



PHOENIX LIFE

SIMPLIFYING OUR BUSINESS

Scheme guide for Pearl
Assurance Limited policyholders

June 2012



PEARL

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Pearl Assurance Limited (**Pearl**) is to be renamed Phoenix Life Assurance Limited (**Phoenix Life Assurance**) on or around the date the transfer takes place, which we expect to be 30 September 2012. In this guide, we refer to policies being transferred to **Phoenix Life Assurance**, rather than referring to **Pearl**.

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Introduction

We (the **Phoenix Group**) have prepared this guide to summarise our proposals to transfer all London Life Limited (**London Life**) policies to Phoenix Life Assurance Limited (**Phoenix Life Assurance**). We refer to these proposals as 'the **Scheme**'.

London Life and **Phoenix Life Assurance** are both part of the **Phoenix Group** of companies. There are other companies in the **Phoenix Group**, but these will not be affected by the **Scheme**.

The **Scheme** will simplify our business, enable us to be more efficient and allow us to make better use of our resources.

Some of the proposals may change the terms and conditions of your policy, so please take time to read this guide. Within this guide you will find:

- important information about the **Scheme** and how it affects you;
- a summary of a report by an **Independent Expert** that considers how your interests as a policyholder may be affected by the **Scheme** (section 9);

- details on how to raise any concerns you may have about the **Scheme** (section 6); and
- a copy of the formal notice of our application to the **High Court** for approval of the **Scheme** (Appendix 2).

Words in this document that are highlighted in bold are explained in section 11 - Definitions.

We have sent you this guide as you have a **Pearl** policy. Although these policies will not be transferred under the **Scheme**, they are affected by aspects of the **Scheme**. This guide deals with matters of relevance to **Pearl** policyholders. There is a separate guide for **London Life** policyholders.

If you have other policies with **Pearl** or **London Life**, you may receive similar material relating to the **Scheme** in relation to those policies.

Phoenix Life Assurance and **London Life** have applied to the **High Court** for permission to transfer all **London Life** policies to **Phoenix Life Assurance**. The **High Court** will only give permission if it is satisfied that all the necessary legal requirements have been met and that the proposed changes as a whole are fair to policyholders.

We expect the **hearing** at the **High Court** to be held on 24 September 2012. If the **High Court** approves the **Scheme**, we expect the transfer to take place on 30 September 2012 (the **transfer date**).

However, to simplify our accounts, the **Scheme** will have financial effect for the purposes of these accounts, as if the changes had taken place on 1 July 2012. This date is called the **effective date**. Having an **effective date** that is before the **transfer date** does not affect your policy benefits or alter the way your policy is dealt with under the **Scheme**.

An **Independent Expert**, Mr David Murray of Deloitte MCS Limited, has been appointed to report on how the proposals are likely to affect policyholders. Our regulator the Financial Services Authority (**FSA**) has approved Mr Murray's

appointment and has also reviewed his report. The **High Court** will consider this report when reaching its decision. In his report, Mr Murray says that, overall, the **Scheme** will not have a material adverse impact on either the security of **Pearl** or **London Life** policyholders' benefits or on what these policyholders can expect their benefits to be. We have included a summary of this report in section 9 of this guide.

There are separate schemes to transfer policies which may have been taken out as part of the business carried on in, or from within, Jersey, or which were issued to people resident in the Bailiwick of Guernsey. The **Jersey Scheme** and **Guernsey Scheme**, which we refer to together as the '**overseas schemes**', will only go ahead if they are approved by the Royal Court of Jersey and the Royal Court of Guernsey, respectively, and if the **High Court** approves the **Scheme**. See Appendix 1 for more information.

London Life also has a small number of policyholders in the Isle of Man. These policies will be subject to the terms of the **Scheme**, if it is approved by the **High Court**.

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Which policies are transferring?

If the **Scheme** is approved by the **High Court**, all **London Life** policies will transfer to **Phoenix Life Assurance** on the **transfer date**.

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What this means for Pearl policyholders

Pearl policies will not move as a result of the **Scheme**. The **Scheme** won't affect your existing benefits, the level of premiums payable, any guarantees you have or any payments you are receiving. You will keep the same policy number and, when you call us, you will speak to the same team of people on the same phone number as you do now. The level of service you receive will not be affected.

However, on or around the **transfer date**, **Pearl** will be renamed Phoenix Life Assurance Limited (**Phoenix Life Assurance**) to reflect the fact that this company is a key part of the **Phoenix Group**. After this:

- you will start to see the Phoenix Life name and logo on any letters and documents we send you. You can see the Phoenix Life logo on the front of this booklet;
- information relating to your policy that is currently on the www.pearl.co.uk website will instead be available on www.phoenixlife.co.uk;

- payments to you will be made by **Phoenix Life Assurance**, direct debit payments will automatically become payable to **Phoenix Life Assurance** and the **Phoenix Life Assurance** name may appear on your bank statements. See section 5 'What this means for payments you make to us' for more information on this; and
- if you are a member of a group pension scheme for which **Pearl** is the trustee or scheme administrator, the name of the trustee or scheme administrator will change to **Phoenix Life Assurance**. The address where you can contact the trustee or scheme administrator will remain the same.

After the transfer, policies in the Pearl Pension Non-Profit Fund and in the Pearl Life Non-Profit Fund will be part of a single **non-profit** fund, the **Non-Profit Fund**. Please see section 8.2 for more information on the **Phoenix Life Assurance** fund structure. This will not affect the amount of premium that you pay, the way your benefits are calculated, or the timing of any benefit payments.

If you have a **with-profits** policy, please see section 8 for more information on how the **Scheme** will affect you. After the transfer, **Pearl with-profits** policies, including **SERPs**, will be covered by a new **Phoenix Life Assurance** Principles and Practices of Financial Management (**PPFM**) document. This new **PPFM** will explain in detail how each of the **Phoenix Life Assurance with-profits** funds will be managed and benefits determined. It will include separate chapters on the **Pearl With-Profits Fund (Pearl WPF)**, the **SERP Fund** (which will be the new name for the Pearl SERP Fund) and the new **with-profits** fund that will be created to accommodate the policies transferring in from **London Life**.

