PHOENIX LIFE

SIMPLIFYING OUR BUSINESS

Scheme guide for Phoenix Life Assurance Limited policyholders

Transferring all National Provident Life Limited policies to Phoenix Life Assurance Limited

December 2014

Contents

1 Introduction

We (the **Phoenix Group**) have prepared this guide to summarise our proposals to transfer all National Provident Life Limited (**NPLL**) policies to Phoenix Life Assurance Limited (previously named Pearl). Within this guide, and other related material, we refer to these proposals as 'the **Scheme**' and we refer to Phoenix Life Assurance Limited as **PLAL**.

This guide is for **PLAL** policyholders: there is a separate guide for **NPLL** policyholders.

NPLL and **PLAL** are both part of the **Phoenix Group** of companies.

There are other companies in the **Phoenix Group**, but policyholders of these companies 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. In this guide you will find:

- important information about the **Scheme** and how it affects you (section 3);
- details on how to raise any concerns you may have about the **Scheme** (section 4);
- a summary of a report by an **Independent Expert** that considers how policyholders' interests may be affected by the **Scheme** (section 7); and
- a copy of the formal notice of our application to the **High Court** for approval of the **Scheme** (Appendix 2).

We explain words that are highlighted in bold in section 9 - **Definitions.**

2 The process we are following

PLAL and **NPLL** will apply to the **High Court** for permission to transfer all **NPLL** policies to **PLAL**. The **High Court** will only give permission if it is satisfied that all the necessary legal requirements have been met and that the proposals treat policyholders appropriately.

We expect the **hearing** at the **High Court** to be held on 30 March 2015. If the **High Court** approves the **Scheme**, we expect the transfer to take place on 6 April 2015 (the **transfer date**). On the **transfer date**, all **NPLL** policies will transfer to **PLAL**.

An **Independent Expert**, whose appointment has been approved by the Prudential Regulation Authority (**PRA**), has written a report providing detailed independent, expert opinion on how the proposals are likely to affect policyholders. This report, which has been reviewed by our regulators the **PRA** and the Financial Conduct Authority (**FCA**), will help the **High Court** reach their decision. You can find a summary of this report in section 7 of this guide. The report says that, overall, the **Scheme** will not have a material adverse impact on either the security of policyholders' benefits or on what these policyholders can expect their benefits to be.

We are also carrying out separate schemes for transferring policies which may have been taken out as part of the business carried on in or from within Jersey, or that have been issued to people resident in **Guernsey**. The **Jersey Scheme** and **Guernsey Scheme** need to be approved by the Royal Court of Jersey and the Royal Court of Guernsey respectively. These schemes, which we refer to together as the '**overseas schemes**', will only be effective if approved by the relevant local court and if the **High Court** of England and Wales approves the **Scheme**. See Appendix 1 for more information.

3 What this means for you

3.1 All PLAL policies

The **Scheme** will not change the way **PLAL** policies are managed and the terms and conditions of those policies will not change. No **PLAL** policies will move as a result of the **Scheme**. The **Scheme** will not affect your existing benefits, the premiums payable, any guarantees you have or any payment 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.

Security for your policy will be maintained and the **PLAL capital policy** will not be altered by the **Scheme**. Under the terms of the **PLAL capital policy**, which are set out in the **PLAL 2012 Scheme**, **PLAL** is committed to hold more capital than the minimum required under current legislation, for all its operations. The aim is to ensure that **PLAL** can withstand extreme financial conditions.

We wrote to you in 2012 to tell you about the **PLAL 2012 Scheme** which transferred London Life policies into **PLAL** in September 2012.

3.2 With-profits PLAL policies

The **Scheme** will not affect how your policy is invested or the way your bonuses are calculated. No policies will transfer into the existing **PLAL with-profits** funds.

3.3 Non-profit policies and annuities in payment

If you have a **non-profit** policy or a **unit-linked** policy, the **Scheme** will not affect your benefits or the way your policy works. If you have a **unit-linked** policy the **Scheme** will not affect the **unit-linked** funds your policy is invested in.

If you have an annuity in payment, the payment dates, the amount you receive and any guarantees you have will not be affected by the transfer.

4 What you should do next

If you are happy with our proposals, you do not need to do anything.

