



PHOENIX GROUP

NATIONAL PROVIDENT LIFE LIMITED

Proposed Scheme to Transfer Long-Term Insurance Business

Report by the With Profits Actuary

11 December 2014

1. INTRODUCTION

The purpose of this report is to give my opinion on the effect of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 (the "Scheme") on the with-profits policyholders of National Provident Life Limited ("NPLL"). This report applies equally to the unitised with-profits elements of unit-linked policies, but not other aspects of those policies.

Under the Scheme, the entire business of NPLL will transfer to Phoenix Life Assurance Limited ("PLAL").

The report is written for the NPLL board of directors (the "NPLL Board") in my capacity as With Profits Actuary for NPLL. As well as the NPLL Board, the report may be used by the independent expert, the High Court, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the National Provident Life Fund Supervisory Board (the "Supervisory Board") in forming their own judgements about the Scheme.

It is intended that I will act as With Profits Actuary for the National Provident Life With-Profits Fund (the "NPL WP Fund") within PLAL after the Transfer Date of the Scheme.

In preparing this report I have considered the Scheme document and the report by the Actuarial Function Holder of NPLL on the impact of the Scheme on the policyholders of NPLL (the "NPLL AFH Report"). Section 3 of that report gives details of the structure and history of NPLL and section 4 provides details of the Scheme and such details are therefore not repeated in this report. Terms defined in that report carry the same meanings in this report unless otherwise specified.

I have also considered the terms of the NPLL Scheme, which sets out how NPLL's business should be managed. Paragraph 34 of the NPLL Scheme imposes some specific requirements in respect of any proposal to transfer NPLL's business to PLAL. I discuss these in section 6.

In addition, I have considered the Principles and Practices of Financial Management ("PPFM") of NPLL as they apply to the with-profits business of NPLL before implementation of the Scheme and the new draft PLAL PPFM which will apply to the management of the transferring business after the Scheme has come into effect. However, because the PPFM may be changed, albeit within the constraints imposed by the rules of the FCA, they should not be regarded as a permanent commitment to manage the funds in a particular way.

Where I refer in this report to arrangements and practices of PLAL after the Transfer Date, I have had regard to the arrangements and practices that the board of directors of PLAL (the "PLAL Board") have indicated that they will adopt following the implementation of the Scheme.

Further, the PLAL Board has reviewed and approved drafts of this report and confirmed that the arrangements and practices for PLAL after the Transfer Date will be implemented by PLAL. These include arrangements in relation to capital support and inter-fund reinsurance.

The Financial Reporting Council is responsible for issuing and maintaining Technical Actuarial Standards ("TAS"). The standards consist of generic TAS, which apply to a wide range of actuarial work, and specific TAS, which apply to specified areas. This

report and the work underlying it comply with the Insurance TAS, the Transformations TAS and the following generic TAS: TAS R (Reporting) and TAS D (Data). TAS M (Modelling) does not apply as no models have been used to calculate results for the purpose of this report. This report does however refer to the estimated solvency position as set out in the NPLL AFH Report and that report sets out how those estimates were made.

2. BACKGROUND

I am a Fellow of the Institute of Actuaries. I was appointed as With Profits Actuary for NPLL on 1 April 2013. I am also With-Profits Actuary of PLAL.

I am an employee of Pearl Group Services Limited ("PGS"), which is a wholly owned subsidiary of the ultimate parent company of NPLL, Phoenix Group Holdings. I hold two low-cost endowment policies with PLAL, but I am not a policyholder of any of the other companies within the Phoenix Group, including NPLL. I currently have options on a number of Phoenix Group Holdings shares.

I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

3. MAIN EFFECTS OF THE SCHEME

Under the Scheme, all the business of the National Provident Life Fund, apart from non-profit annuities in payment, will transfer to the new NPL WP Fund in PLAL. This fund will be managed separately from the other with-profits funds in PLAL, however there will be some changes from the way with-profits business is currently managed in NPLL, including changes to policy terms and conditions, and these are summarised below:

- NPLL Scheme – The NPLL Scheme that governs the operation of NPLL will be disapplied by the Scheme. Where appropriate, policyholder protections built into the NPLL Scheme are replicated within the Scheme. These include provisions regarding the financial management of the new NPL WP Fund and provisions regarding the standard of service provided in the administration and investment management of the NPL WP Fund.
- Simplification of NPLL capital support – The Asset Share Charge Fund and the Capital Funds will be combined in the estate of the NPL WP Fund. However, because of the cost of future guarantees to be provided in the NPL WP Fund, it is not anticipated that a distributable estate will arise.

The other existing capital support arrangements (as outlined in section 5.3) will be replaced by support to the NPL WP Fund from the NP Fund and the PLAL Shareholders' Fund in accordance with the PLACP.

- Governance – Various of the rights and responsibilities of the Supervisory Board will be carried over by the Scheme as rights and responsibilities of the PLAL WPC in relation to the NPL WP Fund. These include the Supervisory Board's power to manage both the investment policy and the bonus policy of the transferring with-profits business. However, consistent with the current regulatory framework, the Scheme provides that the PLAL Board, rather than the PLAL WPC, will be primarily responsible for managing the NPL WP Fund.

In line with this change, the Scheme will also reduce the number of reserved matters that require formal agreement from both the PLAL Board and the PLAL WPC.

- PLAL Capital Policy – PLAL is managed in accordance with the PLAL Capital Policy (“PLACP”). Pursuant to the PLACP, the NP Fund and the PLAL Shareholders’ Fund will lend capital to eliminate or reduce any deficit in the NPL WP Fund against its technical provisions to the extent that the NP Fund or the PLAL Shareholders’ Fund have available assets. The PLACP also gives the PLAL WPC the power to recommend to the PLAL Board that support be provided within the NP Fund or the PLAL Shareholders’ Fund to cover the ICA or CRR attributable to the NPL WP Fund to the extent that the fund cannot itself, and as needed to treat customers fairly. The PLACP is designed to ensure that sufficient resources are retained to cover all the business of PLAL, including the business transferred in from NPLL, and its associated risks.
- Expenses Charged to the NPL WP Fund – Charges for administrative expenses relating to the NPL WP Fund will be set at their current levels and continue to increase on the same basis as at present, with future changes set by the PLAL Board subject to the agreement of the PLAL WPC. The PLAL WPC will also be able to request that the PLAL board implement a review of these charges at any time. In addition, the Scheme will require that the aggregate amount charged must always be no more than could be charged taking into account COBS rules.
- Investment management expenses must be made on a basis which is agreed by the PLAL WPC.
- The new NPL WP Fund will be subject to the terms of the PLAL 2012 Scheme, which includes powers:
 - To allow non-profit annuities, which are set up as a result of policies vesting, including those set up under Guaranteed Annuity Options, and other non-profit policies, to be transferred to the NP Fund. Upon such a transfer, the NPL WP Fund would pay an appropriate amount to the NP Fund. The terms of any such transfer will be reviewed by the PLAL WPC and independent actuarial advice will normally be sought unless the PLAL WPC decided that the terms were clearly fair and equitable and that no such review was therefore needed, and in any event where the total value of such a re-allocation exceeds a minimum size (currently £500m).
 - To require the fund to be wound-up (and all the with-profit policies in the fund converted into non-profit policies with guaranteed increases in benefits) in the future if the liabilities of the fund (gross of reinsurance) relating to with-profits policies fall below a threshold value. The threshold value will be the same which applies to PLAL’s existing with-profits funds, namely £50m. The PLAL 2012 Scheme includes protections for the policyholders in the fund at the time it is proposed that the fund is wound-up, including the requirement to obtain regulatory approval.
 - To allow the fund to be merged with another with-profits fund in PLAL, subject to certain protections for policyholders, when the with-profits liabilities of the fund fall below a threshold value equivalent to that which currently applies under the terms of the NPLL Scheme (being

£750m increased by inflation each year). These protections require an opinion from an independent actuary that the merger will not adversely affect policyholders' reasonable expectations and written approval from the regulators.