We also produce guides to explain how we manage our **with-profits** funds. These cover the most important points of the **PPFMs** and how they affect you.

The new **PPFM** and guides reflect the changes to **Pearl with-profits** policies and **SERPs** resulting from the **Scheme**. There are draft copies on our website at www.pearl.co.uk/FM12scheme, under 'Technical information'. If the **Scheme** goes ahead, we will send you a paper copy of the guide that relates to your policy with your next annual statement. You can get paper copies of all these documents now by calling our helpline.

Apart from the changes described in this guide (see section 8), the **Pearl WPF** and **SERP Fund** will be managed on the same basis as they are now. The **PPFM** and guides will look different though, as we are changing the format to match other **Phoenix Group** documents.

If the **Scheme** does not go ahead, you will continue to be covered by the current **PPFM** and fund guide for either the **Pearl With-Profits Fund** or the Pearl SERP Fund. Copies of these documents can be found on our website, www.pearl.co.uk.

If you are invested in a **unit-linked** fund, your policy will continue to operate as before and you will see no immediate changes as a result of the **Scheme**. However, the **Scheme** will give **Phoenix Life Assurance** rights, under certain conditions, to merge or close internal **unit-linked** funds and to modify the investment objectives of any **unit-linked** fund (see section 8.7 for more detail). We may also change the names of **unit-linked** funds to include the 'Phoenix' name, but we will make sure that you will still be able to recognise the name of the fund you are invested in.

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What this means for payments you make to us

After the **transfer date**:

- any direct debits or standing orders that you pay to **Pearl** will automatically be payable to **Phoenix Life Assurance** without your having to do anything. Your rights under the direct debit guarantee below are not affected and will still stay the same; and
- any cheques that you write for us should be made payable to 'Phoenix Life Assurance Limited', although we will accept cheques made payable to **Pearl** for some time after this.

The Direct Debit Guarantee



- This Guarantee is offered by all banks and building societies that accept instructions to pay Direct Debits.
- If there are any changes to the amount, date or frequency of your Direct Debit, Phoenix Life Assurance Limited will notify you at least 10 working days in advance of your account being debited or as otherwise agreed. If you request Phoenix Life Assurance Limited to collect a payment, confirmation of the amount and date will be given to you at the time of the request.
- If an error is made in the payment of your Direct Debit, by Phoenix Life Assurance Limited or your bank or building society, you are entitled to a full and immediate refund of the amount paid from your bank or building society.
- If you receive a refund you are not entitled to, you must pay it back when Phoenix Life Assurance Limited asks you to.
- You can cancel a Direct Debit at any time by simply contacting your bank or building society. Written confirmation may be required. Please also notify us.

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What you should do next

Please read this guide and the enclosed information, which we suggest you keep with your original policy documents. If you are happy with our proposals, you don't need to do anything further.

If you have any questions or concerns, you can see the full **Scheme** document and other relevant documents, including the **Independent Expert's** report, on our website at www.pearl.co.uk/FM12scheme.

If you would like a paper copy of any of these documents or if you need more help after reading this guide and the

enclosed information, please write to us at the address given in section 10 or call our helpline on 0845 850 9335, or use the enquiry form available on our website at www.pearl.co.uk/FM12scheme. Our contact centre staff will endeavour to answer your questions directly and all queries will be responded to.

Alternatively, you may wish to speak to an authorised financial adviser about the transfer or, if you have a pension policy, the Pensions Advisory Service. If you do not already have a financial adviser, you can find details of the advisers in your

area on the IFA Promotion Ltd website at www.unbiased.co.uk. Please note that financial advisers may charge you for providing advice.

If you believe you would be adversely affected by the **Scheme**, you can put your objections to the **High Court** in the following ways.

- You can call our helpline, or use our website enquiry form, or write to us at the address given in section 10. We will reply to you and send your objection and our reply to the **High Court**, the **Independent Expert** and the **FSA** before the **hearing** at the **High Court**.
- You can go to the **High Court hearing** and present your objection in person, or a representative can go with you and, if the **High Court** allows, present your objection on your behalf. Your

representative does not need legal training and could be a friend or relative.

If you wish to object or plan to go to the **High Court hearing**, please get in touch with us as soon as possible and preferably before 17 September 2012. If you want to object at the **hearing**, please outline your objection so we can send this to the **High Court**, the **Independent Expert** and the **FSA** before the **hearing**. Your informing us will enable us to let you know about any changes that may be made in relation to the **hearing**, for example a change of time or date. We may also be able to deal directly with any concerns you have.

If you do write to us, please quote the reference FM12 and your client reference number, which you will find at the top of the enclosed letter.

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Other parties with an interest in your policy

We are trying, as far as records allow, to contact all affected policyholders to make them aware of the **Scheme**. This will not be possible in all instances and we need your help to make sure we let everyone associated with your policy know about the **Scheme**.

If there is any other person with an interest in your policy, for example if you are the trustee of a group pension scheme, a co-owner, or if your policy has been assigned, or you have a trustee in bankruptcy, please make them aware of these proposals.

This section summarises the main terms of the **Scheme**.

8.1 Transferring the business

If the **High Court** approves the **Scheme**, we will transfer the entire insurance business of **London Life** to **Phoenix Life Assurance** on the **transfer date**.

However, to simplify our accounts, the **Scheme** will have financial effect for the purposes of these accounts as if the changes had taken place on 1 July 2012. This date is called the **effective date**. Having an **effective date** that is before the **transfer date** does not affect your policy benefits or alter the way your policy is dealt with under the **Scheme**.

