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Transfer Report

For the proposed transfer of the non-life liabilities of Pearl Assurance Limited to BA (GI) Limited, both companies being part of the Phoenix Group Holdings group of companies

2 December 2011

Deloitte LLP and Mr David Hindley (Independent Expert) have prepared this Report ("Transfer Report for the proposed transfer of the non-life liabilities of Pearl Assurance Limited to BA (GI) Limited, both companies being part of the Phoenix Group Holdings group of companies" dated 2 December 2011) solely in connection with the proposed Transfer considered in the Report as required by Section 109 of the Financial Services and Markets Act 2000 ("FSMA 2000")

This Report is addressed to the English High Court of Justice and Pearl/BAGI/Phoenix Group.

This Report has been prepared for and only for the Court in accordance with Part VII of FSMA 2000 in connection with the Scheme and for no other purpose. A copy of this Report will be sent to the FSA and it will also be available to policyholders and other members of the public as required by the relevant applicable legislation.

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The Report must be considered in its entirety, as parts taken in isolation may be misleading.

There are restrictions on the use that may be made of this Report. Those restrictions are set out in Section 2.5 of the Report.

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1 Executive Summary

1.1 Introduction

This Executive Summary sets out the key findings, methodology, assumptions and analysis contained in my Report, which follows. It should not be read as a substitute for my full Report, as taken in isolation it could be misleading. In this summary, I have used a number of terms and abbreviations that are defined in Appendix D.

1.2 Appointment

I, David Hindley, have been appointed by Pearl Assurance Limited ("Pearl") and BA (GI) Limited ("BAGI"), both companies being part of the Phoenix Group Holdings group of companies ("Phoenix Group"), to act as the Independent Expert for the proposed Transfer. An extract of the relevant sections from the Engagement Letter regarding this appointment is contained in Appendix A. A brief summary of my experience is contained in Appendix B.

My role is to produce a Scheme Report as required by Section 109 of FSMA 2000. I have taken into account the guidance given in Chapter 18 of the FSA's Handbook of Rules and Guidance ("SUP 18").

I confirm that my appointment as an Independent Expert for the purpose of producing this Report has been approved by the FSA.

1.3 Scope of Work

My scope is to produce a report on the impact of the proposed Transfer from the perspective of the Affected Policyholders, namely:

- the Transferring Policyholders (that is all current non-life policyholders of Pearl);
- the Receiving Policyholders (that is all current policyholders of BAGI); and
- the Remaining life assurance Policyholders of Pearl, that are not subject to the proposed Transfer.

Nothing in this report should be regarded as providing a legal opinion on the effectiveness of the proposed Transfer.

Draft versions of this report must not be relied upon by any person for any purpose. No reliance should be placed on any advice not given in writing. If reliance is placed contrary to the guidance set out above, Deloitte disclaims any and all liability which may arise.

1.4 Conclusion

Based on the analysis set out in this Report, I have satisfied myself that it is unlikely that the proposed Transfer will have a materially adverse impact on any of the Affected Policyholders, both in terms of their financial security and in relation to the way in which their policies and claims will be managed and administered after the proposed Transfer takes place.

This conclusion is made relative to the Affected Policyholders' position prior to the Transfer, using data and information as at 31 December 2009 and 31 December 2010. I have already provided an update to this Report via a First Supplementary Report using data and information as at 30 June 2011. Should there be any material developments between 30 June 2011 and the anticipated Effective Date of the Transfer of 31 March 2012, I may need to revisit my conclusions via a further Supplementary Report.

In Section 2.7, I have expanded on what I mean by the phrase "material adverse impact" and the word "unlikely" in this Report.

The remainder of this Executive Summary provides more detail on these conclusions.

1.5 Background and Purpose of the Transfer

Background to the Transfer

The proposed Transfer will consolidate all of the non-life liabilities in the Phoenix Group into BAGI, other than those in Phoenix Assurance ("PAGI") which are entirely reinsured by Royal & SunAlliance. Both Pearl and BAGI are part of the Phoenix Group. After the completion of the proposed Transfer, Pearl will be left with its life assurance liabilities only and will therefore cease to be a composite insurer. BAGI will continue to contain exclusively non-life insurance business, all of which is in run-off, and will be capitalised independently of Pearl. As a result of the proposed Transfer, all of the non-life insurance run-off liabilities, net of reinsurance, to which the Phoenix Group is exposed will be managed in a single company ensuring a more efficient use of resources for administration and reporting purposes. It may also facilitate some form of transaction or other procedure in future to remove the net exposures arising from the non-life insurance run-off business from the Phoenix Group entirely. The proposed Transfer will be facilitated by ensuring continuity of personnel in the short term.

The Companies

Pearl

Pearl is one of a number of life companies of the Phoenix Group. The Phoenix Group is a closed life fund consolidator that specialises in the management and acquisition of closed life and pension funds.

The principal activity of Pearl is the transaction of various classes of insurance business, covering annuities, pensions, savings, investment products, industrial branch business and protection policies.

1 Executive Summary

Pearl was previously known as Pearl Assurance plc. On 25 June 2010 Pearl Assurance plc re-registered as a limited company and is now known as Pearl.

As of 31 December 2010 Pearl had approximately 2m life policies in force and the total value of assets was £19.2bn. Pearl has ceased to write new business, but continues to accept premiums on its in-force life business and to manage its ongoing business.

Pearl started writing non-life insurance business in 1910 and wrote a variety of classes of business, including motor, household, aviation, marine and employers' liability. On 30 July 2001 Pearl transferred responsibility to underwrite new business and renewal business to Churchill Insurance Group plc and NIG for a five year period. In 2006 this arrangement transferred to Lloyds TSB ("LTSB") for a ten year period. Therefore Pearl only remains exposed to the run-off of its existing business.

Pearl surrendered its licence to write non-life insurance business to the FSA in 2004 and is now only authorised to run-off its existing claims liabilities and to act as an intermediary in respect of its existing client base.

Due to the remaining legacy non-life insurance liabilities, Pearl is currently a composite insurer.

The run-off non-life liabilities of Pearl consist of participations in a number of different underlying portfolios of business, some of which are described in more detail in Section 5.3 of this Report.

As of 31 December 2010, Pearl's gross technical provisions were £11,570m. Almost all of this amount was in respect of its life assurance business (£11,527m), with less than 0.4% of its gross technical provisions as at 31 December 2010 being in respect of its non-life insurance liabilities (£43m). The liabilities to be transferred under the proposed Transfer are therefore very small in the context of Pearl's total liabilities.

BAGI

BAGI, formerly known as Britannic Assurance plc, was acquired by the Phoenix Group as part of its acquisition of the Resolution Group in 2008. Prior to this acquisition, in 2006, the long term business funds together with the majority of the shareholder funds of BAGI were transferred to another group company, leaving only the (run-off) non-life liabilities of Britannic Assurance plc.

The principal activity of BAGI is the management of UK based books of non-life insurance business which are in run-off. BAGI started writing non-life insurance business in 1925. It wrote a variety of classes of business including fire and accident, motor and employers' liability. BAGI's current liabilities stem from business written between the 1960's and 1993. BAGI remains authorised to carry out contracts of insurance.

As of 31 December 2010, BAGI had only three outstanding employers' liability claims. The total gross technical provisions including an allowance for IBNR claims and claims handling expenses were £2.0m. The gross liabilities being transferred into BAGI under the proposed Transfer (£43m) are therefore considerably larger than BAGI's existing liabilities.

1.6 Impact on the Transferring Policyholders

The Transferring Policyholders are all of the current non-life policyholders of Pearl.

In reviewing the financial impact of the proposed Transfer on the Transferring Policyholders I have:

- considered the risks to which the Transferring Policyholders will be exposed as a result of the proposed Transfer, compared to that to which they are exposed pre-Transfer;

- considered the level of financial security that the Transferring Policyholders will benefit from post-Transfer, compared to that pre-Transfer. This was assessed on both a Pillar I and a Pillar II basis, although I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I;

- considered the claims reserves held in relation to the Transferring Policyholders and the Receiving Policyholders, through the review of external actuarial reports and other information supplied to me by Pearl and BAGI;

- considered the non-life Individual Capital Assessment ("ICA") for the Transferring Policyholders and the Receiving Policyholders; and

- compared the Chain of Security that the Transferring Policyholders will benefit from post-Transfer, compared to that which they benefit from pre-Transfer.