If you have any questions or concerns after reading this guide, please contact us; details of how to do this are given in section 8.

Alternatively, you may wish to speak to an authorised financial adviser, or if you have a pension policy, the Pensions Advisory Service. If you do not already have a financial adviser, and you require financial advice and would like help in finding one, then contact our helpline, or you can find details of the advisers in your area at www.unbiased.co.uk. Please note, 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.

- By calling our helpline, or by writing to us at the address given in section 8, quoting reference FM14.
- By presenting your objection in person at the **High Court hearing**. You can also ask a representative to do this for you. Your representative does not need legal training and could be a friend or relative.

If you call or write to us with an objection, we will reply to you and send your objection and our reply to the **High Court**, the **Independent Expert** and our **regulators** before the **hearing** at the **High Court**. You should raise any objection with us as soon as possible and preferably before 6 February 2015.

If you or your representative plan to go to the **High Court hearing**, please call our helpline or write to us at the address given in section 8 quoting reference FM14, ideally before 6 February 2015. By informing us, we will be able 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.

5 Other parties with an interest in your policy

If someone else has 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, please make them aware of these proposals.

6 Summary of the terms of the Scheme

This section summarises the main terms of the **Scheme**, which sets out how the **NPLL** business is to be transferred to **PLAL** and how it will then operate. As noted in section 3, the **Scheme** will not change the terms and conditions of **PLAL** policies.

6.1 Transferring the business

If the **High Court** approves the **Scheme**, on the **transfer date** the insurance business of **NPLL** will transfer to **PLAL**. To simplify our accounts, the **Scheme** will have the financial effect, within these accounts, as if the changes had taken place on 1 January 2015. This date is called the '**effective date**'. Having an **effective date** that is before the **transfer date** does not alter the way the transferring policies are dealt with under the **Scheme**.

Following the **transfer date**, **PLAL** will become the product provider and will be responsible for the transferred policies. **PLAL** will take over **NPLL**'s rights and obligations in relation to the transferred policies.

Any contracts that **NPLL** has with other organisations, for example **reinsurance** agreements, will also transfer so that they will be between **PLAL** and that organisation.

6.2 PLAL fund structure

PLAL divides its assets into two main funds: the **Shareholder Fund** and the **Long-Term Insurance Fund**. Following the transfer, the **Long-Term Insurance Fund** will have five sub-funds, as follows.

- Its three current **with-profits** sub-funds, namely the Pearl With-Profits Fund, the London Life With-Profits Fund and the SERP Fund. Eligible policyholders are entitled to 90% of the distributable surplus from the Pearl With-Profits Fund and 100% of the distributable surplus from the London Life With-Profits Fund and the SERP Fund. No policies will transfer to these funds;
- **The National Provident Life With-Profits Fund (NPL WPF)**
  This will be a new **with-profits** sub-fund that will contain all **NPLL** policies other than annuities in payment. As is currently the case in the **National Provident Life Fund** (**NPLF**) of **NPLL**, eligible policyholders will be entitled to 100% of the distributable surplus from the **NPL WPF**;
- **The Non-Profit Fund**
  This is an existing **non-profit** sub-fund. **NPLL** annuities in payment will be transferred to the **Non-Profit Fund**.

6.3 Governance of the with-profits funds

Currently, the **NPLF** Supervisory Board is solely responsible for the management (including investment and bonus policy) of the **NPLF.**

Under the terms of the **Scheme,** ultimate responsibility for the management of the **NPL WPF** will lie with the **PLAL** Board. However, to ensure **NPLL** policyholders' interests and reasonable expectations are protected, the **WPC** of **PLAL** will take on certain specific powers and responsibilities in relation to the **NPL WPF** that the **NPLF** Supervisory Board had in relation to the **NPLF**. These powers and responsibilities are specified in the **Scheme** and include responsibility for setting bonus and investment policy. The **PLAL** Board will also need to obtain the prior approval of the **WPC** in respect of certain key matters, sometimes referred to as reserved matters.