Following the **transfer date**, **Phoenix Life Assurance** will become the product provider and will be responsible for the transferred policies instead of **London Life**. **Phoenix Life Assurance** will also take over **London Life's** rights and obligations in relation to the transferred policies. Transferring policyholders will be entitled to the same rights against **Phoenix Life Assurance** in respect of their policy as they had with **London Life**.

Any contracts that **London Life** has with other people or organisations, for example **reinsurance** agreements, will also transfer so that they will be between **Phoenix Life Assurance** and that organisation or person.

8.2 Phoenix Life Assurance fund structure

Pearl divides its assets into two main funds, the **Shareholder Fund** and the **Long-Term Insurance Fund**. The **Long-Term Insurance Fund** is currently divided

into four separate funds, the **Pearl With-Profits Fund**, the **SERP Fund**, the **Pearl Life Non-Profit Fund** and the **Pearl Pension Non-Profit Fund**.

After the transfer, the **Phoenix Life Assurance Long-Term Insurance Fund** will have four sub-funds, as shown below.

- **London Life With-Profits Fund (LL WPF)**
A new **with-profits** sub-fund that will contain the policies transferring from the **Life With-Profits Fund** and the **Pension With-Profits Fund** of **London Life**.
- **Non-Profit Fund (NPF)**
A new sub-fund containing:
 - policies in the existing **Pearl Life Non-Profit Fund**;
 - policies in the existing **Pearl Pension Non-Profit Fund**; and
 - policies transferring from the **London Life non-profit funds** (the **Pension Non-Profit Fund** and the **Life Non-Profit Fund** of **London Life**).
- **Pearl With-Profits Fund (Pearl WPF)**
Existing policies will stay in this fund and no policies will transfer to it.
- **SERP Fund**
The existing fund containing the **Self-Employed Retirement Plans (SERPs)** that transferred to **Pearl** from **National Provident Life Limited (NPLL)** in 2010. No policies will transfer to this fund.

Each of the **with-profits** funds is operated as a stand-alone fund and investment and bonus policy set accordingly.

8.3 Changes affecting London Life with-profits policyholders

There are a number of changes affecting **London Life with-profits** policyholders. The most important of these are shown below.

- Policies transferring from the Life With-Profits Fund and Pensions With-Profits Fund of **London Life** will become part of a single fund, the **LL WPF**.
- Currently shareholders are entitled to a share of one tenth of the profits distributed by **London Life**. After the transfer, shareholders will no longer be entitled to share in any future distribution of profits made from the **LL WPF**.
- Under the **Scheme**, limits will be placed on the level of expenses that may be charged to policies in the **LL WPF**. The **Scheme** also prevents the application of any new types of charge to the **asset share** of the policies in the **LL WPF** (although existing charges will continue to be made as before).
- After the transfer, support required by the **LL WPF** will be provided by the **NPF** or **Shareholder Fund** under the terms of the new **Phoenix Life Assurance** capital policy (see section 8.9). No interest will be charged to the **LL WPF** on any support provided to the **LL WPF** under the terms of the new capital policy.

8.4 Provision for closing or merging the Pearl WPF, SERP Fund or LL WPF

Under the terms of the **Scheme**, **Phoenix Life Assurance** will be required to close a **with-profits** fund if the value of its **with-profits** liabilities falls below £50m (for example as a result of policyholders taking their benefits or leaving the fund). This will help ensure that the remaining assets of

a **with-profits** fund are distributed fairly between the remaining policyholders and will also enable **Phoenix Life Assurance** to manage all the **with-profits** funds on a consistent basis.

The fund will not close until its liabilities fall below £50m. Currently we do not expect this to happen within the next 30 years for the **Pearl WPF** and 13 years for the **SERP Fund**.

If any of the funds close because their **with-profits** liabilities have fallen below this level:

- any **guaranteed benefits** will be protected;
- all **with-profits** policies will be changed into **non-profit** policies;
- policyholders will be allocated guaranteed increases in benefit that will be worked out in a way that is fair to them so that any surplus assets in the fund are paid out; and
- **Phoenix Life Assurance** will transfer all policies, assets and liabilities from the **Pearl WPF**, **SERP Fund** or **LL WPF**, as the case may be, to a **non-profit** fund in **Phoenix Life Assurance**.

Under the terms of the **Scheme**, **Phoenix Life Assurance** will also be entitled, at any time, to merge the policies, assets and liabilities allocated to the **Pearl WPF**, **SERP Fund** or **LL WPF** with another **with-profits** fund. If this happens, policies will remain **with-profits**.

The **Scheme** contains a requirement that **Phoenix Life Assurance** must get written permission from the **FSA** before it can close or merge a **with-profits** fund and an independent actuary must provide an opinion on any **with-profits** fund merger. The **Phoenix Group** will make sure that any proposed changes are consistent with the **FSA** requirement to treat our customers fairly.

8.5 Provision for allocating assets in the Pearl WPF

At present, the returns on the **with-profits** policies allocated or **reinsured** to the **Pearl WPF** are determined by reference to the overall investment performance of the fund. The **Scheme** contains a provision to allow the **Phoenix Life Assurance** Board to determine the returns on particular groups of **with-profits** policies that are allocated or **reinsured** to the **Pearl WPF** by reference to particular assets or asset types within the fund. The Board may wish to do this if it believes it will improve policyholder returns or reduce the volatility of payouts for policyholders near maturity.

The **Scheme** will provide that the Board can only make such a change if after taking appropriate advice (including actuarial advice) it is satisfied that the change:

- is unlikely to have a material adverse effect on any group of policyholders in the **Pearl WPF**; and
- is unlikely to have an adverse effect on the interests of policyholders in the **Pearl WPF** considered as a whole.

Subject to these safeguards, the Board will be able to make a change even if it is contrary to policy terms or pre-existing practice. This provision applies only to the management of the **Pearl WPF** and will not affect policies in the **LL WPF** or the **SERP Fund**, unless they are merged with the **Pearl WPF**.