The PLAL PPFM will be amended to include a separate chapter for the new NPL WP Fund.

4. IMPLICATIONS OF THE SCHEME – POLICYHOLDER BENEFIT EXPECTATIONS

On the whole, the NPL WP Fund will be operated in the same manner as the current National Provident Life Fund, except as described below and in section 3.

Following implementation of the Scheme, those policyholders currently eligible to share in the distribution of surplus from the National Provident Life Fund will share in the distributable surplus of the NPL WP Fund in the same way. However, currently there is no distribution of the estate being made nor is there likely to be for the foreseeable future since it is expected that all of it will be needed to meet future guarantee costs and other charges for which it is liable.

Currently all incremental business written since 1 January 2000 is reassured to PLL, and PLL receives any profits or losses arising on that business. This will continue to be the position post transfer.

In particular, as a result of the Scheme:

- Allocating the Asset Share Charge Fund and the Capital Funds to the estate will mean that the shareholder will give up the right to receive any support charges payable in respect of the Capital Funds and the right to receive any of the Capital Funds not required to meet the cost of guarantees. This provides a small benefit to the NPL WP Fund.
- Future asset share charges – on the whole, the circumstances in which future asset share charges are taken are unaffected by the Scheme. With regard to the level of the asset share charge, no longer having to pay support charges on the Capital Funds and the lower cost of shareholder support (in that the 4.75% charge on the New Earmarked Portfolio will no longer be payable) may benefit policyholders in that there is an increased possibility that in future there could be circumstances where the position of the fund improves such that asset share charges at some point in the future will be lower than they might otherwise have been. However, given the current financial position of the fund it is expected that asset share charges will remain at their current level after the transfer.
- The assets in the NPL WP Fund will continue to be managed in the asset pools as currently defined. Asset shares, asset pools, bonus rates and surrender values will continue to be calculated in the same way as they are currently. The process for allocating investment returns to asset shares set out in the PPFM will continue to apply.
- Although general responsibility for management of the fund will lie with the PLAL Board, the PLAL WPC will have the right to determine bonus policy (consistent

with the Supervisory Board's powers in respect of NPLL's National Provident Life Fund).

- The Scheme will not change the investment policy for the NPL WP Fund. In particular the Scheme will not affect the asset mix for asset shares and will not change the way the assets backing the guaranteed benefits are invested. The PLAL Board will make available assets in the NP Fund and Shareholders' Fund to support the current investment policy of the fund. Post transfer the PLAL WPC will be responsible for setting investment strategy, consistent with the role of the Supervisory Board in respect of NPLL's National Provident Life Fund.
- The small block of in payment annuities will be transferred to the NP Fund together with assets equal in value to their realistic reserves. This will release the NPL WP Fund from the longevity and expense risk attributable to those policies. I consider using realistic reserves to determine the value of assets to be transferred is appropriate and fair to the interests of NPLL's with-profits policyholders. I consider that transferring gilts, selected having regard to the term of the liabilities being transferred, will not have any implications for NPLL's with-profits policyholders.
- The NPLL Scheme sets out the type of charges that can be debited from the National Provident Life Fund. The NPLL Scheme also required that the per policy/benefit costs and the investment management fees were fixed for a period of 10 years following demutualisation (which ended on 31 December 2009). Afterwards the NPLL Scheme states that charges "shall at no time exceed the charges for similar services made by third party companies and shall at no time significantly exceed the costs which NPLL would incur in undertaking such services itself".

The Scheme provides that the charges for administrative expenses will be set at their current levels and continue to increase on the same basis, with changes thereafter to be determined by the PLAL Board, subject to the approval of the PLAL WPC. In addition the Scheme will require that the aggregate amount charged must always be no more than could be charged taking into account COBS rules. The PLAL WPC will also be able to request that the PLAL Board implement a review of the level of these expenses. Investment management expenses must be set on a basis which is also approved by the PLAL WPC. These provisions enable the PLAL WPC to ensure that the policies are administered and assets are managed in a cost-effective way.

The Scheme puts in place restrictions on what can be debited to the NPL WP Fund. In addition to those which apply to other PLAL with-profits funds under the terms of the PLAL 2012 Scheme, these restrictions include some specific restrictions which apply to the National Provident Life Fund under the terms of the NPLL Scheme. The Scheme also introduces a further restriction that mis-selling costs cannot be debited to the NPL WP Fund.

Following the transfer, the NPL WP Fund will be charged less for the services of the Actuarial Function Holder and the With Profits Actuary than is currently the case for the National Provident Life Fund.

- Tax will be allocated to the NPL WP Fund as if the life business within the fund formed a standalone mutual life assurance company. This is in line with current practice for the National Provident Life Fund and will not result in any change in

the tax allocated to the fund or the asset shares. Any future proposal to change the basis on which tax is charged to the NPL WP Fund would require the prior approval of the PLAL WPC.

- Other than changes required as a result of the implementation of the Scheme and commented on in this report, the PPFM for the NPL WP Fund in PLAL will replicate all the key aspects of the current PPFM of NPLL.
- No new risks will be undertaken within the NPL WP Fund as a direct result of the Scheme and it will remain closed to new business apart from premium increases and options under existing policies.
- No costs of the Scheme will be met by the National Provident Life Fund or the NPL WP Fund.

Therefore, I consider that there will be no adverse change to the benefit expectations of NPLL with-profits policyholders as a result of the transfer to PLAL and that if anything the changes may lead to a small increase in benefit expectations for certain policyholders.

5. IMPLICATIONS OF THE SCHEME – SECURITY AND CAPITAL SUPPORT

5.1. Security and Capital Support in NPLL now

The security that benefits will be paid as they fall due to holders of with-profits policies is a function of the overall financial strength of the company and not just the National Provident Life Fund itself.

Currently the security for NPLL with-profits policies is provided by:

- the PRA requirement that any with-profits fund must have assets in excess of liabilities and the support provided by the shareholder to ensure this, including the Capital Funds, the Earmarked Portfolio and the Shareholder Equalisation Fund. (See section 3.4.2 of the NPLL AFH Report);
- the PRA capital requirements on Pillar 1 and Pillar 2, which apply to the whole company (see section 5.1 of the NPLL AFH Report);
- NPLL's own capital policy, which requires additional amounts to be held in NPLL in excess of the PRA requirements (see section 3.4.3 of the NPLL AFH Report);
- the additional amount of £50m as referred to in section 3.4.3 of the NPLL AFH Report; and
- the commitment by PLAL's Board to provide further capital to NPLL from time to time in the future, in the event that further capital is needed to ensure that NPLL meets its capital policy (provided that, in so doing, PLAL continues to be able to meet its own capital policy).

5.2. Security and Capital Support in PLAL after the transfer

The following aspects of the Scheme are relevant to the consideration of security and capital support after the transfer:

- all with-profits NPLL policies transfer to the NPL WP Fund;
- a legally binding capital policy (the PLACP) exists in PLAL;

- the Capital Funds and the Asset Share Charge Fund will be allocated to the estate;
- the Earmarked Portfolio and the Shareholder Equalisation Fund will be replaced by support provided by the shareholder under the terms of the PLAL capital policy; and
- the business of NPLL transfers to a much larger company.

After the Scheme is implemented, security for the with-profits policies in the NPL WP Fund of PLAL will be provided by:

- the PRA requirement that a with-profits fund must have assets in excess of liabilities;
- the PRA capital requirements in respect of Pillar 1 and Pillar 2;
- the PLACP, which will support both the above by:
 - providing a framework for support to be made available to the NPL WP Fund to eliminate or reduce any deficit in the NPL WP Fund or to enable it to meet its capital requirements, including by transferring assets into the NPL WP Fund from the NP Fund or the PLAL Shareholders' Fund (to the extent that the PLAL Board considers that there are assets available) by way of a loan or other contribution arrangement; and
 - setting a target of assets in excess of the PRA's capital requirements which PLAL intends to hold as an additional buffer, controlling the amount of surplus capital which may be released by way of dividend or loan and acting as a trigger for other management actions to be considered.
- the additional amount that PLAL has undertaken to the Court that will be held in addition to the requirements of the PLACP (see section 4.3 of the NPLL AFH Report).