Overall, I have satisfied myself from this analysis that the proposed Transfer is unlikely to have a material adverse impact on the Transferring Policyholders in terms of the financial impact of the proposed Transfer on them. My principal reasons for reaching this conclusion are as follows:

1. Pre-Transfer, the Transferring Policyholders are exposed to the substantially larger life portfolio, which has risks attached to it that are quite different in nature than those of the Transferring Policyholders. These risks have uncertainties attached to them (such as longevity and equity market related risks) that are very material relative to the small size of the Transferring Policyholders. There is also the risk that in an adverse scenario (a) the With-Profit life business could erode the capital which currently protects the other life business and the non-life business; and (b) the other life business could erode the capital which currently protects the non-life business. By contrast, the Transferring Policyholders do not currently have access to any of the ring-fenced capital which currently protects the With-Profit life business, nor to assets attributed to the other life business save to the extent such assets become available to the shareholder fund as surplus. The Transfer moves the Transferring Policyholders into a pure non-life insurance business, where they are not exposed to the risks associated with the life liabilities in the same way that they are pre-Transfer.

2. The most material risk to which the Transferring Policyholders are exposed post-Transfer relates to non-life reserving risk. The margin in BAGI’s technical provisions above their best estimate, combined with the level of capital available in BAGI post-Transfer means that there is a significant margin available to meet its liabilities, in excess of a reasonably adverse outcome for future claims outgo.

3. On both a Pillar I and a Pillar II basis, the ratio of the Net Assets to the corresponding Capital Requirements for the Transferring Policyholders is higher post-Transfer than pre-Transfer, indicating that, as measured by these ratios, the financial security for the Transferring Policyholders improves as a result of the proposed Transfer.

4. Post-Transfer, the level of financial security for the Transferring Policyholders is in excess of that normally required by the FSA for non-life insurance business in run-off and in that sense their financial security can be considered reasonable post-Transfer.

5. Phoenix intends to establish a capital policy for BAGI post-Transfer that results in a greater minimum ratio of net assets to ICA for the Transferring Policyholders post-Transfer compared to the corresponding ratio pre-Transfer in Pearl as at 31 December 2010. In that sense the level of financial protection provided to the Transferring Policyholders is effectively increased as a result of the proposed Transfer.

6. Although Pearl and BAGI are part of a wider group of companies, I understand that neither company has any right to require other companies in the group to provide financial support in the event that either company experiences financial difficulties. In that sense, the chain of security which the Transferring Policyholders benefit from within the corporate structure is comparable pre and post-transfer.

7. I have considered the possibility that one or more of the Transferring Policies is governed by a law other than English law. While as a matter of English law the transfer of such a policy would be effective as a result of the Court's order sanctioning the Scheme, this may not be recognised in the jurisdiction whose law is the governing law of the policy. I have considered the possibility of a claim being successfully brought against Pearl after the Effective Date of the proposed Transfer. In these circumstances Pearl would have a right of recovery of the amount against BAGI under the proposed Transfer, meaning that Pearl and BAGI would be in the same financial position as if the Transfer had been recognised under the law of the non-UK jurisdiction concerned. I am therefore satisfied that this possibility does not affect my conclusions.

I understand that there will be no changes to the administration of the Transferring Policies on completion of the proposed Transfer, therefore I am satisfied that there will be no non-financial impact of the proposed Transfer on the Transferring Policyholders.

1.7 Impact on the Receiving Policyholders

The Receiving Policyholders are the current policyholders of BAGI.

In reviewing the financial impact of the proposed Transfer on the Receiving Policyholders I have:

- considered the risks to which the Receiving Policyholders will be exposed as a result of the proposed Transfer, compared to that to which they are exposed pre-Transfer;

- considered the level of financial security that the Receiving Policyholders will benefit from post-Transfer, compared to that pre-Transfer. This was assessed on both a Pillar I and a Pillar II basis, although I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I;

- considered the claims reserves held in relation to the Transferring Policyholders and the Receiving Policyholders, through the review of external actuarial reports and other information supplied to me by Pearl and BAGI;

- considered the non-life ICA for the Transferring Policyholders and the Receiving Policyholders; and

- compared the Chain of Security that the Receiving Policyholders will benefit from post-Transfer, compared to that which they benefit from pre-Transfer.

Overall, I have satisfied myself from this analysis that the proposed Transfer is unlikely to have a material adverse impact on the Receiving Policyholders in terms of the financial impact of the proposed Transfer on them. My principal reasons for reaching this conclusion are as follows:

1. The most material risk to which the Receiving Policyholders are exposed post-Transfer relates to non-life reserving risk. The margin in BAGI's technical provisions above their best estimate, combined with the level of capital available in BAGI post-Transfer means that there is a significant margin available to meet its liabilities, in excess of a reasonably adverse outcome for future claims outgo.

2. The ratio of Net Assets to Pillar I Capital Requirements for the Receiving Policyholders is significantly higher post-Transfer than it is pre-Transfer. Therefore, as measured by this ratio, the financial security of the Receiving Policyholders improves as a result of the proposed Transfer.

3. On a Pillar II basis, the ratio of net assets to ICA for the Receiving Policyholders is higher pre-Transfer than post-Transfer. However, I am satisfied that the level of financial security, as measured by this ratio, provided to the Receiving Policyholders post-Transfer is reasonable compared to that available to them pre-Transfer, particularly given that, at least in theory, the ratio could be reduced to 100% pre-Transfer anyway, as noted below.

4. As there is no specific policy agreed with the FSA for BAGI pre-Transfer in relation to the level of capital held in excess of the ICA, the company could, at least in theory, reduce the capital to 100% of the ICA amount. This means that the fact that Phoenix will be establishing such a capital policy for BAGI post-Transfer, as referred to in Section 1.6 (point 5), their financial security is effectively increased by the proposed Transfer.

5. Post-Transfer, the level of financial security for the Receiving Policyholders is in excess of that normally required by the FSA for non-life insurance business in run-off and in that sense their financial security can be considered reasonable post-Transfer.

6. The Chain of Security for the Receiving Policyholders is unchanged as a result of the proposed Transfer.

In assessing the non-financial impact of the proposed Transfer on the Receiving Policyholders, I have considered the likely policyholder experience of being part of a much enlarged non-life entity. I understand that BAGI's existing arrangements for policy administration, claims agreement and settlement will remain in place, with no change or impact as a result of the proposed Transfer. Overall, therefore, I am satisfied that the proposed Transfer is unlikely to have a material adverse impact on the Receiving Policyholders in terms of the non-financial impact of the proposed Transfer on them.

1.8 Impact on the Remaining Policyholders

The Remaining Policyholders are the current life assurance policyholders of Pearl.

In reviewing the financial impact of the proposed Transfer on the Remaining Policyholders I have:

- considered the risks to which the Remaining Policyholders will be exposed as a result of the proposed Transfer, compared to that to which they are exposed pre-Transfer;

- considered the level of financial security that each of the relevant sub-groups of the Remaining Policyholders will benefit from post-Transfer, compared to that pre-Transfer. This was assessed on both a Pillar I and a Pillar II basis, although I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I; and

- compared the Chain of Security that the Remaining Policyholders will benefit from post-Transfer, compared to that which they benefit from pre-Transfer.

Overall, I have satisfied myself from this analysis that the proposed Transfer is unlikely to have a material adverse impact on the Remaining Policyholders in terms of the financial impact of the proposed Transfer on them. My principal reasons for reaching this conclusion are as follows:

1. The size of the liabilities represented by the Transferring Policyholders is very small compared to the liabilities of the Remaining Policyholders, and hence in that sense the removal of the Transferring Policyholders from Pearl as a result of the proposed Transfer does not appear to impact the Remaining Policyholders materially. If anything, their removal takes away the exposure to liabilities that are different in nature to those of the Remaining Policyholders and allows Pearl's management to focus entirely on life business.

2. On a Pillar I and a Pillar II basis, the ratio of the Net Assets to the corresponding Capital Requirements for the Remaining Policyholders is very slightly lower post-Transfer than pre-Transfer. However, I am satisfied that the reductions are not material. Therefore, the financial security for the Remaining Policyholders, as measured by these ratios, does not change materially as a result of the proposed Transfer.

3. The Chain of Security for the Remaining Policyholders is unchanged as a result of the proposed Transfer.

4. The removal of the Transferring Policyholders from Pearl will take away the diversification benefit that currently exists between the Life and Non-Life policyholders of Pearl, but any benefit to the Remaining Policyholders that exists pre-Transfer is very small relative to the actual size of (and hence risks associated with) the life liabilities.

I understand that there is no change planned to the way in which the Remaining Policies will be administered and managed after the proposed Transfer, therefore I am satisfied that there will be no non-financial impact of the proposed Transfer on the Remaining Policyholders.

1.9 Expert's Declaration

I confirm that I fully understand my overriding duty to the English High Court of Justice and that I must help the English High Court of Justice on matters within my expertise. I believe that I have complied, and will continue to comply, with this duty.

I confirm that insofar as the facts stated in my Report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

David Hindley FIA — 2 December 2011

2 Introduction

2.1 Introduction

This Report sets out the key findings, methodology, assumptions and analysis I have carried out to fulfil my role as the Independent Expert. In the Report I have used a number of terms that are defined in Appendix D.