8.6 Provision for moving non-profit policies out of the Pearl WPF, SERP Fund or LL WPF

Following the transfer, **Phoenix Life Assurance** will be able to move any **non-profit** policy in the **Pearl WPF**, **SERP Fund**, or **LL WPF** to the **NPF**. This will only happen if the move is not contrary to the policy terms and if the **Phoenix Life Assurance** Board transfers a fair value of assets to the **NPF**, having obtained appropriate actuarial advice.

8.7 Future possible changes to unit-linked funds

This section relates to all internal **unit-linked** funds in **Phoenix Life Assurance**, including those created by **Phoenix Life Assurance** to replace the corresponding **unit-linked** funds of **London Life**.

- Following the transfer, even if policy terms do not allow it, **Phoenix Life Assurance** will be able to close an internal **unit-linked** fund if the value of the assets in that fund falls below a certain amount (£5.9m increasing annually in line with the Retail Prices Index), or if maintaining the fund is seen (following appropriate advice) as not being feasible. If this happens, **Phoenix Life Assurance** will let policyholders know about the changes. If a **unit-linked** fund is closed, the policies affected will be given units of an equal value (as determined by the **Phoenix Life Assurance** Board having obtained the advice of the **Phoenix Life Assurance** Actuary) in a different **unit-linked** fund. The substitute **unit-linked** fund will, in the opinion of the **Phoenix Life Assurance** Board, provide reasonably equivalent investment exposure.
- **Phoenix Life Assurance** will also be able to combine or divide **unit-linked** funds, and modify their investment objectives to allow investment in assets that are reasonably similar to, or provide reasonably similar investment exposure to, the assets or exposure then held or permitted. This will only happen if policy terms allow it. These actions will only take place on terms the **Phoenix Life Assurance** Board considers fair to policyholders following advice from the **Phoenix Life Assurance** Actuary.
- The **Scheme** will give policyholders the right to one free switch into another fund, for 12 months following the closure or modification of a **unit-linked** fund.

8.8 Support for the Pearl WPF

Currently, the security of policy benefits in the **Pearl WPF** and the **NPF**, and the reasonable expectations of policyholders with policies in the **Pearl WPF**, are supported in part by a group of shareholder assets called the Pacific Fund. Following the transfer, the security and reasonable expectations of these policyholders will be protected by the new **Phoenix Life Assurance** capital policy (see section 8.9), and the restrictions around the Pacific Fund will be removed.

8.9 Capital policy

As part of the **Scheme**, we will be setting up a new capital policy for **Phoenix Life Assurance** under which **Phoenix Life Assurance** plans to hold more capital than the minimum level required under legislation.

Pearl and **London Life** have their own capital policies which will be replaced by the new **Phoenix Life Assurance** capital policy. The new capital policy will be equivalent in strength to those currently operated by **Pearl** and **London Life**. The new **Phoenix Life Assurance** capital policy will be dynamic and will move in line with the amount and type of business in the company. It will also offer greater security because it can only be changed in specific circumstances set out in its terms or otherwise with the agreement of the **High Court**.

The capital policy will require **Phoenix Life Assurance** to hold an additional buffer of capital above the minimum level required under legislation, which will have the effect of restricting the amounts that can be passed to its shareholders, for example by way of dividends.

The capital policy will also establish a mechanism for the **Shareholder Fund** or the **NPF** to provide capital support to any of **Phoenix Life Assurance's** **with-profits** funds, if they cannot satisfy their regulatory capital requirements, plus an additional buffer, on their own.

There is a very remote possibility that, in extreme circumstances, a **with-profits** fund might need to provide support to another **Phoenix Life Assurance** fund. However, under the new capital policy, **Phoenix Life Assurance** is committed to hold more capital than the minimum level required under legislation for each of its funds. Because of this, we believe it is extremely unlikely that a policy in any of the **Phoenix Life Assurance with-profits** funds will be affected by losses from another **Phoenix Life Assurance** fund.

The **Independent Expert** has considered the effect of the **Scheme** on the security of all **Pearl** and **London Life** policyholders. His conclusions are set out in section 9.

8.10 Excluded policies

If there are technical reasons why we are unable to transfer any policy or group of policies when the **Scheme** takes effect, we will treat these policies for all practical purposes in the same way as if they had transferred, by way of a **reinsurance** arrangement between **London Life** and **Phoenix Life Assurance**.

8.11 Data Protection

Following the **transfer date**, under the terms of the **Scheme**, **Phoenix Life Assurance** will take over the rights and responsibilities of **London Life** in respect of personal data which:

- is associated with the insurance business of **London Life**;
- is controlled by **London Life**; and
- is subject to the Data Protection Act 1998.

This means that, from the **transfer date**, **Phoenix Life Assurance** will become the 'data controller' for this data and so will be under the same duty to respect the confidentiality and privacy of that information as **London Life** was when it was the data controller.

Phoenix Life Assurance will continue to use and manage this personal data for the purposes that policyholders have previously been advised of.

The following is a summary of the report written by the **Independent Expert**, Mr David Murray, who is a senior actuary and partner at Deloitte MCS Limited. He is independent of the companies involved in the **Scheme** and his appointment as the **Independent Expert** for the **Scheme** has been approved by the **FSA**. He has considered the proposed changes and reported on how they may affect all policyholders involved in the **Scheme**.

Shortly before the final court hearing, the **Independent Expert** will issue a supplementary report in which he will consider any developments since his first report which might affect policyholders, including updated financial information. You will be able to find this on our website www.pearl.co.uk/FM12scheme under 'Technical information'.

Report Summary

Main considerations

The purpose of my report is to assist the **High Court** in deciding whether to sanction the **Scheme**.

As **Independent Expert**, I have considered the effect that the **Scheme** will have on different groups of policyholders in **London Life** and **Pearl**, and in particular whether or not there are likely to be any material adverse effects for either transferring **London Life** policyholders or existing **Pearl** policyholders. I have examined the implications of the **Scheme** for each group, including separate consideration of the effects on holders of **with-profits**, **non-profit** and **unit-linked** policies. I have reviewed in particular the likely impact on:

- The security of policyholder benefits.
- The reasonable benefit expectations of policyholders.
- Service standards and investment management.