The Scheme requirements relating to the membership and operating procedures of the WPC reflect the terms of the National Provident Institution Demutualisation Scheme (the NPLL Scheme). These include a requirement that the WPC has a majority of non-executive members who are not employed by, or on the board of, any Phoenix Group company. The PLAL WPC Terms of Reference will be amended to include these requirements and the obligations of the PLAL WPC in respect of the NPL WPF. It will only be possible to change these requirements and the WPC's obligations following consultation with our regulators.

The principles for the financial management of the NPLF set out in the NPLL Scheme have largely been replicated in the Scheme. This will help ensure that the business in the NPL WPF continues to be managed in the same way as it is now.

PLAL's existing PPFM will be amended to describe the principles and practices for managing the NPL WPF and to reflect applicable changes to PLAL as a result of the Scheme.

6.4 Certification and With-Profits Actuary duties

The Scheme requires the PLAL Board to provide the WPC of PLAL with an annual certificate setting out whether it considers that the terms of the Scheme have been complied with. In addition, the With-Profits Actuary to the NPL WPF will provide a certificate to the PLAL Board and WPC setting out whether, in his opinion, the provisions of the Scheme relating to actuarial matters have been complied with and whether the investment and bonus policy have been consistent with the requirements of the Scheme.

The With-Profits Actuary is also required to notify the PLAL Board and WPC if he considers the NPL WPF is being operated in a way which means that he will be unable to provide this certificate.

6.5 Closing or merging the NPL WPF

Under the terms of the Scheme, PLAL is entitled, provided the with-profits liabilities have reached a minimum value, to merge the policies, assets and liabilities allocated to the NPL WPF with another with-profits fund and close the fund. If this happens, policies will remain with-profits. The minimum value will be equivalent to that which currently applies to NPLL's right to cease to maintain the NPLF under the NPLL Scheme.

The terms of the Scheme will require PLAL to close the NPL WPF if the value of its with-profits liabilities falls below £50 million. This will help ensure that the remaining assets of the NPL WPF are distributed fairly between the remaining policyholders and will also enable PLAL to manage all of its with-profits funds on a consistent basis. If the NPL WPF is closed for this reason:

- any guaranteed benefits will be protected;
- all with-profits policies will be changed into non-profit policies; and
- PLAL will transfer all policies, assets and liabilities from the NPL WPF to the Non-Profit Fund. Policyholders will be allocated guaranteed bonuses at a guaranteed rate that will be determined in a way that is fair to them.

PLAL must get written permission from its regulators before it can close or merge a fund. PLAL will make sure that any proposed changes are consistent with the FCA requirement to treat customers fairly.

The Scheme will not change the terms under which the existing PLAL with-profits funds may be closed or merged.

6.6 Future changes to NPLL unit-linked funds

Following the transfer, internal unit-linked funds will be created within PLAL to replace the corresponding unit-linked funds in NPLL. The new unit-linked funds will be operated under the same terms as existing PLAL unit-linked funds.

The Scheme will not change the way in which the existing PLAL unit-linked funds are operated.

6.7 Capital policy

Currently, NPLL's shareholders provide support to the NPLF to ensure it has adequate assets to cover its liabilities. This support takes a variety of forms and as part of the Scheme the support structure will be simplified. Post transfer, support will be provided under the terms of the PLAL capital policy which are set out in the PLAL 2012 Scheme.

The Scheme will not change the terms of the PLAL capital policy. Under the capital policy, the PLAL Non-Profit Fund or Shareholder Fund (provided they have sufficient resources) will make a loan to the NPL WPF if it does not have enough assets to cover its liabilities, plus an additional margin. The PLAL Non-Profit Fund or Shareholder Fund will also support the NPL WPF if the NPL WPF is unable to meet its minimum capital requirements, as required by legislation.

By requiring PLAL to hold a buffer of more capital than the minimum required under current legislation, the PLAL capital policy restricts the amounts that can be distributed to shareholders, for example by way of dividends.

There is a very remote possibility that, in extreme circumstances, a with-profits fund might need to provide support to another PLAL fund. However, we believe that this is extremely unlikely to happen because:

- under our proposals, the PLAL capital policy should make sure that PLAL holds more capital than the minimum required under current legislation for each of its funds, including the NPL WPF; and
- if this capital were insufficient, PLAL, in conjunction with its shareholder and regulators, would expect to investigate and seek to implement other actions before one with-profits fund would be called upon to provide support to another with-profits fund.