2.2 Appointment

I, David Hindley, have been appointed by Pearl and BAGI to act as the Independent Expert for the proposed Transfer. An extract of the relevant sections from the letter regarding this appointment is contained in Appendix A. A brief summary of my relevant experience is contained in Appendix B.

My role is to produce a Scheme Report as required by Section 109 of FSMA 2000. I have taken into account the guidance given in SUP 18.

I confirm that my appointment as an Independent Expert for the purpose of producing this Report has been approved by the FSA.

2.3 Scope of Work and Approach

The scope of this Report is to consider the impact of the proposed Transfer from the perspective of the Affected Policyholders, namely:

- the Transferring Policyholders (that is all current non-life policyholders of Pearl);
- the Receiving Policyholders (that is all current policyholders of BAGI); and
- the Remaining life assurance Policyholders of Pearl, that are not subject to the proposed Transfer.

I have assessed both the financial impact and the non-financial impact of the proposed Transfer on the Affected Policyholders. I am not aware of any policyholders who are affected by the Transfer that I have not considered in this Report.

Financial Impact

I have taken "financial impact" and "impact on financial security" to mean the potential change, due to the proposed Transfer, in the ability of the relevant insurer, whether it be Pearl or BAGI, to pay policyholder claims as they fall due. As part of this, I have also taken into account whether there are any potential changes in the cashflow of any payments made to or from policyholders.

Although in some cases this potential change in ability to pay policyholders, or cashflow to or from policyholders, could be positive, I have focused my analysis on considering whether there is any adverse change in this ability or cashflow.

For the Remaining Policyholders, which are life policyholders, my consideration of the financial impact has also included consideration of any changes in benefits payable to these policyholders.

Non-Financial Impact

I have taken non-financial impact to mean expected changes to policy and claims management and administration.

As my role is to consider the relative position of policyholders before and after the proposed Transfer, I have assumed, without independent analysis, that the level of capital for each insurer before the proposed Transfer is appropriate.

In assessing the merits of the proposed Transfer from the point of view of the Affected Policyholders, I have obtained and reviewed the information set out in Section 4 of this Report.

I have evaluated this information in accordance with the relevant regulations and guidance of the FSA. Nothing in this Report should be regarded as providing a legal opinion on the effectiveness of the proposed Transfer.

The FSA has confirmed that it has approved the form of this Report, in the context of the relevant regulations.

2.4 Professional Guidance

The Board of Actuarial Standards has issued standards that apply to certain types of actuarial work. I have prepared this Report with the intention that it should meet the requirements of the Insurance Technical Actuarial Standard, Technical Actuarial Standard D:Data, Technical Actuarial Standard M: Modelling, Technical Actuarial Standard R:Reporting and the Transformations Technical Actuarial Standard. I believe that it does so.

2.5 Purpose and Distribution

This Report has been prepared pursuant to Section 109 of FSMA 2000 in connection with the proposed Transfer. It should not be used for any other purpose. Notwithstanding this, a copy of the Report, in its entirety, may be provided to the following parties:

- Pearl and BAGI;
- the FSA;
- Pearl and BAGI’s legal advisers in connection with the proposed Transfer;
- the English High Court of Justice;
- Ernst & Young LLP in their capacity as auditors to Pearl and BAGI; and

- any person requesting a copy of the Report by means of their right to receive their copy under FSMA 2000 and regulations made thereunder.

Pearl and BAGI ("the Parties") have agreed not to transmit, quote or reproduce this Report to any third party, other than those as set out above, without the prior written consent of Deloitte.

Those receiving a copy of this Report must not rely on it for any purpose other than in connection with the proposed Transfer. Neither Deloitte, nor I, owe or accept any duty to any party other than the English High Court of Justice, the FSA and the Parties, and other than in connection with the proposed Transfer, and shall not be liable for any loss, damage or expense (including interest) of whatever nature that is caused by any party's reliance on representations in this Report.

Third parties reading this report may not have the background information necessary for a full understanding of this report.

The Report, including the exhibits, should be considered in its entirety, as parts taken in isolation may be misleading.

2.6 Role and Independence

My fees incurred in the preparation of this Report are payable by Pearl and BAGI. A brief summary of my relevant experience is shown in Appendix B.

I do not have, to the best of my knowledge and belief, any material interest in Pearl or BAGI, nor do I currently hold an insurance policy with Pearl or BAGI. While Deloitte has undertaken engagements in the past for companies within the Phoenix Group, including Pearl, none of the work undertaken for the Phoenix Group has given rise to revenue of more than 0.5% of the global revenue of Deloitte in recent years.

2.7 Conclusion

Materiality

In this Report, I have used the phrase "material adverse impact" when considering the position of a group of policyholders. My materiality tests are by their nature judgemental and often combine a range of quantitative and qualitative factors, rather than conforming to a strict absolute amount or proportion. I have therefore considered the relative situation of the policyholders (in terms of either the financial security or service they receive from the relevant insurer) both before and after the proposed Transfer. Where the difference between their positions before and after the proposed Transfer is very slight, I conclude that there is no material adverse impact. Where the positions before and after the proposed Transfer are less similar and serve to the detriment of a particular group of the Affected Policyholders, in order to determine whether this change represents a material adverse impact, I have considered whether the absolute position (in terms of financial security or service) of these policyholders after the proposed Transfer is sufficiently robust for me to conclude that, under reasonably plausible adverse scenarios, these policyholders will still have their claims paid in full.

Interpretation of unlikely

In my conclusions at various points in this Report, I have used the word “unlikely”. In particular, my conclusions include the phrase “The proposed Transfer is unlikely to have a material adverse impact….”. I have already described above what my approach to materiality was. My use of the word “unlikely” is intended to mean “a low chance”. It is not possible to state in precise statistical terms what this phrase means but, as an indication, I would regard a “low chance” as approximately 5% or less. When I use the phrase “…is unlikely to have a material adverse impact…”, I am saying that I may not be certain that the proposed Transfer will not have a material adverse impact, but that in my opinion:

- either the chance of such an impact is low; or
- the particular change considered is not materially adverse (using the interpretation I have described above) to the relevant group of policyholders.

Conclusion

Based on the analysis set out in this Report, I have satisfied myself that it is unlikely that the proposed Transfer will have a materially adverse impact on any of the Affected Policyholders, both in terms of their financial security and in relation to the way in which their policies and claims are managed and administered. This conclusion is made relative to the Affected Policyholders’ position prior to the Transfer, using data and information as at 31 December 2009 and 31 December 2010. I have already provided an update to this Report via a First Supplementary Report using data and information as at 30 June 2011. Should there be any material developments between 30 June 2011 and the anticipated Effective Date of the Transfer of 31 March 2012, I may need to revisit my conclusions via a further Supplementary Report.

My reasoning behind this conclusion is set out in the remainder of this Report.

The reader’s attention is drawn to the very important limitations and assumptions set out in Section 3 of this Report. These must be borne in mind when interpreting my conclusion.

2.8 Remainder of Report

The remainder of the report is set out as follows:

- Section 3 – sets out the limitations and assumptions that apply to my findings;
- Section 4 – summarises the data that was made available to me for my analysis;
- Section 5 – contains a high level description of the proposed Transfer, the Parties and the Transferring Policies;

- Section 6 – discusses the impact of the proposed Transfer on the Transferring Policyholders;
- Section 7 – discusses the impact of the proposed Transfer on the Receiving Policyholders; and
- Section 8 – discusses the impact of the proposed Transfer on the Remaining Policyholders.

There are also appendices, as summarised in the Table of Contents.

3 Limitations & Assumptions

3.1 Introduction

In preparing this Report, I have been given free access to appropriate information held by the Parties to allow me to investigate all relevant aspects of the proposed Transfer. In addition, I have had access to, and had discussions with, the Parties' management and their professional advisers to assist in the completion of this Report.

I have relied on the accuracy of the data and information provided by staff employed by the Parties both in writing and orally in meetings and have neither verified nor audited it in any way. I have considered, and am satisfied with, the reasonableness of this information from my own experience in the insurance industry. I am satisfied that the information provided to me by the Parties has been sufficient for the purpose for which it has been used. I have also been able to reconcile a significant amount of the information used to either public documents (such as the Parties' published accounts and FSA Returns) or other confidential reports (such as the Parties' ICA reports and external actuarial reports). However, the user of this Report is relying on the Parties, not me or Deloitte, for data quality and it should be noted that any misrepresentation in the data could affect the conclusions I have drawn in this Report.