- The governance arrangements in place to ensure policyholder interests are properly considered in future.

Security of policyholder benefits

I am satisfied that the **Scheme** is unlikely to have a material adverse impact on the security of benefits of either transferring **London Life** policyholders or **Pearl's** existing policyholders.

In the case of transferring **London Life** policyholders, this is because:

- The new **Phoenix Life Assurance** capital policy will provide a strong level of benefit security, well in excess of that required by current regulations. The policy will mean that **Phoenix Life Assurance** should be able to withstand a range of adverse events expected to occur about once every 20 years, and still at that point be able to withstand a further range of adverse events expected to occur about once every 200 years. This is a slightly stronger level of benefit security than **London Life's** existing capital policy.
- Further security will be provided to transferring **London Life** policyholders by an additional £25m that **Phoenix Group** will hold to provide support for **Phoenix Life Assurance**, if that became necessary. As a result of the protection provided by the new **Phoenix Life Assurance** capital policy and the additional £25m, I am satisfied that the disapplication of the provisions of the London Life Demutualisation Scheme is not materially adverse for transferring **London Life** policyholders.
- The nature of the risks to which **Phoenix Life Assurance** will be exposed is unlikely to be sufficiently different such that the effect for **London Life** policyholders could be materially adverse.

In the case of **Pearl's** existing policyholders, this is because:

- The capital needed to cover the additional risks associated with the transferring **London Life** policies is provided by surplus assets transferring from **London Life** and existing surplus assets in **Pearl**.
- **Phoenix Life Assurance** will be at least as strong financially after the implementation of the **Scheme** as before.
- The new **Phoenix Life Assurance** capital policy will provide a strong level of benefit security, well in excess of that required by current regulations (see above). It will also provide slightly improved security relative to the existing **Pearl** capital policy.
- Further security will be provided by the additional £25m that **Phoenix Group** will hold to provide support for **Phoenix Life Assurance**, if that became necessary.

Policyholders' benefit expectations

I am satisfied that the **Scheme** is unlikely to have any material adverse impact on the benefit expectations of transferring **London Life** policyholders or existing **Pearl** policyholders.

In the case of **London Life** and **Pearl** policyholders with **with-profits** policies, this is because:

- Key considerations relevant to **with-profits** policyholders will not change as a result of the **Scheme**, including the basis on which **asset shares** are determined, the current level of **asset shares** and **guaranteed benefits**, surrender values, bonus rates, payout levels, investment strategy, charges, smoothing of payouts and the level of premiums payable.
- The **Scheme** will introduce a number of protections to ensure that there will be no material adverse impact on the

benefit expectations of **London Life's with-profits** policyholders as a result of the **Scheme**, including a 5 year cap on administrative expense charges, a guarantee that no new types of charge to policy **asset shares** will be introduced (charges that are already taken will continue to be taken) and restrictions on changing the asset mix of the **LL WPF** for the purpose of reducing any capital support provided to the fund. The **Phoenix Life Assurance** Board has also undertaken to ensure that the amount of tax charged to the **LL WPF** will be no greater than the sum of the amounts that would have been charged to the current **London Life with-profits** funds separately.

- The **Scheme** will also introduce various protections to ensure that there will be no adverse impact on the benefit expectations of **Pearl's** existing **with-profits** policyholders from the release of the restrictions on the Pacific Fund. The **Phoenix Life Assurance** Board has also confirmed that it will make support available for the **Pearl WPF** from the **NPF** or **Shareholder Fund** if necessary to ensure that investment policy continues to satisfy policyholder expectations, and that it will not adopt a more conservative investment strategy as a direct result of the **Scheme** (although this will not affect the **Phoenix Life Assurance** Board's ability to change the investment strategy in the future for reasons unconnected to the **Scheme**).
- The **Scheme** will enable a greater degree of hypothecation within the **Pearl With-Profits Fund** in future, but protections are included in the **Scheme** to ensure that this should not be materially adverse for policyholders and should be beneficial for the fund as a whole.
- The governance and control requirements incorporated in the **Scheme** are adequate to ensure that policyholder interests will be protected in the event that any **with-profits** fund

is closed or merged with another **with-profits** fund, or if **non-profit** policies are transferred out of any **with-profits** fund.

- The proposal to remove the shareholders' entitlement to share in future bonus distributions in the **LL WPF** will not have any impact on policy payouts for **London Life's with-profits** policyholders.

In the case of **London Life** and **Pearl** policyholders with **non-profit** policies, this is because the benefits payable under such **non-profit** policies are fixed and there will be no change to the terms and conditions of these policies as a result of the **Scheme**. Where premiums or charges are reviewable, the **Scheme** will not affect current premium levels or charges, or the processes by which these premiums or charges are determined in the future.

In the case of **London Life** and **Pearl** policyholders with **unit-linked** policies, this is because:

- Policyholders' immediate interests in their **unit-linked** funds will be preserved under the **Scheme**. In particular, for transferring **London Life** policyholders, the new **unit-linked** funds established by **Phoenix Life Assurance** will have the same underlying assets and be priced on the same basis as the existing funds in **London Life**.
- There will be no immediate changes to investment strategy, charges, unit pricing or the choice of **unit-linked** funds as a result of the **Scheme**.
- The **Scheme** will enable **Phoenix Life Assurance** to wind up **unit-linked** funds in the future, but I consider that policyholders are suitably protected by the requirement for **Phoenix Life Assurance** to offer a substitute **unit-linked** fund which offers reasonably equivalent investment exposure and a free switch if affected policyholders are not satisfied with the replacement fund. **Unit-linked** policy terms and conditions will not otherwise be changed by the **Scheme**, including any policy terms relating to charges.