The PLAL Board have confirmed that the level of initial support provided to the NPL WP Fund on implementation of the Scheme will equal that provided by the Shareholder Equalisation Fund and the Earmarked Portfolio immediately before the implementation. Further, it has confirmed that it will continue to make available capital in the NP Fund and Shareholders' Fund to support the current management of the fund, including the current investment policy.

5.3. Comparison of terms of support available to the National Provident Life Fund now and the NPL WP Fund in PLAL

Currently support has been provided to the National Provident Life Fund through various forms of shareholder support. Further shareholder support would be provided, if available, if the assets of the fund did not cover its statutory liabilities, but the provision of such support is conditional on there being sufficient surplus available in the NPLL Shareholders' Fund or on PLAL having sufficient surplus to make additional support available to NPLL.

Following the transfer, the shareholder support provided by way of the Capital Funds will be treated as part of the estate and further support will be provided under the PLACP if the assets fall below the regulatory minimum of assets that must be held in the NPL WP Fund plus a margin of 0.5% of the total retrospective reserve for the NPL WP Fund (or £5m, if greater). This further support will be provided from the NP Fund or PLAL Shareholders' Fund to the extent that the PLAL Board determines that there are assets available in those funds.

At present, the terms of the PLAL Board's undertaking to provide support to the National Provident Life Fund mean that PLAL will only do so if it is able to satisfy the requirements of its own capital policy. This effectively prioritises PLAL's existing funds over the National Provident Life Fund. Following the Scheme, the NPL WP Fund will have the same access to support from the NP Fund and the PLAL Shareholders' Fund as other with-profits funds in PLAL. This increases the security of the with-profits policyholders in NPLL relative to the current position.

Both in NPLL now and in PLAL in the future, any shareholder support provided is repayable (to the extent that it is not required to meet the cost of guaranteed benefits, for smoothing, covering miscellaneous business risks or to meet the requirement to treat policyholders fairly) and it is not available to increase discretionary benefits.

The restrictions for repayment of any support not required to meet the cost of guarantees is generally the same now and after the Scheme is implemented in that support cannot be repaid unless there is a regulatory surplus in the fund. Currently, in addition, the run-off of the Shareholder Equalisation Fund is restricted by the terms of the NPLL Scheme. However, in practice, this restriction provides little extra protection since the regulatory solvency position applies to the company, not the fund. Furthermore, currently all of the Shareholder Equalisation Fund is expected to be used to meet the cost of guarantees. Therefore, I do not consider that the removal of this restriction affects the security of policyholders.

Currently, the National Provident Life Fund pays financing charges of 1.75% per annum on the Capital Funds and 4.75% per annum on the part of the Earmarked Portfolio referred to as the New Earmarked Portfolio. No such charge will be payable on support under the PLACP and this will benefit policyholders.

5.4. Comparison of security available to the National Provident Life Fund now and the NPLL WP Fund in PLAL

5.4.1. Terms of Capital Policies

The details of the capital policies of NPLL and PLAL are included in sections 3.4.3 and 4.3 respectively of the NPLL AFH Report.

The PLACP is a dynamic policy, which moves in line with the amount of business in the company. It also constitutes a stronger shareholder commitment than the current NPLL capital policy because it can only be changed in specified circumstances set out in its terms or otherwise with the agreement of the High Court.

The internal stress scenarios that underpin the PLACP are the same as those that are used to determine NPLL's capital policy. Therefore, moving to the PLACP will not reduce the security of policyholders.

5.4.2. Contagion Risk

Whilst some with-profits funds are stronger than others, adherence to the PLACP ensures appropriate capital is held within PLAL by recognising the potential influence that adverse events in each fund could have on the solvency of the company as a whole.

The sustainability of the PLACP and the capital support arrangements does, however, depend on the NP Fund and the PLAL Shareholders' Fund always having sufficient assets to provide any required support to the with-profits funds. There is a risk that in conditions which would trigger a requirement for capital support to be provided to one with-profits fund, the NP Fund may be adversely affected and there may also be calls for support from the other with-profits funds of PLAL. However, adherence to the PLACP will mean that the NP Fund and the PLAL Shareholders' Fund will aim to hold sufficient capital to provide a margin over the regulatory minimums for the NP Fund on both a Pillar 1 and Pillar 2 basis, and capital for any of the with-profits funds of PLAL that is unable to provide an appropriate margin over its own capital requirements from its own resources.

There is a remote risk that in extreme circumstances a with-profits fund might be forced to provide support to another fund of PLAL. However, such a situation can only arise if there are no surplus assets available in the NP Fund and the PLAL Shareholders' Fund, and management action as a result of regulatory intervention by the PRA has been ineffective. In such circumstances the inter-fund boundaries may break down. This represents a very remote risk.

5.4.3. Financial Position

As shown in the NPLL AFH Report, a pro-forma assessment of the capital position of PLAL as at 31 October 2014 has been prepared on the basis that the Scheme had been implemented then. This pro-forma assessment demonstrates that following implementation of the Scheme:

- The NPL WP Fund would require support under the PLACP.
- The NP Fund and the PLAL Shareholders' Fund would together have significant assets in excess of their own regulatory capital requirements on a Pillar 2 basis. These assets will cover the support required by the with-profits funds.
- PLAL would have sufficient assets in its NP Fund and the PLAL Shareholders' Fund to cover the PLACP on both a Pillar 1 and Pillar 2 basis if the Scheme had been implemented then.
- The position of the new NPL WP Fund on both Pillar 1 and Pillar 2 after the Transfer Date is approximately the same as that of the National Provident Life Fund before the implementation of the Scheme.

5.5. Conclusion

In conclusion, I consider that implementation of the Scheme will not adversely affect the security of existing NPLL with-profits policyholders.

6. OTHER IMPLICATIONS OF THE SCHEME

6.1. The NPLL Scheme

Under the terms of the Scheme, the NPLL Scheme will be disapplied and cease to have effect. I have reviewed the provisions of the NPLL Scheme as they relate to with-profits policyholders and I am satisfied that it is fair for the NPLL Scheme to cease to have effect. By and large, this is because its provisions will be replicated by equivalent provisions in the Scheme or are no longer relevant.

Where the Scheme includes material changes from the NPLL Scheme, I have commented upon them in this report. Appendices 1 and 2 give more details on how the provisions of the NPLL Scheme and NPLL's Articles which deal with the role of the Supervisory Board have been handled and the reasons for the change in approach.

Paragraph 34 of the NPLL Scheme provides that NPLL and PLAL may make an application for the transfer of NPLL's entire business to PLAL and the Supervisory Board shall co-operate in that application, provided that the interests and reasonable expectations of NPLL policyholders would not be adversely affected by any such transfer and the protections afforded to NPLL policyholders, whether pursuant to the NPLL Scheme or otherwise, would not, in aggregate, be reduced by such transfer.

As noted above, I am satisfied that the Scheme will not adversely affect the benefit expectations or the security of the benefits of NPLL with-profits policyholders. I am also satisfied that in aggregate the Scheme, together with current regulation and other protections available to NPLL policyholders, provide policyholders with an equivalent level of protection to that provided by the NPLL Scheme now. As a result, I am satisfied that the proposed transfer will not adversely affect the interests and reasonable expectations of NPLL with-profits policyholders and that the protections afforded to NPLL with-profits policyholders, whether pursuant to the NPLL Scheme or otherwise, will not, in aggregate, be reduced by the proposed transfer.

6.2. Governance of With-Profits Funds

Following the Scheme, the PLAL WPC will replace the Supervisory Board.