The Independent Expert has considered the effect of the Scheme on the security of existing PLAL policyholders and transferring NPLL policyholders. His conclusions are set out in section 7.

6.8 Expenses

The Scheme will require that the per policy fees for administration services that are charged to the NPL WPF will initially be set at their current level and then increase in line with the Retail Prices Index plus 1%. The PLAL Board will be entitled to change these fees in the future. However, any changes will need to be approved by the WPC, which will need to be satisfied that the fees are fair to policyholders. In addition, the WPC may require that a review of the fees be undertaken

The fees for investment management charged to the NPL WPF will also be set by the Board. However, the Scheme will require that any changes to the investment management fees are approved by the WPC, which will again need to be satisfied that the fees are fair to policyholders.

The Scheme will not change the way in which expenses are charged to existing PLAL with-profits funds.

6.9 Service standards

The **Scheme** requires that **PLAL** ensures that the standard of service provided to the transferring policyholders is at least the same as the standard provided to holders of similar policies in any other **PLAL** fund. In addition, the same level of skill and care must be applied to the investment management of the **NPL WPF** as to the investment management of any other **PLAL with-profits** fund.

6.10 Policies with options for a new or replacement policy to be issued

Following the transfer, transferring policyholders whose policy has an option or other right which entitles the holder to take out a new, additional or replacement policy, will be entitled to require **PLAL** to issue such a policy.

The **Scheme** will not affect any option or other right of existing **PLAL** policyholders to take out a new, additional or replacement policy.

6.11 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 **NPLL** and **PLAL.**

6.12 Data Protection

Under the terms of the **Scheme**, **PLAL** will become the 'data controller' and take over the rights and responsibilities of **NPLL** in respect of personal data which is associated with the business of **NPLL** and is subject to the Data Protection Act 1998.

PLAL will be under the same duty as **NPLL** to respect the confidentiality and privacy of personal data.

7 Summary of the Independent Expert's report

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

You can see the full version of the Independent Expert's report on our websites, or you can get a paper copy by calling our helpline or writing to us at the address given in section 8.

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 of NPLL (the transferring policyholders) and existing policyholders of PLAL. I have examined the implications of the Scheme for each group and 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 the future.

In carrying out my review, I have also had regard to certain requirements which the NPLL Scheme imposes in relation to any proposed transfer of NPLL's business to PLAL.

Where the Scheme affects a particular group of policyholders, I have considered whether the policyholders are, or are likely to be, "materially adversely affected" by the Scheme. In forming a view of whether an effect is "material", I have considered both the size and likelihood of the effect. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

Security of policyholder benefits

I am satisfied that the Scheme will not materially adversely affect the security of benefits of either transferring policyholders or existing PLAL policyholders.

In the case of transferring policyholders, this is because:

- following the transfer, these policies will continue to be protected by a capital policy which targets a level of capital well in excess of regulatory requirements. As at 31 October 2014, the level of capital held under the PLAL capital policy represented a higher percentage margin over regulatory capital requirements than that held under NPLL's capital policy. In addition, because it is contained in a court sanctioned scheme, the PLAL capital policy represents a stronger shareholder commitment than the NPLL capital policy.

- the Scheme, of itself, leads to little change in the risks to which the transferring policyholders are exposed. Such risks are mitigated through the strength of the PLAL capital policy;
- a number of capital support arrangements are currently in place to protect the transferring policyholders within NPLL. The Scheme simplifies these capital support arrangements and as a result would allow more of any surplus arising in the NPL WPF to be distributed to with-profits policyholders. The Scheme does not reduce the level of capital support available to policyholders;
- although the Scheme will result in the transferring policyholders being exposed directly to the risks associated with PLAL's existing business, the benefits of transferring policyholders would only be in danger of being reduced as a result of those risks in the extreme situation where one of the other funds in PLAL was insolvent and any surplus assets in the NPL WPF needed to be transferred to that fund. The Scheme contains a provision which will prevent this happening except in the very unlikely scenario of both the Shareholder Fund and the Non-Profit Fund having no available assets.