Service standards and investment management

I consider that there should be no impact on the quality or cost of administration or investment management services for transferring **London Life** policyholders or **Pearl's** existing policyholders as a result of the **Scheme**.

This is because:

- The **Scheme** will not change current outsourcing arrangements for policy administration.
- The **Scheme** will not change current investment management arrangements or the fund managers.

Governance of with-profits business

The **Phoenix Life Assurance** Board and the **Phoenix Life Assurance WPC** will take on the corresponding responsibilities of the **London Life** Board and the **London Life With-Profits** Committee in respect of the **with-profits** business transferring to **Phoenix Life Assurance** and will be required to have regard to the established practices of **London Life** that applied before the **Scheme**. I am satisfied that these arrangements represent a level of governance quality which is at least as strong as the current arrangements in **London Life** in terms of protecting the interests of policyholders. There will be no changes to the governance arrangements for **Pearl's** existing **with-profits** policyholders.

Summary

Overall, I am satisfied that the **Scheme** is unlikely to have a material adverse impact on either the transferring **London Life** policyholders or **Pearl's** existing policyholders.

This conclusion applies equally to policies that may have been taken out as part of the business carried on in, or from within, Jersey or issued to people resident in the Bailiwick of Guernsey by **London Life**, and which will transfer under the **overseas schemes**.

I will keep these matters under review until the date of the final **High Court hearing** and will draw any significant developments or changes that may affect policyholders

to the attention of the **High Court** in a supplementary report.

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More information

If you have any questions, the enclosed leaflet ‘Simplifying our business - Your questions answered, for Pearl Assurance Limited policyholders’ may help.

You can see the following documents relating to the **Scheme** on our website at www.pearl.co.uk/FM12scheme.

<p>Scheme mailing pack for Pearl Assurance policyholders</p>	<ul style="list-style-type: none"> • ‘Simplifying our business – Scheme guide for Pearl Assurance Limited policyholders’ • ‘Simplifying our business – Your questions answered, for Pearl Assurance Limited policyholders’ • Example letters for Pearl Assurance policyholders
<p>Letters, guides and Q&As for London Life policyholders</p>	<ul style="list-style-type: none"> • ‘Simplifying our business – Scheme guide for London Life Limited policyholders’ • ‘Simplifying our business – Your questions answered, for London Life Limited policyholders’ • ‘Simplifying our business – Additional information for London Life Limited with-profits policyholders’ • Example letters for London Life Limited policyholders
<p>Other information</p>	<ul style="list-style-type: none"> • Draft versions of the new Phoenix Life Assurance PPFM (incorporating the LL WPF) and the guides to how we plan to manage the LL WPF, the SERP Fund and Pearl WPF, which will become effective following the transfer date • Summaries of the main differences between the existing PPFMs for Pearl, the SERP Fund and London Life and the new Phoenix Life Assurance PPFM • The full Scheme document • The Independent Expert’s full report for the Scheme • Reports by the Actuaries of Pearl and London Life on the impact of the Scheme • The full terms of the overseas schemes

If you have any more questions, or would like paper copies of any of the documents listed above, please call our helpline on **0845 850 9335**.

The helpline is open from 9am to 5pm, Monday to Friday, up until the day before

the **High Court hearing**. Calls are charged at local rates from UK landlines. If you are calling from outside the UK, please call +44 (0)1733 475088. Our contact centre staff will endeavour to answer your questions directly, and all queries will be responded to.

This helpline is only for enquiries about the **Scheme**. If you have any general questions about your policy, please contact us on the normal customer number which you will find on previous letters we have sent you.

If you have a **Scheme** related query you may also write to:

Restructure Team (reference FM12)
Lynch Wood Park
Peterborough
PE2 6FY
United Kingdom

If you do write to us, it would help if you could please quote the client reference number at the top of the letter accompanying this pack.

You can also see copies of the **overseas schemes** and the **Independent Expert's** full report for the **Scheme** at our solicitors' offices at the addresses shown in Appendix 1.

11

Definitions

Asset share – the amount determined by accumulating the premiums paid at the rates of investment return earned, after allowing for applicable charges, for example expenses, mortality costs, guarantee costs, and tax.

Demutualisation – this is the process whereby a mutual company, such as a building society or a mutual insurer, which is owned by its members or customers, is converted into a company which is owned by shareholders.

Effective date – 1 July 2012, being the date on which the **Scheme** is to be treated as having taken effect for accounting purposes between **Phoenix Life Assurance** and **London Life**.

FSA – the UK Financial Services Authority, our industry regulator.

GFSC – the Guernsey Financial Services Commission, our industry regulator in the Bailiwick of Guernsey.

Guaranteed benefits – the minimum amounts that will be paid in line with the terms and conditions of a policy, including any annual bonuses already added.

Guernsey Scheme – the insurance business transfer scheme under section 44(1)(C) of the Insurance Business (Bailiwick of Guernsey) Law 2002 under which we propose to transfer, from **London Life** to **Phoenix Life Assurance**, the relevant policies that were issued to people resident in the Bailiwick of Guernsey.

Hearing – the **hearing** at the **High Court** to approve the **Scheme**, which we expect to be held on 24 September 2012.

High Court – the High Court of Justice of England and Wales, Rolls Building, Fetter Lane, London EC4A 1NL.

Independent Expert – Mr David Murray of Deloitte MCS Limited, an actuary experienced in the issues relating to the transfer of long-term insurance businesses, who has been appointed by **Pearl** and **London Life**, and approved by the **FSA**, as the **Independent Expert** in connection with the **Scheme**. He has prepared a report on the effect of the **Scheme** on policyholders.

Jersey Scheme – the insurance business transfer scheme under Article 27 and Schedule 2 to the Insurance Business (Jersey) Law 1996 under which we propose

to transfer, from **London Life** to **Phoenix Life Assurance**, the relevant policies in respect of the business carried on in, or from within, Jersey.