I have informed the Parties that I am relying on them to inform me, the English High Court of Justice and the FSA of anything that may affect the conclusions contained within this Report that may occur between the date of this Report and the Effective Date. Examples of such changes include, but are not restricted to:

- any modifications or additions to the proposed Transfer;
- any change in the overall adopted strategy, or any material modifications to the business plans of any company involved in the proposed Transfer;
- any change in reserving strategy and methodology;
- any events that the Parties would consider likely to give rise to a material adjustment to the reserves;
- any material change in the value and make-up of the assets and liabilities being transferred or remaining as part of the proposed Transfer; and
- any material change in capital level or capital structure that would affect the various ratios that I have used in this Report.

I have relied on the Parties' capital calculations and their estimates of the reserves. I have, however, carried out my own review of these, as I deemed necessary for the purpose of preparing this Report, as outlined elsewhere in this Report.

I have also relied on the Parties' published assessments of their financial positions.

I have relied upon my interpretation of the proposed Transfer in carrying out my work with regard to this Report. This interpretation is laid out in Section 5, and has been confirmed by the Parties.

3.2 Uncertainty

There is always uncertainty surrounding the liabilities associated with general insurance transactions, including transfers of insurance policies.

As discussed in Section 5.3 of this Report, a large proportion of the Transferring Liabilities relate to latent disease or Asbestos, Pollution and other Health Hazard ("APH") claims. The estimation of claims arising from APH exposures is subject to considerable uncertainty, due to the long-tail nature of such liabilities. There is still uncertainty surrounding the size of the APH losses. The current environment surrounding the litigation and settlement of asbestos claims is still uncertain. Thus, even at the whole market level, there is still uncertainty about the total value of claims, and so the uncertainty at an individual insurer/reinsurer level is still potentially very large. Hence, the magnitude of uncertainty for individual companies could be multiples of the uncertainty (in relative terms) at a whole market level. In addition to the uncertainty regarding the overall quantum of APH claims, there is also uncertainty over how particular contract terms and conditions may be interpreted, which may result in different outcomes for the insurer/reinsurer.

Accordingly there is, as expected, a level of uncertainty as to whether the assets held by Pearl and BAGI will adequately correspond to the liabilities after the proposed Transfer. I have taken into account this uncertainty in reaching my conclusions in this Report by considering uncertainty within my review of capital adequacy, as outlined in Sections 6.2.3, 7.2.3 and 8.2.3.

3.3 Exclusions

I have not allowed for any actions or decisions of Pearl and BAGI post-Transfer that might adversely impact their solvency position. An assessment of the activities of Pearl and BAGI after the Effective Date is outside the scope of this Report.

I have not considered the financial impact or the non-financial impact of the proposed Transfer on potentially affected parties who are not Affected Policyholders (e.g. employees of the Parties or policyholders in other Phoenix Group companies that are not directly affected by the proposed Transfer).

While I have considered the available, relevant information, I have not carried out an audit of Pearl or BAGI. Therefore, I have not detailed my conclusions regarding each and every piece of data in this Report.

I have not carried out an independent reserve review of either Pearl or BAGI, because as discussed in Section 6.2.4, I did not deem this necessary for the purposes of my work.

4 Data

4.1 Introduction

This Section lists the items of information that I have received and reviewed, following requests to the Parties, in order to prepare this Report.

4.2 Pearl Data

I received the following information in relation to Pearl:

- A copy of “Pearl Assurance Public Limited Company: Report and Accounts for the year ended 31 December 2009”, dated 26 March 2010.
- A copy of “Pearl Assurance Limited (formerly Pearl Assurance Public Limited Company): Directors’ Report and Financial Statements for the year ended 31 December 2010”, dated 22 March 2011.
- A copy of “Pearl Assurance Public Limited Company: Annual FSA Insurance Returns for the year ended 31 December 2009”.
- A copy of “Pearl Assurance Limited (formerly Pearl Assurance Public Limited Company): Annual FSA Insurance Returns for the year ended 31 December 2010”, dated 22 March 2011.
- An internal report dated July 2010 and various other documents providing an overview of the Pearl’s non-life business, including details of the underlying portfolios of business.
- A summary of Pearl’s external reinsurance agreements.
- A copy of “Pearl Assurance Plc: Individual Capital Assessment Results – 31 December 2009”, containing details of the ICA calculations for both the life and non-life insurance business of Pearl. I was also provided with an amended version to Table 8 from this report and written confirmation of corresponding changes to Table 9. Furthermore, I was also provided with Pearl’s working file of its ICA calculation for the non-life policyholders of Pearl as at 31 December 2009.
- A copy of “Pearl Assurance Limited: Individual Capital Assessment Results – 31 December 2010”, containing details of the ICA calculations for both the life and non-life insurance business of Pearl. Furthermore, I was also provided with Pearl’s working file of its ICA calculation for the non-life policyholders of Pearl as at 31 December 2010.
- A copy of “Phoenix Group: Individual Capital Assessment - 2009 Methodology and Assumptions”, dated 20 April 2010.

- An internal memorandum on the Group's Capital Policy, dated 9 November 2010.

- A schedule reconciling the capital resources shown in Pearl's ICA Report with those shown in its Report and Accounts as at 31 December 2009.

- Details of the undiscounted and discounted held reserves, and Pearl's external actuarial advisers' best estimate and 97.5th estimate liabilities for each of the underlying portfolios of business as at 31 December 2009 and 31 December 2010, gross and net of outwards reinsurance.

- Various documents summarising the reserving position and the nature of the underlying liabilities for a number of the underlying portfolios as at 31 December 2009 and 31 December 2010.

- External actuarial reports covering a number of the underlying portfolios of business. Some of these reports were as at 30 September 2009 and others were as at 31 December 2009.

- An external actuarial report on the proposed Part VII Transfer itself.

- Proforma financial schedules as at 31 December 2010 indicating the capital requirements and capital resources, and the ratio of these items, for the various policyholder groups of Pearl mentioned in Section 8.1, both pre and post-Transfer. These were provided on both a Pillar I and Pillar II basis.

- A summary of the QIS 5 result in relation to BAGI and the non-life policyholders of Pearl, pre-Transfer.

4.3 BAGI Data

I received the following information in relation to BAGI:

- A copy of "BA (GI) Limited: Report and Financial Statements for the year ended 31 December 2009", dated 26 March 2010.

- A copy of "BA (GI) Limited: Directors' Report and Financial Statements for the year ended 31 December 2010", dated 29 March 2011.

- A copy of "BA (GI) Limited: Annual FSA Insurance Returns for the year ended 31 December 2009", dated 26 March 2010.

- A copy of "BA (GI) Limited: Annual FSA Insurance Returns for the year ended 31 December 2010", dated 29 March 2011.

- An internal report providing an overview of BAGI, dated July 2010.

- A summary of BAGI's external reinsurance agreements.

- A summary of BAGI's claims position as at 31 October 2010 and 30 June 2011.

- A copy of "BA(GI) Limited: Individual Capital Assessment Results – 31 December 2009", dated 20 December 2010.

- Details of the undiscounted and discounted held reserves, and BAGI's external actuarial advisers' best estimate and 97.5th estimate liabilities as at 31 December 2009 and 31 December 2010, gross and net of outwards reinsurance.

- A copy of a draft letter to the FSA, dated 21 October 2011, referring to BAGI's proposed Capital Policy post-Transfer.

4.4 Other Data

In addition to the above information, I have been provided with various documents describing the proposed Transfer including details of the proposed amounts on the Balance Sheet of Pearl to be transferred to BAGI.

Pearl and BAGI's legal advisers have also provided me with me with various items relating to the proposed Transfer, such as details of the proposed Policyholder Notification process.

I have also relied on other information provided to me through discussions with staff at Pearl and BAGI, and their respective professional advisers.

4.5 Data Checks

I have carried out checks on the accuracy, relevance and completeness of appropriate data items, as I deemed necessary for the purpose of this Report.

5 Description of the Proposed Transfer, Policies and Participating Companies

5.1 Introduction

This Section sets out a description of the key features (as relevant to my review of the proposed Transfer) of the proposed Transfer, the Transferring Policies and the various companies in the Phoenix Group relevant to the proposed Transfer.

5.2 The Transfer

The proposed Transfer will consolidate all of the non-life liabilities in the Phoenix Group into BAGI, other than those in PAGI which are entirely reinsured. Both Pearl and BAGI are part of the Phoenix Group. The Transferring Policies, the associated liabilities and the associated assets, will be transferred to BAGI by means of a English High Court of Justice sanctioned Scheme under Part VII of FSMA 2000.

After the completion of the proposed Transfer, Pearl will be left with its life assurance liabilities only and will therefore cease to be a composite insurer. BAGI will continue to contain exclusively non-life insurance business, all of which is in run-off, and will be capitalised independently of Pearl.

5.3 The Transferring Policies

The Transferring Policyholders represent the entirety of the non-life policyholders of Pearl.