The membership of the PLAL WPC is the same as that of the Supervisory Board. Therefore, there will be no loss of experience or knowledge when the business is transferred to NPLL.

The Scheme includes additional powers and obligations for the PLAL WPC in respect of the NPL WP Fund, which replicate certain of the powers of the Supervisory Board. These include the power to manage the investment and bonus policy of the NPL WP Fund and the obligation to have regard solely to the interests of the policyholders in the NPL WP Fund when carrying out its duties in respect of the NPL WP Fund. However, consistent with the current regulatory framework, the Scheme provides that the PLAL Board, rather than the PLAL WPC, will be primarily responsible for managing the NPL WP Fund but subject to oversight from the PLAL WPC. In line with the change, the Scheme will also reduce the number of reserved matters in respect of the business currently in NPLL which require formal approval from both the PLAL Board and the PLAL WPC. The list of reserved matters that will not require the approval of the PLAL WPC is set out in Appendix 2. They represent activities which neither NPLL nor PLAL would carry out, which are unlikely to be applicable to the NPL WP Fund or which it is not considered should be subject to the prior consent of the PLAL WPC given the wider changes made to the management of the fund.

I am satisfied that arrangements post transfer will be sufficient to ensure that the policyholders of NPLL will not be disadvantaged by the replacement of the current Supervisory Board by the PLAL WPC.

6.3. Transfer of Non-Profit Annuities to the NP Fund

Under the Scheme, the small block of non-profit annuities in payment will transfer to the Non-Profit Fund. This will result in a transfer to that fund equal to the realistic reserves of the liabilities being transferred and will release the NPL WP Fund from the longevity and expense risk attributable to those policies.

I consider using realistic reserves to determine the value of assets to be transferred is appropriate and fair to the interests of NPLL's with-profits policyholders. I consider that transferring gilts, selected having regard to the term of the liabilities being transferred, will not have any implications for NPLL's with-profits policyholders.

Therefore, I am satisfied that the basis of such transfer is fair to the NPLL with-profits policyholders.

6.4. Winding-Up and Merger of With-Profits Funds

The NPLL Scheme allows NPLL to cease to maintain the National Provident Life Fund as a separate fund and merge it with another with-profits fund in NPLL if the assets backing the with-profits liabilities fall below £500m increased annually in line with RPI since 1999.

Consistent with the NPLL Scheme, the Scheme incorporates provisions by which the NPL WP Fund could be merged with another with-profits fund. This provision will only apply once the with-profits liabilities of the NPL WP Fund fall below a level equivalent to the level provided for under the NPLL Scheme, which as at 31st December 2013 is £750m. I am satisfied that the merger provisions, which include a requirement for the terms to be reviewed by an independent actuary and non-objection from the PRA and FCA, will provide adequate protection for with-profits policyholders if these are exercised.

The Scheme also incorporates winding-up provisions by which PLAL will be required to close the NPL WP Fund once its with-profits liabilities (gross of reinsurance) fall below a certain threshold amount and convert the with-profit policies to non-profit policies. This threshold amount will be the same as applies to other with-profits funds within PLAL, namely £50m.

The ability to close a with-profits fund in this way is a useful tool in ensuring that policyholders are treated fairly, both in terms of the expenses they are charged and the way surplus in the fund can be distributed when a with-profits fund has significantly run-off. I am satisfied that the winding-up provisions are appropriate and will provide adequate protection for with-profits policyholders when the time comes and that the changes compared to the current wind-up provisions do not adversely affect policyholders. I note also that the Scheme requires that the PRA and FCA approve the closure arrangements.

6.5. Reallocation of non-profit policies from the NPL WP Fund

The Scheme will allow PLAL to re-allocate in future non-profit vesting annuities and other non-profit policies from the NPL WP Fund to the NP Fund of PLAL. For vesting annuities, this will replace the current process by which such policies are reassured to the NP Fund. For other business, this will only be done if terms can be identified which the PLAL Board, having taken appropriate advice, believes to be fair to with-

profits policyholders and which provide an adequate return relative to risk for its shareholders. The terms of any such transfer will be reviewed by the PLAL WPC and independent actuarial advice will normally be sought unless the PLAL WPC decided that the terms were clearly fair and equitable and that no such review was therefore needed, and in any event where the total value of such a re-allocation exceeds a minimum size (currently £500m).

This provision of the Scheme does not require non-profit business to be transferred, but it does provide the option to do so on fair terms. Therefore, I consider that it should be of benefit to with-profits policyholders as it allows greater flexibility in managing the NPL WP Fund in future.

6.6. Establishment of Inter-Fund Reassurances

The Scheme will permit PLAL to put in place inwards, outwards or internal reinsurance arrangements involving the NPL WP Fund provided that (i) the PLAL Board has taken appropriate actuarial advice, and that advice has been that the proposed reinsurance is unlikely to affect adversely the reasonable expectations of policyholders in any affected fund, and (ii) the terms of the reinsurance have been approved by the PLAL WPC. This is consistent with the requirements of the NPLL Scheme.

I believe that this provides suitable policyholder protection.

6.7. Quality of Administration

The terms upon which services are currently provided by PGS to NPLL will continue to apply in respect of the NPLL business being transferred to PLAL following the Scheme, so there is no reason to expect the quality of administration to deteriorate as a consequence of the Scheme. In addition, the Scheme contains a protection for policyholders that service standards applicable to business in the NPL WP Fund must be no worse than that applied to the other with-profits funds of PLAL. This reflects an existing provision which applies to the administration and investment management of the National Provident Life Fund under the terms of the NPLL Scheme.

6.8. New Business

Under the NPLL Scheme, the National Provident Life Fund only accepts new business in the form of increments to existing policies, new policies arising out of rights under existing policies, and new members to existing group schemes. The Scheme will not change this, however new pension annuities in payment will be written in the PLAL NP Fund. This will not have any impact on with-profit policyholders.

6.9. Effective Date

The Transfer date of the Scheme, on which the policies, assets and liabilities of NPLL will transfer to PLAL, is expected to be 6 April 2015. However, the Scheme also provides that it will be effective from 1 January 2015 for accounting and financial

reporting purposes. I am satisfied that this aspect of the Scheme will have no implications for NPLL's with-profits policyholders.

7. CONCLUSION

In my opinion, for the reasons set out above, the Scheme will not adversely affect the interests and reasonable expectations of NPLL with-profits policyholders and the protections afforded to these policyholders, whether pursuant to the NPLL Scheme or otherwise, will not, in aggregate, be reduced by the Scheme. In particular, the Scheme will at least maintain the security of benefits for all NPLL with-profits policyholders and ensure that they continue to be treated fairly.



K J Arnott
Fellow of the Institute of Actuaries
11 December 2014

Appendix 1 – Analysis of the NPLL Scheme

This table shows how provisions within the NPLL Scheme have been reflected in the Scheme. It is proposed that the NPLL Scheme will cease to apply when the Scheme is implemented.