JFSC – the Jersey Financial Services Commission, our industry regulator in Jersey.

London Life – London Life Limited.

London Life With-Profits Fund or **LL WPF** – a new **with-profits** fund which will be set up within **Phoenix Life Assurance**. The transferring **with-profits** policies from **London Life** will be part of this new **with-profits** fund.

Long-Term Insurance Fund – a fund that contains all the assets and liabilities relating to a company's life assurance business.

Non-profit – a **non-profit** policy is one that is not entitled to share in the surplus of a company's **Long-Term Insurance Fund**, such as term assurance or income protection policies.

Non-Profit Fund or **NPF** – the **non-profit** fund of **Phoenix Life Assurance**. This is a new **non-profit** fund that will be set up within **Phoenix Life Assurance** to contain existing **Phoenix Life Assurance non-profit** policies and the transferring **non-profit** policies from **London Life**. All the profits from this fund are distributable to shareholders.

National Provident Life Limited (NPLL) – a company formed to take over the existing National Provident Institution business, in anticipation of the **demutualisation** of National Provident Institution, which took effect on 1 January 2000.

Overseas schemes – the **Jersey Scheme** and **Guernsey Scheme**.

Pearl – Pearl Assurance Limited, which will change its name on or around the **transfer date** to Phoenix Life Assurance Limited (**Phoenix Life Assurance**).

Pearl With-Profits Fund or **Pearl WPF** – one of the **with-profits** funds of Pearl Assurance Limited (the other **with-profits** fund being the **SERP Fund**).

Phoenix Group – the group of companies (formerly Pearl Group) whose ultimate parent company is Phoenix Group Holdings and which currently includes Phoenix Life Limited, London Life Limited, National Provident Life Limited, NPI Limited and Pearl Assurance Limited.

Phoenix Life Assurance – Phoenix Life Assurance Limited, the new name for **Pearl**, the company to which the business described in section 3 will be transferred on the **transfer date**.

Phoenix Life Assurance With-Profits Committee or **WPC** – the role of this committee is to help the **Phoenix Life Assurance Board** in relation to the **Phoenix Life Assurance with-profits** funds. The committee provides an independent opinion on whether **Phoenix Life Assurance** is keeping to its **PPFM** and, where applicable, on how any competing or conflicting rights and interests of policyholders and shareholders have been addressed.

PPFM – the Principles and Practices of Financial Management, a document that explains how we manage our **with-profits** funds.

Reinsurance and reinsured – an arrangement where some or all of the risk one company has under some of its policies is passed to another company in return for a premium. **Reinsured** business is business that is subject to **reinsurance**.

Scheme – the legal document to be approved by the **High Court** which sets out how all **London Life** policies will transfer to **Phoenix Life Assurance**. The **Scheme** sets out the terms under which **Phoenix Life Assurance** will be responsible for those transferring policies which are currently the responsibility of **London Life** and those policies currently within **Pearl**.

SERP(s) – Self-Employed Retirement Plan(s) that transferred to **Pearl** from **National Provident Life Limited (NPLL)** in February 2010.

SERP Fund – the fund within Pearl Assurance Limited containing **with-profits SERPs** that transferred to **Pearl** from **National Provident Life Limited (NPLL)** in February 2010. This fund is currently known as the Pearl SERP Fund.

Shareholder Fund – the part of a company's assets and liabilities relating to its life insurance business held outside its **Long-Term Insurance Fund** and for the benefit of its shareholders. It includes the shareholders' original investment in the company and the profits which have been transferred out of the **Long-Term Insurance Fund** and kept within the company.

Transfer date – 30 September 2012 or any later date that **Phoenix Life Assurance** and **London Life** agree. This is the date on which the assets, liabilities and policies of **London Life** will transfer to **Phoenix Life Assurance** under the **Scheme**.

Unit-linked – **unit-linked** benefits or investments consist of a number of units in a fund invested in a specific class or type of assets (such as shares). The value of the units will fluctuate depending on the performance of the underlying assets. Some policies can invest in both **unit-linked** funds and a **with-profits** fund.

With-profits – a **with-profits** fund is one where eligible policyholders have a right to share in the surplus of that fund. Some policies can invest in both a **with-profits** fund and **unit-linked** funds.

Appendix 1

Overseas schemes (Jersey and Guernsey)

London Life has a small number of transferring policies that may have been taken out as part of the business carried on in, or from within, Jersey, or which were issued to people resident in the Bailiwick of Guernsey. We will transfer these policies separately under a **Jersey Scheme** and **Guernsey Scheme**. We refer to these together as the '**overseas schemes**'. The **Jersey Scheme** and **Guernsey Scheme** will be presented to the Royal Court of Jersey and the Royal Court of Guernsey respectively. We are also working with the Jersey Financial Services Commission (**JFSC**) and the Guernsey Financial Services Commission (**GFSC**).

The **overseas schemes** are based on the same terms as the **Scheme**. The summary of the **Scheme** in section 8 of this guide and the summary of the **Independent Expert's** report in section 9 apply equally to the **overseas schemes**. In terms of the **overseas schemes**, where we refer to the

approval of the **High Court** in section 8.1, you should read this as approval by the Royal Court of Jersey or the Royal Court of Guernsey, as appropriate.

The court hearings for the approval of the **overseas schemes** are expected to take place as follows.

- **Jersey Scheme:** 9.30 am on 26 September 2012, at the Royal Court of Jersey, Royal Court House, Royal Square, St Helier, Jersey JE1 1JG.
- **Guernsey Scheme:** On 28 September 2012, at the Royal Court of Guernsey, Royal Court House, St Peter Port, Guernsey GY1 2PB.

If you believe you would be adversely affected by either of the **overseas schemes**, you may put your objections to the Royal Court of Jersey or the Royal Court of Guernsey in the following ways.