The non-life liabilities of Pearl arise through its historical participation in a number of different prior year legacy portfolios of business. As at 31 December 2010, the held reserves gross of reinsurance relating to the non-life policyholders of Pearl were £42.7m. Net of reinsurance, the held reserves as at 31 December 2010 were £32.9m. Of these amounts, £2.9m was held in respect of claims handling expenses.

Around half of the gross held reserves and two-thirds of the net held reserves are in respect of the City Branch portfolio. The vast majority of these liabilities relate to latent disease claims arising from UK employers' liability business. Of the remaining net held reserves, the British Electric Pool is the next largest portfolio. These liabilities are also in relation to asbestos and other latent disease claims arising under employers' and public liability coverages. These two portfolios combined account for over 80% of the non-life held reserves of Pearl, net of reinsurance.

5 Description of the Proposed Transfer, Policies and Participating Companies

5.4 Purpose of the Transfer

The purpose of the proposed Transfer is to create a single entity within the Phoenix Group dedicated to managing the run-off of non-life insurance business, ensuring a more efficient use of resources for administration and reporting.

After the completion of the proposed Transfer, Pearl will be left with its life liabilities only and will therefore cease to be a composite insurer. BAGI will contain exclusively non-life insurance business, all of which is in run-off, and will be capitalised independently of Pearl. As a result of the proposed Transfer, all of the non-life insurance run-off liabilities to which the Phoenix Group is exposed, other than those in PAGI which are entirely reinsured, will be managed in a single company ensuring a more efficient use of resources for administration and reporting purposes. It may also facilitate some form of transaction or other procedure in future to remove the non-life insurance run-off business from the Phoenix Group entirely, although, to my knowledge, there are no current plans for any specific transactions.

5.5 Alternative Transfers

I have been advised by the Parties that they have not considered any alternative Transfers to that proposed. Therefore, I have not addressed any such alternatives in this Report.

5.6 Key Features of Pearl

Pearl is one of a number of life companies of the Phoenix Group. The Phoenix Group is a closed life fund consolidator that specialises in the management and acquisition of closed life and pension funds.

The principal activity of Pearl is the transaction of various classes of insurance business, covering annuities, pensions, savings, investment products, industrial branch business and protection policies.

Pearl was previously known as Pearl Assurance plc. On 25 June 2010 Pearl Assurance plc re-registered as a limited company and is now known as Pearl.

As of 31 December 2010 Pearl had approximately 2m life policies in force and the total value of assets was £19.2bn. Pearl has ceased to write new business, but continues to accept premiums on its in-force life business and to manage its ongoing business. The life business consists of a mixture of With-Profit and Non-Profit business. In general:

a) the With-Profits Funds are "ring-fenced" from the rest of the life and non-life business;

b) the funds supporting the life business other than those available to the shareholder fund as surplus, are "ring-fenced" from those supporting the non-life business;
c) surplus in the Non-Profits Fund is potentially available to the shareholder fund; and
d) surplus emerging in the SERP life fund must first be used to repay a loan to the shareholder fund, until such loan has been repaid in full, with any further surplus "ring-fenced" for the SERP life fund policyholders.

Hence it has been necessary for me to consider these different funds separately as part of my consideration of the impact of the Transfer on the Remaining Policyholders. Further details are given in Sections 6 and 8.

Pearl started writing non-life insurance business in 1910 and wrote a variety of classes of business, including motor, household, aviation, marine and employers' liability. On 30 July 2001 Pearl transferred responsibility to underwrite new business and renewal business to Churchill Insurance Group plc and NIG for a five year period. In 2006 this arrangement transferred to LTSB for a ten year period. Therefore Pearl only remains exposed to the run-off of its existing business.

Pearl surrendered its licence to write non-life insurance business to the FSA in 2004 and is now only authorised to run-off its existing claims liabilities and to act as an intermediary in respect of its existing client base.

Due to the remaining legacy non-life insurance liabilities, Pearl is currently a composite insurer.

The run-off non-life liabilities of Pearl consist of participations in a number of different underlying portfolios of business.

As of 31 December 2010, Pearl's gross technical provisions were £11,570m. Almost all of this amount was in respect of its life assurance business (£11,527m), with less than 0.4% of its gross technical provisions as at 31 December 2010 being in respect of its non-life insurance liabilities (£43m). The liabilities to be transferred under the proposed Transfer are therefore very small in the context of Pearl's total liabilities.

The Transferring Policyholders have the benefit of small volumes of outwards reinsurance. Pearl has advised me that all of this reinsurance will be included in the proposed Transfer. I discuss the transferability of this reinsurance in Section 6.2.6.

The relevant group structure in relation to Pearl is currently as follows:

- Pearl is a subsidiary of Pearl Group Holdings (No.2) Ltd.
- Pearl Group Holdings (No.2) Ltd is itself a subsidiary of Phoenix Life Holdings Ltd.

The events that would cause Pearl to become insolvent are related to both the business that is being considered for the proposed Transfer, and also the liabilities of the

Remaining Policyholders of Pearl's life assurance business. Post-transfer the Transferring Policyholders will not be exposed to the performance of the life business.

5.7 Key features of BAGI, including existing Chain of Security

BAGI, formerly known as Britannic Assurance plc, was acquired by the Phoenix Group as part of its acquisition of the Resolution Group in 2008. Prior to this acquisition, in 2006, the long term business funds together with the majority of the shareholder funds of BAGI were transferred to another group company, leaving only the (run-off) non-life liabilities of Britannic Assurance plc.

The principal activity of BAGI is the management of UK based books of non-life insurance business which are in run-off. BAGI started writing non-life insurance business in 1925. It wrote a variety of classes of business including fire and accident, motor and employers' liability. BAGI's current liabilities stem from business written between the 1960's and 1993. Pearl has confirmed that BAGI is potentially exposed to the possibility of liabilities arising in the period between 1925 and the 1960's, though no claims from this period have been reported to BAGI since its acquisition by the Phoenix Group. BAGI remains authorised to carry out contracts of insurance**.**

As of 31 December 2009, BAGI had only three outstanding employers' liability claims. The total gross technical provisions including an allowance for IBNR claims and claims handling expenses, were £2.0m. The liabilities being transferred into BAGI under the proposed Transfer (£43m) are therefore considerably larger than BAGI's existing liabilities.

The relevant group structure in relation to BAGI is currently as follows:

- BAGI is a subsidiary of Pearl Life Holdings Ltd.
- Pearl Life Holdings Ltd is itself a subsidiary of Impala Holdings Ltd.
- Impala Holdings Ltd is 75% owned by Pearl Group Holdings (No.2) Ltd.

Although Pearl and BAGI are part of the same wider group of companies, I understand that neither company has any right to require other companies in the group to provide financial support in the event that either company experiences financial difficulties. In that sense, the chain of security which the Transferring Policyholders benefit from within the corporate structure is comparable pre and post-transfer. While I understand that the Group maintains cash buffers at the holding company level to reduce reliance on emerging cash flows, as neither Pearl nor BAGI has a legal right to access these cash buffers, I am satisfied that they are not relevant to my conclusions. Hence, the protection that the Transferring Policyholders benefit from, due to being part of this wider group of companies is not affected by the proposed Transfer.

Pearl has advised us that they are not aware of any external rating agency assessments of Pearl, BAGI or any other related companies in recent years.

5.8 ILU Guarantees

At some point in its history, elements of the non-life business in the Phoenix Group had the benefit of ILU Guarantees. These guarantees provide a form of protection to the relevant policyholders should the underlying insurer default on its obligations. Hence, in business transfers such as this it is important to consider whether the proposed Transfer has any bearing on the benefit that these guarantees provide to policyholders.

There was an ILU guarantee in respect of the Transferring Policyholders. However, Pearl has advised me that it is extremely unlikely that any liabilities under this guarantee could now arise because the relevant business has all been subject to a closed Scheme of Arrangement. Nevertheless, it is possible to envisage a circumstance in which the guarantee might be expected to operate after the proposed Transfer. This could, for example, be in the event that the Scheme of Arrangement was not recognised in a foreign jurisdiction but the proposed Transfer was (so that liability for the claim rests with BAGI). To cover this eventuality, I understand that Pearl intends to ask the ILU to agree to the guarantee being transferred.

5.9 Individual Capital Guidance

As part of the FSA's regulation of insurance companies, they consider individual companies' ICA calculations and determine whether an additional loading is appropriate. This is termed "Individual Capital Guidance" ("ICG"). I have been provided with the FSA's ICG determination for the Phoenix Group as at 31 December 2009 and am satisfied that it does not change my conclusions detailed in this Report. Pearl has advised me that the ICG as at 31 December 2009 remains current to date.

I have not disclosed any further details in this Report as the ICG is confidential to the Phoenix Group and the FSA, and is not publicly available.