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>PART A - DEFINITIONS AND INTERPRETATION</p> <p>Paragraph 1.</p>	<p>Definitions have, where necessary, been adjusted/ updated or carried over to the Scheme directly.</p>
<p>PART B - INTRODUCTION</p> <p>Paragraph 2.</p>	<p>The introduction to the NPLL Scheme is specific to the demutualisation of NPI, while the equivalent provision in the Scheme describes the present transfer.</p>
<p>PART C - TRANSFER</p>	<p>Equivalents to these standard provisions have been drafted into the Scheme using substantially equivalent language.</p>
<p>PART D - FUND STRUCTURE</p>	
<p>10. ESTABLISHMENT OF FUNDS</p> <p>On and with effect from the Effective Date National Provident Life shall establish:</p> <p>(a) the National Provident Life Fund as a separate sub-fund within the Long Term Fund;</p> <p>(b) the Loan Capital Fund and the Transfer Capital Fund as separate accounts within the National Provident Life Fund; and</p> <p>(c) the National Provident Life Capital Account and the Contribution Escrow Account as separate accounts within the Shareholders' Fund.</p>	<p>A new NPL WP Fund will be established within PLAL to hold all transferring NPLL policies (other than the non-profit annuities in payment).</p> <p>The capital support structures (including the National Provident Life Capital Account, Loan Capital Fund and Transfer Capital Fund provisions) from the NPLL Scheme will not be replicated. Instead:</p> <ul style="list-style-type: none"> • The assets originally allocated to the Capital Account and subsequently drawn down into the National Provident Life Fund (either into the Loan Capital Fund or the Transfer Capital Fund) will be transferred to the new NPL WP Fund (where it will become part of the estate) and the obligation to maintain the Capital Account and both capital funds will cease. • NPLL's shareholder will give up any right to repayment of the Capital Funds Assets and to the interest charge payable thereon. • Capital support for the NPL WP Fund will be provided under the PLAL Capital Policy. (The amounts representing the Shareholder Equalisation Fund and the Earmarked Portfolio will be treated as the first drawdown of capital support under the PLAL Capital Policy). <p>The Contribution Escrow Account is no longer relevant, since the remaining balance was paid across into the National Provident Life Fund.</p>
<p>10A. ESTABLISHMENT OF THE SHAREHOLDER EQUALISATION FUND</p>	<p>All amounts within the Shareholder Equalisation Fund will be transferred to the NPL WP Fund and treated as the first drawdown of support to the NPL WP Fund under the terms of the PLAL Capital Policy.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
11. CONTRIBUTION TO THE NATIONAL PROVIDENT LIFE FUND AND OPERATION OF THE CONTRIBUTION ESCROW ACCOUNT	The remaining balance within the Contribution Escrow Account was paid across into the National Provident Life Fund on the third anniversary of the NPLL Scheme and this account has therefore closed.
12. ALLOCATION OF PROPERTY TO THE NATIONAL PROVIDENT LIFE CAPITAL ACCOUNT	The Capital Funds Assets will be transferred to the new NPL WP Fund, where it will be allocated to the estate of the NPL WP Fund, and the obligation to maintain any of the capital account or capital funds will cease. There is therefore no need to replicate these provisions.
13. PURPOSE OF ALLOCATIONS	An equivalent to this standard provision is included in the Scheme.
14. ALLOCATION OF POLICIES	<p>The Scheme provides for the NPLL policies to be transferred as follows:</p> <p>(a) all NPLL annuities in payment will be transferred to the PLAL Non-Profit Fund.</p> <p>(b) all other policies will be transferred to the new NPL WP Fund.</p>
15. ALLOCATION OF ASSETS	<p>The specific allocations of assets made under the NPLL Scheme are of historical relevance only and have not been replicated.</p> <p>All assets held in respect of policies within the National Provident Life Fund will be allocated to the NPL WP Fund, other than assets attributed to the In Payment Annuities, which will be allocated (together with those annuities) to the PLAL Non-Profit Fund. All assets in the NPLL Shareholders' Fund will be allocated to the PLAL Shareholders' Fund.</p> <p>At the same time, assets attributed to the Shareholder Equalisation Fund, the Earmarked Portfolio, the Capital Funds Assets and the Asset Share Charge Fund will be transferred to the new NPL WP Fund and the obligation to maintain the Capital Account or either capital funds will cease.</p>
16. ALLOCATION OF LIABILITIES	The allocation of liabilities tracks the allocation of assets outlined above.
17. OPERATING PROPERTY LEASES AND REORGANISATION AGREEMENTS 18. MEMBERSHIP COMPENSATION	These provisions are historic and of no continuing relevance to the operation of the NPL WP Fund and therefore have not been replicated
19. COSTS AND EXPENSES	The allocation of costs under the NPLL Scheme is of historic interest only. Costs under the Scheme are to be allocated to the PLAL Shareholders' Fund.
PART E - OPERATION OF THE NATIONAL PROVIDENT LIFE FUND	
20. MAINTENANCE OF THE NATIONAL PROVIDENT LIFE FUND	An equivalent of this standard provision was included in the PLAL 2012 Scheme. The NPL WP Fund is treated as a further with-profits fund for the purposes of the PLAL 2012 Scheme.