- You can call our helpline or write to us at the address given in section 10. We will reply to you and send your objection and our reply to the **Independent Expert**, the **JFSC** or **GFSC** (whichever applies) and the relevant court before the hearing.
- You can go to the hearing and present your objection in person, or you can take a representative with you to object on your behalf. In Jersey, your representative must be an Advocate.

If you wish to object or plan to go to the Jersey or Guernsey court hearing, please get in touch with us as soon as possible and preferably before 17 September 2012. If you want to object at a hearing, please outline your objection so we can send this to the **Independent Expert**, the **JFSC** or **GFSC** (whichever applies) and the relevant court before the hearing. Your informing us will enable us to let you know about any changes that may be made in relation to the relevant hearing, for example a change of time or date. We may also be able to deal directly with any concerns you have.

If you do write to us, please quote the reference FM12 and your client reference number, which you will find at the top of the enclosed letter.

If the Royal Court of Jersey and the Royal Court of Guernsey approve the **overseas schemes**, transfers will take place in line with these schemes from the **transfer date**, or a later date if the relevant court orders this.

The UK tax status of **London Life** policies for Jersey and Guernsey policyholders does not change as a result of the **Scheme** taking place.

If, for any reason, the **overseas schemes** are not approved by the **transfer date**, the policies that would have been transferred in line with those schemes will be **reinsured** to **Phoenix Life Assurance**, although they will remain with **London Life**. Whether the **Scheme** is approved does not depend on the **overseas schemes** also being approved.

More information

You can see or obtain copies of the **overseas schemes** and the **Independent Expert's** full report. They are available for inspection or collection during office hours from our solicitors as shown below. They are also available from our website at www.pearl.co.uk/FM12scheme or by calling our helpline on 0845 850 9335, or +44 (0)1733 475088 if you are calling from overseas.

Jersey Scheme - at the office of Mourant Ozannes, 22 Grenville Street, St Helier, Jersey JE4 8PX, up to the date of the Jersey court hearing.

Guernsey Scheme - at the office of Mourant Ozannes, 1 Le Marchant Street, St Peter Port, Guernsey GY1 4HP, up to the date of the Guernsey court hearing.

Please ask our solicitor to allow you to collect or inspect copies of the documents, which are available for no charge.

Appendix 2

LEGAL NOTICE

In the High Court of Justice
Chancery Division
Companies Court

No: 4240 of 2012

IN THE MATTER OF LONDON LIFE LIMITED

- and -

IN THE MATTER OF PEARL ASSURANCE LIMITED

- and -

IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE IS HEREBY GIVEN that on 31 May 2012 London Life Limited (“LL”) and Pearl Assurance Limited (“**Pearl**”, which is to change its name to Phoenix Life Assurance Limited) applied to the High Court of Justice of England and Wales, pursuant to section 107(1) of the Financial Services and Markets Act 2000 (the “**Act**”), for an Order under section 111 of the Act sanctioning a scheme (the “**Scheme**”) for the transfer to Pearl of the entire long-term insurance business of LL (the “**Business**”) and for the making of ancillary provisions in connection with the implementation of the Scheme under sections 112 and 112A of the Act.

The proposed transfer will result in the Business which is currently carried on by LL being carried on by Pearl. Under the terms of the Scheme, all liabilities in respect of the Business as at the date of the transfer shall be transferred to and become liabilities of Pearl. All claims in respect of the policies comprised within the Business shall, upon the transfer becoming effective, be dealt with by Pearl.

Copies of the report on the terms of the Scheme prepared by an Independent Expert in accordance with section 109 of the Act (the “**Independent Expert’s Report**”), Scheme guides (which contain a statement setting out the terms of the Scheme and a summary of the Independent Expert’s Report), and copies of the Scheme document itself can be obtained free of charge by contacting LL or Pearl using the telephone number or address set out below. These and other documents relating to the Scheme (including actuarial reports and sample copies of the communications to policyholders) are also available on the LL website at www.london-life.com/FM12scheme and on the Pearl website at www.pearl.co.uk/FM12scheme.

Any questions or concerns relating to the proposed transfer should be referred to LL or Pearl using the following telephone number or address:

Restructure Team (reference FM12)
Lynch Wood Park
Peterborough
PE2 6FY

Telephone: 0845 850 9335 or, if phoning from overseas, +44 (0)1733 475 088.

If you have a policy with LL or Pearl, please quote your policy number in any correspondence. This can be found on your policy documents or annual statement.

The application is due to be heard before the Companies Court Judge at the Rolls Building, Fetter Lane, London, EC4A 1NL on 24 September 2012 and any person (including any policyholder or employee of LL or Pearl) who thinks that he or she would be adversely affected by the carrying out of the Scheme may attend the hearing in person or by Counsel. Any person intending to attend is requested to give notice of such intention as soon as possible and preferably before 17 September 2012, setting out their grounds of objection, either to LL or Pearl (by calling the above number or in writing to the address above) or to the solicitors named below.

Any person who objects to the Scheme but does not intend to attend the hearing may also make representations about the Scheme by giving notice of such representations, as soon as possible and preferably before 17 September 2012, either to LL or Pearl (by calling the above number or in writing to the address above) or to the solicitors named below.

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct
London
EC1A 2FG
Ref: C1JSR

Solicitors to LL and Pearl



PHOENIX LIFE

ANY MORE QUESTIONS ABOUT THE SCHEME?

Please call our helpline on

0845 850 9335

or visit our website

www.pearl.co.uk/FM12scheme

Lines are open Monday to Friday, 9am to 5pm.
Calls are charged at local rates from UK landlines. If you are
calling from outside the UK, please call +44 (0)1733 475088.
We may monitor or record calls.

**If you would like this information in large print,
in Braille, or on cassette or CD, please call 0845 850 9335.**

Phoenix Life Limited No. 1016269, Pearl Assurance Limited No. 1419, London Life Limited No. 1179800 and National Provident Life Limited No. 3641947 are authorised and regulated by the Financial Services Authority. All companies are registered in England and have their registered office at: 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.