In the case of the existing policyholders of PLAL, this is because:

- PLAL policies do not move and will continue to benefit from the protection provided by the PLAL capital policy;
- the Scheme will not change the PLAL capital policy, which will continue to target a level of capital well in excess of regulatory requirements. In addition, since NPLL is an indirect subsidiary of PLAL, existing PLAL policyholders are already indirectly exposed to the risks within NPLL and this is reflected in the amounts which are already held under the PLAL capital policy. Those amounts will not change as a result of the Scheme;
- PLAL is expected to be able to meet the level of capital targeted by its capital policy after the Scheme.

Policyholders' benefit expectations

I am satisfied that the Scheme will not materially adversely impact the benefit expectations of either transferring policyholders or existing PLAL policyholders.

In the case of transferring with-profits policyholders, this is because:

- key considerations relevant to transferring with-profits policyholders will not change as a result of the Scheme, including the current methodology for determining asset shares, bonus rates and surrender value calculations and the process for allocating investment returns to asset shares;
- the governance requirements in the Scheme will help ensure that transferring policyholders' interests are protected. In particular, the power to manage investment and bonus policy will be held by the PLAL WPC, which will be required to have regard solely to the interests and reasonable expectations of NPL WPF policyholders when carrying out its duties in respect of that fund. The PLAL WPC is required to have a majority of non-executive members and will have oversight of the Board's wider management of the NPL WPF;
- a small amount of non-profit annuity business is being transferred from NPLL to the Non-Profit Fund. Since the majority of NPLL's annuities in payment are already reinsured to PLAL, future profits attributable to this business are already expected to arise largely in PLAL and any other profits associated with the annuities in payment transferring to the Non-

Profit Fund (which, following the Scheme, will arise in the Non-Profit Fund rather than the NPL WPF) would not materially affect the benefit expectations of the holders of transferring with-profits policies;

- the provisions in the Scheme regarding the future management of the NPL WPF, including those permitting the future reallocation of non-profit policies from the NPL WPF to the Non-Profit Fund and those requiring the NPL WPF to be closed or merged in certain circumstances, are subject to various requirements which are designed to ensure that the way in which any such changes are made are fair to policyholders;
- key aspects of the PPFM that currently applies to with-profits business in NPLL will be replicated in a new chapter of the PLAL PPFM.

In the case of holders of transferring unit-linked policies and other non-profit policies (including annuities in payment), this is because:

- on implementation of the Scheme, the unit-linked policies in the NPL WPF will remain invested in the same unit-linked funds as previously in NPLL, with the same number and value of units, and with the same range of fund choice available to them. The level of fund charges will also be unchanged;
- there will be no change to the unit pricing principles, investment mandates, charges or taxation of any unit-linked fund;
- while the Scheme will introduce certain powers in respect of the future management of former NPLL unit-linked funds, these are subject to conditions designed to protect policyholders' interests;
- there will be no change to the benefits, terms and conditions of other non-profit policies (including annuities in payment).

In the case of existing PLAL policyholders with with-profits policies, this is because:

- there will be no change to policy terms and conditions, guarantees or to underlying asset shares;
- there is no movement of policies either into or out of the existing PLAL WPFs, so profits or losses from non-profit business in an existing PLAL WPF remain in the relevant fund for the potential benefit of the with-profits policyholders. There will be no change to the basis on which profits are shared in any of the existing PLAL WPFs. The level of surplus assets within each existing PLAL WPF will also remain unchanged by the Scheme;
- there will be no changes to the investment policy or asset mix of any fund as a result of the Scheme.
- the Scheme will not change the PPFM for any of PLAL's existing with-profits business, nor does it impact directly the way in which this business is expected to be managed;
- the governance arrangements and existing protections for existing PLAL with-profits policies under previous court schemes will be maintained and the powers and areas of management discretion that have resulted from those schemes will not change.

In the case of existing PLAL policyholders with unit-linked policies and other non-profit policies, this is because:

- the Scheme will not change the policy terms and conditions of unit-linked policies, nor will it change the unit pricing principles, investment mandates, charges or taxation of any unit-linked or unitised with-profits fund;

- the Scheme will not change the number of and value of units that unit-linked policyholders have, or the fund choice available;
- the Scheme will not change the terms and conditions of any other non-profit policies (including annuities in payment) and will have no impact on the benefits or premiums payable or any charges that are applicable.