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>21. NEW BUSINESS</p> <p>21.1 – New Business</p>	<p>Where the NPLL Scheme provisions continue to be applicable, equivalent provisions have been included in, or given effect to by, the Scheme. In broad terms, no new business will be written in the NPL WPF other than new additional premiums or increments to existing policies or new policies as a result of a policy option, or new members to an existing pension scheme.</p>
<p>21.2 Reassurance of New Business setting up an Incremental Business Reassurance Agreement whereby new business after the NPLL Scheme was implemented was reassured, initially to NPIL.</p>	<p>NPLL has already entered into the Incremental Business Reassurance Agreement and the initial parts of this provision are therefore historic in nature.</p> <p>The agreement will continue in force between PLAL and Phoenix Life Limited after the Scheme has been implemented and wording is included in the Scheme replicating the ongoing parts of the NPLL Scheme. However, the restrictions applying under the Scheme and the PLAL 2012 Scheme to variations to such reassurance arrangements – in particular, the requirement for the Board to have been advised that the terms are not likely to adversely affect PRE and the requirement for approval by the PLAL WPC – mean that some minor amendments have been made in the Scheme.</p>
<p>22. PRINCIPLES OF FINANCIAL MANAGEMENT</p> <p>22.1 National Provident Life shall manage the affairs of the National Provident Life Fund in accordance with the Principles of Financial Management.</p> <p>22.2 National Provident Life shall use reasonable endeavours to procure that, in the determination from time to time of how the property allocated to the National Provident Life Fund (other than the Capital Funds) should be invested, the National Provident Life Fund (other than the Capital Funds) is not treated unfairly in comparison with the Other Long Term Funds or the Capital Funds or any other company in the Group which carries on Long Term Business in the United Kingdom.</p>	<p>Paragraph 22.1 of the NPLL Scheme has been reflected in the Scheme.</p> <p>The Principles from the NPLL Scheme are replicated in the Scheme Principles for the Financial Management of the NPL WP Fund.</p> <p>Paragraph 22.2 of the NPLL Scheme is not replicated because the PLAL WPC will be responsible for the investment policy of the NPL WP Fund.</p> <p>The NPLL Scheme included no express provision for amending the Principles. Under the Scheme the Principles may be amended on the same basis as other funds within PLAL. This includes the ability to amend the Principles with the prior written approval of the regulators in certain limited situations.</p>
<p>23. ALLOCATION OF SURPLUS</p>	<p>Paragraph 24.4 of the PLAL 2012 Scheme, which is given effect in respect of the NPL WP Fund by paragraph 22(c) of the Scheme, replicates the 100:0 policyholder entitlement.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>24. TAXATION OF THE NATIONAL PROVIDENT LIFE FUND</p> <p>Paragraphs 24.1, 24.2 and 24.3</p>	<p>Where they remain relevant, the provisions set out in the NPLL Scheme are generally consistent with the standard taxation provisions applicable to all PLAL with-profits sub-funds under the terms of the PLAL 2012 Scheme, including the requirement to calculate tax on the basis that all allowances/reliefs have been claimed. The obligation to charge tax to the NPL WP Fund on the basis that the NPL WP Fund was a standalone mutual is given effect by paragraph 31.1(a) of the Scheme.</p> <p>Paragraph 24.2 of the NPLL Scheme has not been replicated because it covered the Contingent Loan capital support mechanisms which are not being replicated in the Scheme.</p> <p>Consistent with the terms of the NPLL Scheme, any change to the basis on which tax is allocated to the NPL WP Fund will be subject to approval by the PLAL WPC.</p>
<p>25. ALLOCATION OF EXPENSES AND CHARGES</p> <p>There shall be allocated to the National Provident Life Fund, excluding the Capital Funds, in respect of the acquisition, set up, maintenance or termination of Transferred Policies, Excluded Policies and new Long Term Business allocated to the National Provident Life Fund pursuant to paragraph 21.1(a), (b), (e) or (to the extent agreed by the National Provident Life Board and the National Provident Life Fund Supervisory Board) (d) or (f) or in respect of investment management only such amounts in respect of expenses and charges as are determined in accordance with Schedule 4.</p>	<p>The Scheme provides that, subject to applicable law and regulation, the PLAL Board will generally determine the expenses and charges relating to the operation of the NPL WP Fund but that expenses and charges relating to administration and investment management are to be determined in accordance with Schedule 2. Schedule 2 provides, subject to applicable law and regulation:</p> <ul style="list-style-type: none"> • For administration expenses to be set initially at current levels and then increased in line with RPI plus 1% subject to a provision enabling the PLAL Board to review and amend the charges on such basis as the PLAL WPC may approve. The Scheme also includes a provision enabling the PLAL WPC to require the PLAL Board to carry out such a review. • For investment management expenses to be approved by the PLAL WPC. <p>See further comment in respect of Schedule 4 to the NPLL Scheme below.</p>
<p>26. LINKED FUNDS</p> <p>Paragraphs 26.1, 26.3 and 26.4</p>	<p>The equivalent of these standard provisions is included in the Scheme providing for the establishment of new linked funds to link to the transferring policies.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>26.2 On and with effect from the Effective Date National Provident Life and NPIL shall enter into the Linked Reassurance Agreement, in relation to the Linked Funds referred to in this paragraph 26, for the purpose of achieving continuity of treatment of the unit liabilities of National Provident Life in respect of Linked Policies in a manner which is intended to ensure that there is no reduction in the surplus arising in the National Provident Life Fund at any time and no reduction in the reasonable expectations of the holders of such Policies as a result of entry into or performance of such agreement. No variation of the Linked Reassurance Agreement shall be entered into by National Provident Life or NPIL which might in the opinion of the Appointed Actuary result in any reduction in the surplus arising in the National Provident Life Fund at any time or which has not received the prior approval of the National Provident Life Fund Supervisory Board.</p>	<p>NPLL has already entered into the Linked Reassurance Agreement and the initial parts of this provision are therefore historic in nature.</p> <p>The agreement will continue in force between PLAL and Phoenix Life Limited after the Scheme has been implemented. However, for the reasons given in connection with the incremental business reassurance agreement above, it is not necessary to replicate the reference to "any reduction in the surplus arising in the National Provident Life Fund" in the Scheme.</p>
<p>26.5 Subject to the Act and the terms of the relevant Policies, National Provident Life shall be at liberty at any time and from time to time to close existing Linked Funds, to amalgamate any Linked Fund or any part or parts thereof with any other Linked Fund or any part or parts thereof or to divide any Linked Fund into one or more Linked Funds, or to effect any combination of the aforesaid.</p>	<p>The Scheme will bring the treatment of NPLL linked funds into line with the standard treatment of linked funds across the Phoenix Group, as reflected in the PLAL 2012 Scheme.</p> <p>In particular, PLAL will be able to:</p> <p>(a) Modify/enlarge the investment objectives of any NPLL linked funds, providing such change is consistent with policy terms.</p> <p>(b) Close an NPLL linked fund where the assets in it fall below £5.9m (although the PLAL Board is given the discretion to close such funds in other circumstances where it is administratively unfeasible to continue to maintain it), notwithstanding that such closure may be contrary to policy terms.</p> <p>This will represent a change in the way linked funds in which NPLL policyholders are invested can be managed. However, it will provide certainty in how such linked funds will be treated if they fall below a certain size and will also provide protections for how policyholders will be treated if such an action is taken, including a provision for a free switch for affected policyholders and provisions relating to the payment of compensation to policyholders.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>26.6 Save in relation to the Linked Funds of National Provident Life corresponding to Linked Funds of NPI which are no longer actively marketed immediately prior to the Effective Date, NPIL will hold the Linked Funds established pursuant to the Linked Reassurance Agreement open to new business, provided that, and for so long as, in the opinion of the Appointed Actuary of NPIL, the holding of such Linked Funds open to new business is consistent with the carrying on of its own business in the ordinary course.</p>	<p>The PLAL 2012 Scheme includes specific provisions regarding the closure of linked funds. In the context of these provisions (and the policyholder protections they afford) it is not considered necessary to replicate this provision.</p>
<p>27. CREDITS TO THE NATIONAL PROVIDENT LIFE FUND</p> <p>28. DEBITS TO THE NATIONAL PROVIDENT LIFE FUND</p>	<p>All terms relating to credits and most terms relating to debit within the NPLL Scheme are covered by the provisions in the PLAL 2012 Scheme which are given effect in respect of the NPL WP Fund by paragraph 23 of the Scheme.</p> <p>Although the PLAL 2012 Scheme provisions take a generic approach rather than the item specific approach taken by the NPLL Scheme, this does not reduce protection for policyholders.</p> <p>There are two debit provisions which potentially interfere with the restriction on the transfer of assets into or out of the National Provident Life Fund set out in paragraph 32.4 of the NPLL Scheme (which is replicated at paragraph 30.2 of the Scheme), these two debits are stated to take effect subject to paragraph 30.2 of the Scheme.</p> <p>In addition, two debit provisions under the NPLL Scheme – relating to the costs of the Appointed Actuary and a proportion of any levy imposed by the Policyholders Protection Board or the Investors Compensation Scheme – have been replicated in the Scheme, subject to necessary definitional changes and to reflect the change in actuarial and regulatory framework since the date of the NPLL Scheme.</p>
<p>29. SERVICE STANDARDS</p>	<p>An equivalent to the service standards provision has been included in Scheme. The point of comparison will be the other with-profits funds in PLAL, rather than any long-term insurance business written by any other company in NPLL's group. This is because all of the long-term business of NPLL's group at the date of the NPLL Scheme will, following the Scheme, be in PLAL.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>30. SECURITISATION LOAN AND SUBORDINATED LOAN</p>	<p>The provisions relating to the NPLL Securitisation Loan have been replicated (subject to definitional amendments and an amendment of the Obligor that reflects the assignment of that role subsequent to the NPLL Scheme) in Schedule 3 of the Scheme. In addition, the terms of the provision have been updated so as to protect policyholders from the impact of the Scheme as well as any remaining contingent liability that could arise as a result of the NPLL Scheme.</p> <p>The Subordinated Loan has now been repaid and reference to it is therefore no longer required.</p>
<p>31. REASSURANCE BY AND OF THE NATIONAL PROVIDENT LIFE FUND</p> <p>Paragraphs 31.1 and 31.2</p>	<p>The PLAL 2012 Scheme includes standard terms applicable to the reinsurance of business into or out of all PLAL sub-funds and these are given effect in relation to the NPL WP Fund by paragraph 32 of the Scheme.</p> <p>However, the Scheme provision has been drafted so as to require the PLAL WPC (as successor to the NPL Fund Supervisory Board) to approve the terms of any such reinsurance in respect of the NPL WP Fund.</p>
<p>32. MISCELLANEOUS PROVISIONS REGARDING THE NATIONAL PROVIDENT LIFE FUND</p> <p>32.1 At no time shall there be debited or charged to the National Provident Life Fund any amount, cost or liability which is at any time incurred in connection with the provision of any finance or financial assistance provided or raised for the purposes of funding or refinancing any costs incurred in connection with the making of the Contribution.</p>	<p>This provision has not been replicated since the Contribution has been made.</p>
<p>Paragraphs 32.2, 32.3 and 32.4.</p>	<p>Equivalent provisions have been included in the Scheme subject to definitional amendments and changes to reflect current governance and the context of the PLAL Long-Term Fund.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>32.5 Without prejudice to Part F, the Shareholder may from time to time procure that financial assistance or support is given to National Provident Life (for the account of the National Provident Life Fund) by any member of the Group or by National Provident Life (for the account of the Other Funds) on such terms as may be determined by the Shareholder, provided that the terms of any such financial assistance or support (and the terms of any amendment or termination thereof) shall first have been approved by the National Provident Life Fund Supervisory Board after having been advised by the Appointed Actuary that such financial assistance or support on the terms proposed (or, as the case may be, the amendment or termination thereof) is not likely in his opinion to affect adversely the reasonable expectations of the holders of Policies allocated to the National Provident Life Fund or of Excluded Policies.</p>	<p>The Scheme provides for the standard capital support provisions applicable under the PLAL Capital Policy to apply to the NPL WP Fund.</p> <p>In distinction from the NPLL Scheme, the PLAL Capital Policy does not require the PLAL WPC to approve the terms of the assistance given <u>by</u> the NPL WP Fund. However, by requiring the WP Actuary to certify that the terms of any financial assistance given by the NPL WP Fund to any other PLAL funds are no less favourable than arm's length commercial terms and that there will be no detrimental impact on relevant with-profits policyholders, an equivalent level of protection is provided. In any event, such assistance could only be provided once all surplus assets in the PLAL Non-Profit Fund and Shareholders' Fund were exhausted.</p>
<p>33. PROVISION FOR CESSATION OF THE NATIONAL PROVIDENT LIFE FUND</p>	<p>The closure provisions for the NPL WP Fund are substantially conformed with the terms for closure for other PLAL funds.</p> <p>In particular, this means that PLAL will be obliged (subject to approval from the regulators) to convert the with-profits policies in the NPL WP Fund into non-profit policies and close the fund once the with-profits liabilities of the fund fall below £50 million – this will represent a new power in respect of NPLL policies.</p> <p>NPLL is currently entitled to cease to maintain the National Provident Life Fund as a separate with-profits fund once the with-profits assets of the fund fall below £500 million, increased by RPI since 31 December 1999. PLAL will have a similar right to merge the NPL WP Fund with another with-profits once the with-profits liabilities of the fund have fallen below an equivalent threshold (updated to £750 million increased by RPI since 31 December 2013).</p>
<p>34. FURTHER TRANSFER TO [PLAL]</p>	<p>This provision will be of no further utility following the transfer and has therefore not been replicated.</p>
<p>PART F - OPERATION OF THE NATIONAL PROVIDENT LIFE CAPITAL ACCOUNT AND THE CAPITAL FUNDS</p>	<p>The capital funds' assets will transfer to the new NPL WP Fund and the obligation to maintain the Capital Account or the capital funds will cease. There is therefore no need to replicate these provisions.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
PART G - GOVERNANCE	
<p>48. ADOPTION OF NEW NATIONAL PROVIDENT LIFE ARTICLES</p> <p>Paragraph 48.1</p>	<p>This provision will cease to be relevant once the NPLL business has been transferred to PLAL and has therefore not been replicated. Certain aspects of the NPLL Articles have been replicated in the Scheme, including in the Schedule of additional duties and powers which the PLAL WPC will have in respect of the NPL WP Fund - see Appendix 2.</p>
<p>Paragraph 48.2</p>	<p>The Scheme includes similar terms and controls, where they remain relevant, around any amendments to Schedule 4 or the section of paragraph 26 which applies to the formation of the PLAL WPC, including certification by the relevant actuaries and non-objection by the regulators and PLAL WPC itself.</p>
<p>49. NATIONAL PROVIDENT LIFE FUND SUPERVISORY BOARD</p> <p>49.1 The Shareholder and National Provident Life shall procure that the National Provident Life Board shall appoint and maintain in accordance with the New National Provident Life Articles the National Provident Life Fund Supervisory Board as a committee of the National Provident Life Board, which (subject to the New National Provident Life Articles) shall be solely responsible for the management (including, subject to the express terms of this Scheme, investment and bonus policy) of the National Provident Life Fund (except the Capital Funds). The members of the National Provident Life Fund Supervisory Board shall, in carrying out their duties, have regard solely to the interests and reasonable expectations of the holders of Policies allocated to the National Provident Life Fund and of Excluded Policies.</p>	<p>Under the Scheme, responsibility for the management of the NPL WP Fund will, in general, lie with the PLAL board rather than the Supervisory Board/PLAL WPC. This will bring the management of the NPL WP Fund in line with current legal and regulatory requirements and the way the other with-profits funds in PLAL are managed.</p> <p>Under the terms of the Scheme the PLAL WPC will inherit the Supervisory Board's power to manage the investment and bonus policy of the NPL WP Fund. The PLAL WPC's agreement will also need to be obtained in respect of some (but not all) reserved matters which formerly required the approval of the Supervisory Board – see Appendix 2 for analysis of the treatment of the provisions of NPLL's articles. The retention of these key powers, combined with the PLAL WPC's ability to oversee the management of the NPL WPF (both as a result of the specific provisions replicated in the Scheme and the general provisions of UK regulation), will ensure that there is no adverse impact on the protections for NPLL policyholders.</p>
<p>49.2 The powers, duties and rights of the National Provident Life Fund Supervisory Board shall be those set out in the New National Provident Life Articles.</p>	<p>No longer applicable since the National Provident Life Fund Supervisory Board will no longer be a separate entity, but rather a function of the PLAL WPC.</p> <p>Appendix 2 sets out the terms of the relevant Schedule to the NPLL articles and indicates how these have been addressed in the Scheme.</p>
<p>Paragraph 49.3, 49.4, 49.5 and 49.6</p>	<p>This provision has been replicated in Schedule 4 to the Scheme, subject to minor amendments to definitions and to reflect the transfer to PLAL, the change to the Appointed Actuary role and to clarify the extent of the information rights of the PLAL WPC.</p>