5.10 Tax Implications

Pearl has advised me that the proposed Transfer will not give rise to any tax implications for policyholders.

Pearl has advised that if BAGI were to be removed from the Phoenix Group by some form of transaction or other procedure in the future, following the proposed Transfer, then a tax liability may arise. However, as Pearl consider the quantum of this liability to be immaterial, and to my knowledge there are no current plans for any specific transaction, I do not believe that my conclusions regarding the proposed Transfer are affected.

5.11 Future Transactions/Group Plans

I have been informed by Pearl that there is a proposed Life Part VII Transfer taking place elsewhere within the Phoenix Group between companies that are not affected by the proposed Transfer considered in this Report, which is likely to have an effective date prior to the Effective Date of the proposed Transfer considered in this Report. Since this proposed Life Part VII Transfer also does not affect the companies involved in the proposed Transfer considered in this Report, I have made no further consideration of this Life Part VII Transfer in this Report.

In addition, I have been informed by Pearl that it is possible that there may be a further Life Part VII Transfer that may affect Pearl in some way. However, I understand that, if this does go ahead, at the present time Pearl are confident that it will have an effective date after the Effective Date of the proposed Transfer considered in this Report. Hence, I have made no further consideration of any such future Life transaction. In the unlikely event that there was a real risk that such a Life transaction could occur prior to the Effective Date of the proposed Transfer considered in this Report, then I may need to reconsider my conclusions and prepare a further Supplementary Report to consider this possibility explicitly.

Pearl have also informed that it is likely that there may be a further future non-life Transfer involving a company in the Phoenix Group that is not affected by the proposed Transfer considered in this Report, which is likely to have an effective date before the Effective Date of the proposed Transfer considered in this Report. Since this proposed non-life Part VII Transfer also does not affect the companies involved in the proposed Transfer considered in this Report, I have made no further consideration of this non-life Part VII Transfer in this Report.

The proposed Transfer considered in this Report may also facilitate some form of transaction or other procedure in future to remove the non-life insurance run-off business from the Phoenix Group entirely. However, to my knowledge, there are no current plans for any specific transactions and hence it is not possible for me to consider the effect of any such plans on the Affected Policyholders. Notwithstanding this, I would expect that the FSA’s Change of Control procedures would ensure that the interests of the relevant Affected Policyholders are protected should a future transaction consist of a sale of the non-life business.

I have also had confirmation from the Phoenix Group Corporate Centre that there are no ongoing or planned structural or other corporate changes contemplated at a Group level which will impact the proposed Transfer.

5.12 Solvency II

Solvency II is a new regulatory regime for insurance companies across Europe. Although it was previously planned that the Solvency II directive would be effective from 1 January 2013, the FSA’s current planning assumptions are that the Solvency II requirements on firms will not be effective until 1 January 2014. However, the Solvency

II responsibilities for supervisors and the European Insurance and Occupational Pensions Authority ("EIOPA") will still be effective from 1 January 2013. All affected insurers, including Pearl and BAGI, are in the process of preparing for this new regime. The preparations include areas such as carrying out a gap analysis, development of an internal capital model, consideration of risk management frameworks and submission of capital calculations using a "standard formula" approach, the latest of which is known as QIS5.

Like many other insurers, the Phoenix Group has a programme of work in place covering the relevant aspects of the Solvency II regulations. Whilst the focus has inevitably been on its Life business, where relevant (e.g. in the QIS5 submissions) they have also allowed for the Non-Life business. When appropriate, this work will be expanded to include more detailed Solvency II preparations in relation to the Non-Life business. I have held discussions with Phoenix Group's Solvency II Programme Director and have been advised as to when these detailed preparations will operate and what the key components of work will be.

The proposed Transfer itself will not affect The Phoenix Group's Solvency II readiness programme and it is difficult to see how Solvency II has any direct bearing on my consideration of the proposed Transfer, partly since the Effective Date is expected to be before the implementation of the new regime. In any case, I have no particular reason to believe that the Solvency II regime (as currently known) will require additional capital to be injected into either Pearl or BAGI. For example, the standard formula results under QIS5 for BAGI and for the non-life business of Pearl, provided to me by Pearl, suggest a Solvency Capital Requirement well below the capital requirements (under the current ICA regime) used in my analysis in this Report. Even if additional capital were required under Solvency II for either Pearl or BAGI after the proposed Transfer, I see no reason why the Phoenix Group would treat any of the Affected Policyholders any differently as a result of the proposed Transfer.

In addition, Pearl has advised me that the Transfer is not being proposed wholly, or in part, because Pearl might otherwise have difficulty in complying with the Solvency II capital requirements.

The remainder of my Report makes no further reference to Solvency II, as I do not believe that this is necessary, given my comments above.

5.13 Capital Policy

5.13.1 Pearl

Pearl has agreed with the FSA a policy that determines the minimum level of capital that they need to hold ("The Pearl Capital Policy"). This policy seeks to ensure that an appropriate level of capital is retained within Pearl at all times. What it also means is that, Pearl can, in circumstances where the capital held is in excess of the Pearl Capital Policy, reduce the level of capital so that it just matches the Pearl Capital Policy. As a result of this, the relevant ratios referred to in Sections 6 and 8 of this Report, allow for the effective removal of capital (via a dividend) so that the capital held by Pearl matches that required by the Pearl Capital Policy. If this had not been done, then the ratios would have given a misleading impression of financial security, since the excess capital in Pearl over and above that required by the Pearl Capital Policy, could, at least in theory be removed at any time without any recourse to the FSA, shareholders or policyholders. Although the ratios have been calculated as at a past date (31 December 2010) when the capital in Pearl had in fact not been reduced to reflect the Pearl Capital Policy, as a model of the prospective position which the Affected Policyholders would find themselves in at the Effective Date (which I believe is the key date for me to consider) I believe this approach is sound.

It should be noted that the actual amount of capital in Pearl that is removed via the dividend when calculating the ratios allows for the fact that the Pearl Capital Policy needs to be maintained in Pearl post-Transfer. This causes the dividend to be slightly lower than would otherwise be the case.

I have relied upon Pearl for an accurate application of the Pearl Capital Policy.

If at some point in the future prior to the proposed Transfer the Pearl Capital Policy were to change, Pearl has agreed to provide me with details of the change and I will at that stage consider what impact, of any, the change has on my conclusions regarding the proposed Transfer.

5.13.2 BAGI

At the time of writing, BAGI is in the process of agreeing a capital policy ("The BAGI Capital Policy") with the FSA. I have been provided with a draft of a letter to the FSA from The Phoenix Group, outlining the key components of the proposed BAGI Capital Policy. In my analysis in this report, I have assumed that the final BAGI Capital Policy will be substantively the same as in the draft letter to the FSA.

The BAGI Capital Policy seeks to ensure that an appropriate level of capital is retained within BAGI. This is achieved through use of a minimum Pillar II capital ratio, which is higher than the equivalent ratio pre-Transfer in Pearl as at 31 December 2010 implied by the Pearl Capital Policy.

At the same time as agreeing The BAGI Capital Policy with the FSA, I understand that BAGI is in the process of agreeing financial support arrangements with its parent Pearl Life Holdings Limited to enable BAGI to meet its proposed Capital Policy. At the time of writing, the details of this agreement have not been confirmed. Once the details are finalised, I will consider the impact of the agreement on the Affected Policyholders, and summarise my conclusions in a further Supplementary Report to be provided in advance of the final Court hearing.

5.14 Canadian Branch

Pearl has a branch in Canada which contains long-tail liability risks written prior to 1969. Pearl's net held reserves in respect of this business as at 31 December 2010 were approximately £1.9m. I understand that Pearl has been looking for opportunities to close down the branch for some time. However, the practice of the Canadian regulator ("OSFI") is not to allow the Canadian branch of a foreign insurer to be closed until its remaining liabilities are first assumed by another insurer authorised in Canada.

Pearl has therefore informed me that it has taken steps to have all of the business recorded in the books of its Canadian Branch assumed by Omega General Insurance Company ("Omega"), a Canadian authorised insurance company. This transaction required the approval of OSFI and I have been advised that it was completed on 31 July 2011. It was completed by way of an "assumption reinsurance and discharge" agreement. As a result of the transaction, OSFI will now process the de-registration of Pearl's Canadian Branch.

In case the Canadian Branch liabilities are still deemed to remain on Pearl's balance sheet for English law purposes, the Canadian book is being included in the proposed Transfer to make sure they transfer over to BAGI. In practice, however, if any claims arise in Canada before or after the Effective Date of the proposed Transfer, Omega will be obliged to meet them. I have therefore not made any further consideration of the liabilities of Pearl's Canadian Branch.