Service standards and investment management

I am satisfied that the Scheme will have no adverse impact on administration or investment management services for either transferring policyholders or existing PLAL policyholders. This is because:

- the Scheme will not change the administration arrangements for any group of policies;
- NPLL and PLAL have confirmed that there will be no changes on implementation of the Scheme to the investment management or mandate for the assets backing the transferring policies and the non-transferring policies.

Governance arrangements

The governance arrangements relating to existing PLAL policyholders will not change as a result of the Scheme, other than in relation to the composition and procedures of the PLAL WPC, where the changes should have the effect of strengthening the governance protections for with-profits policies held by existing PLAL policyholders.

Under the governance arrangements set out in the NPLL Scheme, the NPLF Supervisory Board has responsibility for the management of the NPLF, including the investment and bonus policies. Many of the rights and responsibilities of the Supervisory Board will be carried over by the Scheme, as rights and responsibilities of the PLAL WPC, including responsibility for the investment policy and the bonus policy of the transferring with-profits business. However, the responsibility for the management of the NPL WPF will, in general, lie with the PLAL Board rather than the PLAL WPC, although the management of the fund will still be subject to oversight by the PLAL WPC. This is consistent with current legal and regulatory framework.
I am satisfied that this change does not represent a materially adverse effect for the transferring policyholders.

Solvency II

On 1 January 2016, the current regulatory solvency regime is expected to be replaced by a new regime known as Solvency II. I have considered whether the introduction of Solvency II has a bearing on my conclusions.

It is important to realise that Solvency II does not change any of the assets, liabilities or risks in the companies; however, it will change how these are measured and could result in additional risk that the companies fail to meet their regulatory requirements.

I note that Solvency II will impact the companies irrespective of the Scheme – if it has an adverse (or positive) effect on a particular company, the effect will apply whether or not the Scheme occurs.

I have reviewed an estimate of the financial position of the companies calculated under their current understanding of the likely Solvency II rules and estimates of the expected impact of the Scheme on this position. There is considerable uncertainty around these estimates, but both companies are expected to be able to meet their Solvency II capital requirements. Given the uncertainty around these estimates and the number of options open to management to change this position over the coming months, I place limited reliance on any comparisons of the relative strength of the companies at this stage and will revisit this in advance of the

Scheme being presented to the High Court for approval.

However, I note that the impact of the Scheme is expected to be largely neutral on the solvency position of PLAL under Solvency II. This reflects the fact that the NPLL figures would be reflected in the pre-Scheme PLAL position on a look-through basis.

There could be a risk to policyholders if they were moving from a company that was well prepared for the move to Solvency II, and understood the implications for its solvency, to one that was poorly prepared. That is not the case under this Scheme. The companies are all part of the same group of companies and are part of the same implementation programme, and so no group of policyholders should be disadvantaged on this account.

Under the terms of a previous court scheme, PLAL will set new tests for its capital policy before Solvency II is implemented with the objective that PLAL can meet its Solvency II capital requirements in internally stressed scenarios. The adoption of the new tests and their parameters will be subject to the regulators' non-objection. As a result, the PLAL capital policy will provide ongoing protection to all policyholders affected by the Scheme after Solvency II is implemented.

Summary

I am satisfied that the Scheme will not adversely impact any group of 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 Guernsey 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 affect policyholders to the attention of the High Court in a supplementary report.

8 More information

You can see the following documents relating to the **Scheme** on our websites at www.phoenixlife.co.uk/FM14scheme and www.npi.co.uk/FM14scheme.

Scheme guide	• Scheme guide for Phoenix Life Assurance Limited policyholders
Other information	• Draft version of the full Scheme document • The Independent Expert's full report for the Scheme • Actuarial reports from PLAL and NPLL • The full terms of the overseas schemes • Draft versions of the revised PLAL PPFM (incorporating the NPL WPF) and the guides to how we plan to manage the NPL WPF • Summary of the main differences between the existing PPFM of NPLL and the new PLAL PPFM • Draft version of the revised PLAL WPC Terms of Reference • Scheme guide for National Provident Life Limited policyholders • 'The Scheme – Your questions answered' (for NPLL policyholders) • Example letters (for NPLL policyholders) • The scheme document for the PLAL 2012 Scheme

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

0845 266 9221

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 outside the UK, please call +44 1733 478993.