Provision in NPLL Scheme	Approach adopted in the Scheme
PART H - MISCELLANEOUS PROVISIONS	
50. EFFECTIVE DATE Paragraphs 50.1 and 50.2.	These provisions are specific to the NPLL Scheme and have therefore not been replicated.
Paragraphs 50.3 and 50.4.	Equivalent wording to these standard provision have been included in the Scheme (although it is proposed that the Scheme will make use of a split effective date/transfer date structure).
51. CERTIFICATION BY THE NATIONAL PROVIDENT LIFE BOARD AND THE APPOINTED ACTUARY Paragraph 51.1 and 51.2	The Scheme includes requirements for both the PLAL Board and the With-Profits Actuary for the NPL WP Fund to give annual certificates regarding compliance with the terms of the scheme, which are equivalent to those required by the NPLL Scheme. Reflecting changes in the regulatory environment since the date of the NPLL Scheme, those will be issued to the PLAL WPC in the first instance. However, the Regulators will be entitled to request the certificates.
52. DUTIES OF THE APPOINTED ACTUARY 52.1 The Appointed Actuary shall advise the National Provident Life Board as to the proper operation of the National Provident Life Fund, the Capital Funds and the National Provident Life Capital Account in accordance with the provisions of this Scheme and, in particular, as to any constraints which he may determine to be necessary in the operation of the National Provident Life Fund, the Capital Funds, the National Provident Life Capital Account or the Other Long Term Funds in order to safeguard the interests (as established by this Scheme) and reasonable expectations of the holders of Policies allocated to the National Provident Life Fund and Excluded Policies.	The Scheme includes a requirement for the With Profits Actuary of the NPLL Fund to advise the PLAL Board and the PLAL WPC as to the proper operation of the NPL WP Fund. As explained above, following the transfer the Capital Account and the Capital Funds will cease to exist following the transfer therefore it is not necessary to include any reference to these. The other provisions of this paragraph are considered to fall within the general remit of his role providing advice on the fair treatment of policyholders in the NPL WP Fund.
Paragraph 52.2	Equivalent notification and whistleblowing requirements are replicated in the Scheme.
Paragraph 52.3.	Since a specific debit provision is included in the Scheme, which permits a fair proportion of the costs of the PLAL Actuarial Function Holder and the With-Profits Actuary for the NPL WP Fund to be charged to the fund this provision has not been replicated.
52.4	An equivalent provision has been included in the Scheme.