5.15 Review of ICAs

A number of my conclusions stated in this Report are based on the ICAs for the Transferring and Receiving Policyholders. In order to satisfy myself that these amounts are appropriate for the purposes of the calculations upon which my conclusions rely, I have carried out a high level review of Pearl's non-life ICA as at 31 December 2009 and 31 December 2010 and BAGI's ICA as at 31 December 2009. This review suggested that the ICAs were broadly reasonable.

It should be noted that I have only been provided with BAGI's ICA amount as at 31 December 2009 as the corresponding amount as at 31 December 2010 is not currently available. Given, my knowledge of the experience during 2010 and the relatively immaterial size of BAGI's liabilities, I am satisfied that the 31 December 2009 ICA is a reasonable proxy for the 31 December 2010 ICA.

I believe that the work I have undertaken in relation to the ICAs is sufficient for the purpose of the proposed Transfer. Given that the portfolios under consideration are in run-off, the bulk of the ICAs relate to reserve risk. Accordingly, in addition, as described in Sections 6.2.4 and 7.2.4, I have reviewed the reserves of the underlying individual portfolios. Furthermore, I have tested the sensitivity of my conclusions to the size of Pearl's and BAGI's non-life ICAs and am satisfied that the results of this sensitivity testing do not invalidate the conclusions stated in this Report.

5.16 Policyholder Notifications

Regulations made under FSMA 2000 require a notice stating that the application has been made to be sent to every policyholder of the parties to a Part VII transfer. In practice, it is often impossible (or at least very difficult) to comply completely with this requirement and so the Court has the power to waive the requirement in such circumstances and subject to such conditions as it considers appropriate. I understand that among the factors which may be relevant to the exercise of the Court's power to waive specific compliance are:

- the difficulty of contacting policyholders (for example if the policies were written many years ago and the company no longer had up to date contact details for all of its policyholders and these could not be obtained without great difficulty, if at all);
- the practicality and costs of contacting policyholders (for example if the cover for the policies concerned had expired and the possibility of a policyholder making a claim was so small as to make the sending of notices disproportionately expensive, particularly if the was additional advertising proposed);
- the likely benefits for policyholders of receiving notices; and
- the availability of other information channels through which notice of the application can be made available.

Pearl and BAGI have advised me of their proposed approach for contacting the Affected Policyholders. I summarise my understanding of Pearl and BAGI’s proposed approach for each of the Remaining, Transferring and Receiving Policyholders in turn in the following sub-sections.

5.16.1 Remaining Policyholders

The Remaining Policyholders are all of the current life assurance policyholders of Pearl. I understand that Pearl does not propose to send a notice of the transfer to its life assurance policyholders, on grounds that:

- there are approximately 2 million life assurance policyholders of Pearl, so that it would be an expensive and time consuming undertaking to send notices to them all;
- the transferring business represents less than 0.4% of the total gross insurance liabilities of Pearl as at 31 December 2010, so that the proposed Transfer will have no material effect on the life policyholders and it would therefore serve no useful purpose to send a notice to the life assurance policyholders;
- there will be no change to the terms and conditions of these policies or to their existing arrangements for policy administration, claims agreement and settlement as a result of the proposed Transfer; and

- It is likely that some of these life assurance policyholders (particularly as a significant number of them are individual personal policyholders) will be confused at receiving this documentation given that their policies are not transferring.

I am comfortable with this proposed approach, particularly in light of my conclusion, discussed below in Section 8, that the proposed Transfer is unlikely to have a material adverse effect on the Remaining Policyholders.

5.16.2 Transferring Policyholders

The Transferring Policyholders are all of the current non-life policyholders of Pearl.

As discussed above (in Section 5.3), the bulk of Pearl's non-life liabilities, net of outwards reinsurance, relate to latent disease claims arising under employers' liability insurance policies. These policies have all expired and some date back as far as the 1950s.

I understand that Pearl has reviewed its records and found that it is not able to write directly to all its direct non-life policyholders and/or potential claimants to notify them of the proposed Transfer as it does not have a complete list of their contact details. Pearl has advised me that instead it proposes to carry out the notifications referred to below:

City Branch: Pearl proposes to write directly to those policyholders and/or claimants who currently have an outstanding claim against Pearl and to the legal representatives/relevant claims handlers involved in closed claims for whom Pearl has address details.

Canada: Pearl will notify Omega (as referred to in Section 5.14) of the proposed Transfer, and ask them to notify the relevant policyholders accordingly.

Churchill: Pearl will notify the company to whom the rights to administer this business were sold in 2001 who are responsible for handling all relevant claims, and ask them to notify the relevant policyholders accordingly.

Hallmark: Pearl will notify the policyholder in respect of the one outstanding claim and the brokers who were notified on the transfer of the Hallmark book of business to Pearl in 1995 (and ask them to notify the relevant policyholders accordingly).

For those policyholders whose contracts were underwritten by Pearl through pool arrangements or were underwritten by agents of Pearl (with the exception of the Community Re portfolio), Pearl has advised me that it will send notices to the relevant pool managers and agents and ask them to notify the relevant policyholders accordingly. Pearl has advised me that it understands the relevant pool managers and agents to have complete records of the relevant policyholders. In the case of Community Re, Pearl has advised me that it proposes to send notice of the proposed Transfer to the brokers through whom the policies were effected, where their details are included in its records.

5 Description of the Proposed Transfer, Policies and Participating Companies

I understand that Pearl's inwards reinsurance business was written through brokers. Pearl has advised me that it proposes to send notice of the proposed Transfer to the brokers through whom the policies were effected, where their details are included in its records. However, in the case of Monarch, Pearl has advised me that it will notify the policyholder directly. Pearl has advised me that it has good records in relation to its inwards reinsurance business.

I understand that Pearl has completed a major exercise to establish current identity and addresses for all of the relevant brokers, which should help ensure that the broker notification process is as complete as possible.

Given the age of Pearl's portfolio, the fact that all policies concerned have expired and my wider knowledge of the difficulties of obtaining complete policyholder data for policies of this age, I am comfortable with this proposed approach.

5.16.3 Receiving Policyholders

The Receiving Policyholders are the current policyholders of BAGI.

BAGI's remaining liabilities also relate to very old employers' and public liability business. BAGI only has a very small number of outstanding claims (three as at 31 December 2010). BAGI proposes to write directly to those policyholders who currently have an outstanding claim against BAGI and, where contact details are held, to the claims representatives of claimants whose claims are closed.

Given the age of BAGI's portfolio, the fact that all policies concerned have expired and my wider knowledge of the difficulties of obtaining complete policyholder data for policies of this age, I am comfortable with this proposed approach.

5.16.4 Other Communication Channels

Pearl and BAGI are also proposing to publish general advertisements regarding the proposed Transfer in two national newspapers and in the London, Edinburgh and Belfast Gazettes. They are also proposing to notify the Trades Union Congress on the basis that potential future claimants may be, or have been, members of trade unions.

In addition, I understand that both Pearl and BAGI have both signed up to the Employers' Liability Tracing Office ("ELTO") to ensure that claimants can track down the risk carrier if the original employer cannot be traced.

I understand that Pearl and BAGI have considered whether there are any practicable additional steps they can take to bring the proposed Transfer to the attention of future claimants. They consider that additional print advertising would be ineffective, since the nature of the direct portfolios of insurance business is such that only those suffering from the symptoms of an industrial disease that recognise that Pearl is an insurer against whom they might bring a claim, would be likely to recognise that the advertising was relevant to them.

I am comfortable with this proposed approach.

5.16.5 Reinsurers

I understand that Pearl will be writing to each reinsurer and retrocessionaire of the Transferring business, or where any reinsurance/retrocession contract was effected through a broker, to the relevant broker, where the name and address of the relevant reinsurer, retrocessionaire or broker appears in Pearl's computerised records.

5.16.6 Objections

Any policyholders or reinsurers who feel that they would be adversely affected by the proposed Transfer may put their objections to the Court either in writing, by attending the hearing, or by asking a representative to raise their objection. In deciding whether to sanction the proposed Transfer, the court will consider these objections. If appropriate I will also consider them in coming to my view on the appropriateness of the proposed Transfer, and will report on this via a further Supplementary Report.

5.16.7 Nature of Information Provided

Pearl and BAGI have advised me that each party who will be contacted, as described above, in connection with the proposed Transfer will receive a letter explaining the proposed Transfer along with a statement containing the terms of the Scheme. The letter will also refer to a website where a copy of my full Report and a summary of my full Report can be found. In addition, I understand that these items will also be available free of charge to interested parties from Pearl's legal advisers, Hogan Lovells International LLP.

I have seen a draft of the letter, which I understand has also been reviewed by the FSA.

In my opinion the amount of information that Pearl and BAGI intend to provide to its policyholders appears to be reasonable.