This helpline is only for enquiries about our transfer proposals. For general questions about your policy, please contact us on the usual customer telephone number which you will find on previous letters that you have received from us.

You may also write to:

Restructure Team (reference FM14)
The Pearl Centre
Lynch Wood
Peterborough
PE2 6FY
United Kingdom

If you contact us please quote the client reference number at the top of the letter accompanying this guide.

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

9 Definitions

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

Effective date – 1 January 2015, being the date on which the **Scheme** is to be treated as having taken effect for accounting purposes.

FCA – the Financial Conduct Authority, one of our industry regulators.

GFSC – the Guernsey Financial Services Commission, our industry regulator in **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 – the Bailiwick of Guernsey including the islands of Guernsey, Alderney, Sark, Herm, Jethou, Burhou, Brecqhou and Lihou.

Guernsey Scheme – the transfer scheme under section 44(1) of the Insurance Business (Bailiwick of Guernsey) Law 2002 under which we propose to transfer, from **NPLL** to **PLAL**, the relevant policies issued to people resident in **Guernsey**.

Hearing – the **hearing** at the **High Court** to approve the **Scheme**, which we expect to be held on 30 March 2015.

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

Independent Expert – Dr David Hare of Deloitte MCS Limited, an actuary experienced in the issues relating to the transfer of long-term insurance businesses, who has been appointed by **PLAL** and **NPLL** and approved by the **PRA** as the **Independent Expert** in connection with the **Scheme**.

Jersey Scheme – the transfer scheme under Article 27 and Schedule 2 to the Insurance Business (Jersey) Law 1996, under which we propose to transfer, from **NPLL** to **PLAL**, 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.

Long-Term Insurance Fund – a fund that contains all the assets and liabilities relating to a company's life assurance business, which are not held for the benefit of its shareholders.

National Provident Life Fund or **NPLF** – the **Long-term Insurance Fund** of **NPLL**, held to cover policy and related liabilities.

National Provident Life With-Profits Fund or **NPL WPF** – a new **with-profits** fund which will be set up within **PLAL**. The transferring policies from **NPLL,** other than annuities in payment**,** will be allocated to this new **with-profits** fund.

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. A **non-profit** fund is one from which all of the profits are distributable to shareholders.

Non-Profit Fund – the **non-profit** fund of **PLAL**. All the profits from this fund are distributable to shareholders.

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

NPLL Scheme – the scheme, under which the entire long-term insurance business of National Provident Institution was transferred to **NPLL**, which took effect on 1 January 2000 and was subsequently amended in 2010.

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

Phoenix Group – the group of companies (formerly Pearl Group) whose ultimate parent company is Phoenix Group Holdings and which currently includes **Phoenix Life Limited**, **NPLL,** and **PLAL**.

PLAL – Phoenix Life Assurance Limited, the company to which **NPLL** business will be transferred on the **transfer date**.

PLAL 2012 Scheme – the 2012 insurance business transfer scheme under which the entire long-term insurance business of London Life Limited was transferred to **PLAL.**

PLAL capital policy – imposes requirements for the amount of capital which **PLAL** must hold over and above regulatory capital requirements. The **PLAL capital policy** is contained in the **PLAL 2012 Scheme.**

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

Regulators – the **Prudential Regulation Authority** (**PRA**) and the **Financial Conduct Authority** (**FCA**)

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 includes how **NPLL** policies will transfer to **PLAL.**

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 – 6 April 2015 or any later date that **PLAL** and **NPLL** agree. This is the date on which the assets, liabilities and policies of **NPLL** will transfer to **PLAL** under the **Scheme**.

Unit-linked – a policy or investment where benefits are decided using the value of a fund of investments. Some **unit-linked** policies can invest in **with-profits** units.

With-profits – a **with-profits** fund is one where the holders of **with-profits** policies have a right to share in the surplus of that fund.

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

Appendix 1

Overseas schemes (Jersey and Guernsey)

NPLL has a small number of policies that may have been taken out as part of the business carried on by NPLL in or from within Jersey, or have been issued to people resident in Guernsey. We will transfer these policies separately under a Jersey Scheme and a Guernsey Scheme. We refer to these together as the 'overseas schemes'.