Provision in NPLL Scheme	Approach adopted in the Scheme
53. MODIFICATIONS OR ADDITIONS Paragraphs 53.1 and 53.2	Equivalent provisions have been included in the Scheme, subject to necessary definitional amendments and the inclusion of a power for PLAL to make minor/technical amendments without obtaining the approval of the Court.
SCHEDULE 1 - THE UMPIRE	The Umpire provisions from the NPLL Scheme are not replicated in the Scheme on the basis that developments in the governance and regulation of with-profits businesses since 1999 make the Umpire unnecessary.
SCHEDULE 2 - MEMBERSHIP COMPENSATION	Any membership compensation was only payable within 6 years of the effective date of the NPLL Scheme and this schedule is therefore of no continuing relevance.
SCHEDULE 3 - PRINCIPLES OF FINANCIAL MANAGEMENT	<p>The provisions of the NPLL Scheme Principles have largely been replicated in the new Scheme Principles for the Financial Management of the NPL WP Fund. However, the original Principles have been amended in the following ways:</p> <ul style="list-style-type: none"> - To remove terms on changing the balance of the assets within the NPL WP Fund and remove the requirement to draw the NPLL Scheme to the attention of future actuaries, as these are no longer necessary. - To make clear that the investment policy should not be set on the basis that assets in the PLAL Shareholders' Fund or Non-Profit Fund are available to provide support except to the extent that they are transferred into the fund at the Transfer Date or are subsequently made available in accordance with the PLAL Capital Policy. This is consistent with the current position in NPLL. - To amend relevant definitions and to reflect the changes to the governance of the fund, as set out under paragraph 49, and the changes to capital support arrangements. - To introduce a restriction on meeting any mis-selling compensation or redress or other costs from the NPL WP Fund.

Provision in NPLL Scheme	Approach adopted in the Scheme
<p>SCHEDULE 4 - EXPENSES AND CHARGES TO BE BORNE BY THE NATIONAL PROVIDENT LIFE FUND</p>	<p>The bulk of the charging provisions set out in Schedule 4 of the NPLL Scheme ceased to have effect ten years following the effective date of the NPLL Scheme.</p> <p>The ongoing requirement requires services charged to the National Provident Life Fund to be no more than that charged for similar services by third party companies.</p> <p>This type of provision is not practicable, since there is no way to benchmark effectively what such third party costs may be.</p> <p>As a result, and given the general change in the corporate governance regime for with-profits business since the NPLL Scheme, it is considered more appropriate to update the requirements of the NPLL Scheme and provide that:</p> <p>(a) Charges for administration will be set at current levels and subsequently increased by RPI plus 1%, subject to a provision enabling the PLAL Board to review and amend the charges on such basis as the PLAL WPC may approve at any point after the Transfer Date. The Scheme also includes a provision enabling the PLAL WPC to require the PLAL Board to carry out such a review – this is intended to ensure that the changes set out in the Scheme do not continue to be applied in a situation where they would otherwise have been reduced.</p> <p>(b) Charges for investment management will be a matter for the PLAL Board's discretion, but subject to a requirement to obtain the approval of the PLAL WPC.</p>
<p>SCHEDULE 5 - INFRASTRUCTURE AND SHAREHOLDER SUBSIDIARIES</p>	<p>These provisions relate to the assets to be transferred under the NPLL Scheme and are therefore no longer relevant.</p>
<p>SCHEDULE 6 - OPERATIONAL IMPROVEMENT PROGRAMME</p>	<p>These provisions relate to historic operational developments and are therefore no longer relevant.</p>
<p>SCHEDULE 7 - THE SHAREHOLDER EQUALISATION FUND</p>	<p>As described above, all amounts within the Shareholder Equalisation Fund be transferred to the NPL WP Fund and treated as the first drawdown of support under the terms of the PLAL Capital Policy. Therefore these provisions are not required.</p>

Appendix 2 – Analysis of the Schedule to the NPLL Articles: Schedule covering The National Provident Life Fund Supervisory Board

This table shows how the terms of the Schedule to the NPLL articles and have been addressed in the Scheme.

Original provision	Approach adopted in the Scheme
<p>Definitions 1.1 (Definition of "Reserved Matters")</p>	<p>Schedule 4 to the Scheme sets out the additional duties and powers of the PLAL WPC in respect of the NPL WP Fund. These include those reserved matters relating to the acquisition or disposal of assets/business other than for investment purposes. The following reserved matters represent activities which neither NPLL nor PLAL would carry out, which are unlikely to be applicable to the NPL WP Fund or which it is not considered consistent should be subject to the prior consent of the PLAL WPC given the wider changes made to the management of the fund, and have therefore been removed:</p> <ul style="list-style-type: none"> - the entry into any liabilities for the account of the National Provident Life Fund other than as expressly contemplated by the Transfer Agreement or the Scheme; - the formation, acquisition or disposal of any subsidiary for the account of the National Provident Life Fund; - the acquisition of any shares for the account of the National Provident Life Fund constituting more than five per cent of the issued share capital of any other company or the participation for the account of the National Provident Life Fund in any partnership or joint venture; - the borrowing of any money for the account of the National Provident Life Fund; and - the creation of any mortgage or charge for the account of the National Provident Life Fund; - the steps taken to mitigate tax in relation to the NPL WPF
<p>Definitions 1.2 – 1.7</p>	<p>An equivalent restriction on appointing an executive or non-executive director as a "NED Member" has been retained as a term of the Scheme. However, the definition has been expanded so that it is consistent with the equivalent term within the PLAL WPC's existing terms of reference. The remaining definitions have either been replicated/ amended as required in the context of the Scheme or removed as of no further relevance.</p>
<p>Powers of the Supervisory Board (2)</p>	<p>Responsibility for the management of the NPL WP Fund will, in general, lie with the PLAL board rather than the Supervisory Board/PLAL WPC. This will bring the management of the NPL WP Fund in line with current legal and regulatory requirements and the way the other with-profits funds in PLAL are managed. However, under the terms of the Scheme the PLAL WPC will inherit the Supervisory Board's power to manage the investment and bonus policy of the NPL WP Fund.</p>
<p>Membership Compensation (3)</p>	<p>Membership compensation provisions are no longer relevant.</p>
<p>Reserved Matters (4)</p>	<p>Subject to necessary definitional amendments, this provision has been replicated in Schedule 4 to the Scheme.</p>

Original provision	Approach adopted in the Scheme
Reasonable expectations of policyholders (5)	Subject to necessary definitional amendments, this provision has been replicated in the new terms of reference for the PLAL WPC.
Composition of the Supervisory Board (6)	The requirement for the PLAL WPC to have a majority of Non-Executive Members has been replicated in the Scheme. It is not considered necessary to replicate the limit on the maximum size of the committee.
Appointment and removal of members of the Supervisory Board (7)	This provision has been replicated in the Scheme, subject to minor definitional amendments.
Chairman of the Supervisory Board (8)	Like the NPLL Scheme, the Scheme provides that the chairman of the PLAL WPC must be a NED Member/Non-Executive Member. However, the detailed requirements for appointment of the chairman are not included in the Scheme because there are equivalent terms in the PLAL WPC's terms of reference.
Alternates (9)	This provision only makes sense in the context of a company's articles of association and has therefore not been replicated.
Advice (10)	This provision has been replicated in Schedule 4 to the Scheme, subject to minor definitional amendments.
Discussions with the Insurance Regulator (11)	Subject to necessary definitional amendments, this provision has been replicated in the Scheme.
Remuneration (12)	The members of the PLAL WPC will not just be serving the NPL WP Fund, therefore this provision has not been replicated
Proceedings of the Supervisory Board (13 and 14)	Subject to necessary definitional amendments and a general increase in the quorum requirements, these provisions have been replicated in the Scheme.