6th Mar 2015 Final: 27th Mar 2015
SF's updated analysis of pre and post Transfer solvency positions	6th Mar 2015
Updated Solvency 2 implementation plan	9th Mar 2015
SF's policy for potential distribution of profits emerging from the sub-funds	6th Mar 2015
Evidence of tax clearances from HMRC	2nd Mar 2015
Operational readiness update	12th Mar 2015
Supplementary Actuarial Function Holder Report on proposed transfer from SF	1st Draft: 13th Mar 2015 Final Draft: 5th May 2015

Other documents provided

Item	Date received
Updated combined balance sheet of post-transfer M&G Sub-Fund and SF	5^{th} Mar 2015 (updated 16^{th} Mar 2015)

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