The overseas schemes are based on the same terms as the Scheme. The summary of the Scheme in section 6 of this guide and the summary of the Independent Expert's report in section 7 apply equally to the overseas schemes. In terms of the overseas schemes, where we refer to the approval of the High Court, you should read this as approval by the Royal Court of Jersey or the Royal Court of Guernsey, as appropriate.

The court hearings are expected to take place as follows.

- Jersey Scheme: 1 April 2015 at the Royal Court of Jersey, Royal Court Building, Royal Square, St Helier, Jersey JE1 1JG.
- Guernsey Scheme: 31 March 2015 at the Royal Court of Guernsey, The Royal Court House, St Peter Port, Guernsey GY1 2PB.

If you believe you would be adversely affected by any one 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.

- By calling our helpline, or by writing to us at the address given in section 8, quoting reference FM14.
- You or a representative can go to the hearing and present your objection to the relevant court. In Jersey, your representative must be a Jersey advocate.

If you call or write to us with an objection, then 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. If you have an objection, you should raise it with us as soon as possible and preferably before 6 February 2015.

If you or your representative plan to come to the Jersey or Guernsey court hearing, please call or write to us quoting reference FM14, ideally before 6 February 2015. By informing us, we will be able to let you know about any changes that may take place to the time or date of the relevant court hearing. We may also be able to deal directly with any concerns.

If the overseas schemes are approved, transfers will take place on the transfer date, or at a later date if the relevant courts order this.

If the overseas schemes are not approved by the transfer date, the policies that would have been transferred under those schemes will be reinsured to PLAL, although they will remain with NPLL. Whether the Scheme is approved does not depend on the overseas schemes also being approved.

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

More information

You can see or obtain copies of the overseas schemes and the Independent Expert's full report, free of charge, at the offices of our Jersey and Guernsey advocates, Carey Olsen.

- Jersey Scheme – 47 Esplanade, St Helier, Jersey JE1 0BD, up to the date of the Jersey court hearing.
- Guernsey Scheme - Carey House, Les Banques, St Peter Port, Guernsey GY1 4BZ, up to the date of the Guernsey court hearing.

They are also available from our websites at www.phoenixlife.co.uk/FM14scheme and www.npi.co.uk/FM14scheme or by calling our helpline.

Appendix 2

LEGAL NOTICE

In The High Court of Justice

Chancery Division

Companies Court

In the matter of
National Provident Life Limited

- and -

In the matter of
Phoenix Life Assurance Limited

- and -

In the matter of the
Financial Services and Markets Act 2000

Notice is hereby given that on 18 December 2014 National Provident Life Limited ("**NPLL**") and Phoenix Life Assurance Limited ("**PLAL**") 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 PLAL of all of the long-term insurance business carried on by NPLL (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 NPLL being carried on by PLAL. 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 PLAL. All claims in respect of the policies comprised within the Business shall, upon the transfer becoming effective, be dealt with by PLAL.

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 NPLL or PLAL 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 NPLL website at www.npi.co.uk and on the PLAL website at www.phoenixlife.co.uk.

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

Restructure Team (reference FM14)
The Pearl Centre
Lynch Wood
Peterborough
PE2 6FY

Telephone: 0845 2669221 or, if phoning from overseas, +44 1733 478993.

If you have a policy with NPLL or PLAL, 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 30 March 2015 and any person (including any policyholder or employee of NPLL or PLAL) 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 6 February 2015, setting out their grounds of objection or how they may be adversely affected, either to NPLL or PLAL by calling the above number or in writing to the address above or to the solicitors named below.

Any person who objects or says they may be adversely affected by 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 6 February 2015, either to NPLL or PLAL 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 NPLL and PLAL

PHOENIX LIFE

ANY MORE QUESTIONS ABOUT THE SCHEME?

Please call our helpline on

0845 266 9221

or visit our websites

www.phoenixlife.co.uk/FM14scheme

www.npi.co.uk/FM14scheme

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 1733 478993.
We may monitor or record calls.

If you would like this information in large print, in Braille, or on cassette or CD, please call us on 0845 266 9221.