5.16.8 Conclusion

It appears to me that the proposed approach described above to communication with policyholders is proportionate and reasonable.

6 Impact of the Proposed Transfer on the Transferring Policyholders

6.1 Introduction

In this part of the Report, I have assessed the financial and non-financial impact of the proposed Transfer on the Transferring Policyholders.

My conclusions in this section are made relative to the Transferring Policyholders' position prior to the proposed Transfer, using data and information as at 31 December 2009 and 31 December 2010. Should there be any material developments between 31 December 2010 and the anticipated Effective Date of the proposed Transfer of 31 March 2012, I may need to revisit my conclusions.

6.2 Financial Impact

6.2.1 Overview

In considering the potential financial impact of the proposed Transfer on the Transferring Policyholders, I have made use of the following capital ratios:

1. A Pillar I Capital Ratio, defined as the ratio of Net Assets to Pillar I Capital Requirements; and

2. A Pillar II Capital Ratio, defined as the ratio of Net Assets to ICA.

I have reviewed Pearl's calculations for these two ratios on a Pre and Post-Transfer basis and applied various sensitivity tests, as I deemed appropriate. In general terms, I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I.

I have also considered other general financial information such as the Chain of Security pre and post-Transfer. Details of the tests that I have performed and the factors that I have considered are described in the following sub-sections.

6.2.2 Risks to which the Transferring Policyholders are Exposed

In this sub-section, I consider the risks that the Transferring Policyholders are exposed to pre-Transfer and compare those to the risks that they would be exposed to post-Transfer.

Pre-Transfer, the Transferring Policyholders are exposed to the substantially larger life portfolio, which has risks attached to it that are quite different in nature to those of the Transferring Policyholders. The risks associated with the life portfolio have uncertainties attached to them that are very material relative to the small size of the Transferring Policyholders. Specifically, pre-Transfer the gross technical provisions for the Transferring Policyholders are £43m, compared with the gross technical provisions for Pearl's life policyholders of £11,527m. Thus, the Transferring Policyholders represent less than 0.4% of Pearl's total gross technical provisions pre-Transfer. In general, the funds held by Pearl in support of the life portfolio are "ring-fenced" from those held in support of the Transferring Policyholders' liabilities and so the Transferring Policyholders cannot generally access the funds held in respect of the life portfolio (other than, in certain circumstances, the surplus in the non-profit fund and SERP life fund).

One possible measure of the risks associated with the life portfolio is its ICA amount. Pearl's ICA for its life business pre-Transfer is many multiples of the size of Pearl's ICA for its non-life business. This shows how large the risks of the life portfolio are relative to the size of the Transferring Policyholders' liabilities.

In addition, I understand that the life portfolio includes a significant amount of With-Profit business. A material proportion of Pearl's capital resources pre-Transfer are attributable to this business. I understand further that this capital is "ring-fenced" and cannot therefore be ordinarily accessed by policyholders other than the With-Profit policyholders. Moreover, I understand that although the non-With-Profit policyholders cannot access the capital "ring-fenced" for the With-Profit policyholders, by contrast in an adverse scenario, the With-Profit policyholders could erode the capital which currently protects both the non-life business and the non-With-Profit Life business, and the non-With-Profit Life policyholders could erode the capital which currently protects the non-life business. This risk therefore affects the Transferring Policyholders pre-Transfer.

Although there will be some diversification effect from the Transferring Policyholders being exposed to the substantially different risks which affect the life business pre-Transfer, any benefit will be very small relative to the actual size of (and hence risks associated with) the life liabilities.

The proposed Transfer moves the Transferring Policyholders into a pure non-life insurance business, where they are not exposed to the above risks associated with the life liabilities in the same way that they are pre-Transfer.

The most material risk to which the Transferring Policyholders are exposed post-Transfer relates to non-life reserving risk. The following table compares the total available assets of BAGI post-Transfer with their net discounted best estimate, held and 97.5th claims liabilities post-Transfer. All figures are as at 31 December 2010. The best and 97.5th estimate claims liabilities shown in the table were based on the estimates produced by Pearl and BAGI's external actuarial advisers, adjusted by Pearl for the claims movements in the intervening period between the as at date of the external actuarial advisers' estimates and 31 December 2010.

6 Impact of the Proposed Transfer on the Transferring Policyholders

Table 6.1
BAGI Post-Transfer
Comparison of Total Available Assets with Net Discounted Liabilities
As at 31 December 2010
GBP Millions

Capital and Reserves	21.6
Assets Supporting the Gross Technical Provisions	44.7
Reinsurers Share of Technical Provisions	(9.8)
Total Available Assets to Pay Claims Liabilities	**56.5**
Net Discounted Best Estimate Liabilities	18.3
Net Discounted Technical Provisions (=Held Reserves)	34.9
Net Discounted 97.5th Percentile Liabilities	42.9

Post-Transfer, the total assets in BAGI available to pay claims liabilities are £56.5m, which is a considerable margin of £38.2m (or 209%) above their best estimate of the claims liabilities of £18.3m.

Furthermore, these total assets are £13.6m, or 32%, above the 97.5th percentile estimate of the claims liabilities of £42.9m. In other words, there is an additional £13.6m of capital over and above the capital required to meet the 97.5th percentile liabilities, available to the Transferring and Receiving Policyholders combined in BAGI post-Transfer.

As part of the FSA's ICA regime, non-life companies in run-off with liabilities with a mean team of at least five years are normally required to have sufficient resources to support a deterioration in their claims liabilities to the 97.5th percentile level. Based on the 97.5th percentile estimate of the claims liabilities (and ignoring the non-reserving risks), post-Transfer BAGI will therefore have substantially more resources (32% more) than it is required to hold by the FSA under the current ICA regime. Hence, the absolute financial security provided to the Transferring and Receiving Policyholders post-Transfer can in that sense be considered to be reasonable. Put another way, there is a significant margin available in BAGI post-Transfer to meet its liabilities, in excess of a reasonably adverse outcome for future claims outgo.

6 Impact of the Proposed Transfer on the Transferring Policyholders

I have considered whether any set-off issues arise that may impact policyholders as a result of the proposed Transfer. Pearl has advised that none of its reinsurers are also reinsureds, and so I believe that no set-off issues exist.

I am aware that, in the event of a winding up, direct insureds will be paid in advance of reinsureds. Pearl has advised me that all of the Receiving Policyholders are direct insureds, whilst the Transferring Policyholders are a mixture of direct insureds and reinsureds. In the event of a winding-up post-Transfer therefore, the only change from the Transferring Policyholders' perspective is that the Transferring Policyholders who are reinsureds will now also rank behind the Receiving Policyholders, in addition to ranking behind the Transferring Policyholder who are direct insureds as they already do pre-Transfer. Given the relatively small size of the Receiving Policyholders' liabilities relative to the Transferring Policyholders' liabilities, I expect that this change is unlikely to have a material impact on the Transferring Policyholders who are reinsureds. In addition, I consider a winding-up to be such a remote scenario that the different priority afforded to direct insureds and reinsureds does not require any further consideration by me.

Pearl has advised me that there will be no material change to the liquidity of the assets held for any group of policyholders as a result of the proposed Transfer. Furthermore, Pearl has advised me that there will be no changes to the accounting and reserving bases for Pearl and BAGI as a result of the proposed Transfer.

6.2.3 Level of Financial Security

In this sub-section, I describe the results of the comparison that I have carried out of the level of financial security that the Transferring Policyholders will benefit from post-Transfer with that which they currently benefit from Pre-Transfer. In making this comparison, I used both the Pillar I and Pillar II Capital Ratios as a measure of financial security, as described in Section 6.2.1. However, I have only shown the Pillar I ratios in my Report, as the Pillar II calculations are private to the company and the FSA, and are not available publicly.

Table 6.2 summarises the financial security provided to the Transferring Policyholders, pre- and post-Transfer, as measured by the Pillar I Capital Ratios. The Transferring Policyholders are part of Pearl pre-Transfer and part of BAGI post-Transfer.

6 Impact of the Proposed Transfer on the Transferring Policyholders

Table 6.2
Comparison of Financial Security Provided to Transferring Policyholders
Pre and Post Transfer
Pillar I Basis
As at 31 December 2010
GBP Millions

	Pre-Transfer (Pearl) [(1)]	Post-Transfer (BAGI) [(2)]
Total Capital Resources (=Net Assets)	57.0	21.6[(3)]
Pillar I Capital Requirement	47.5	3.2
Ratio of Capital Resources to Capital Requirement (=Ratio of Net Assets to Pillar I Capital Requirement)	120%	679%

Notes:
(1) Includes SERP With-Profits Fund, Shareholder Fund and Transferring Policyholders.
(2) Includes existing BAGI policyholders and Transferring Policyholders.
(3) This figure does not include any surplus above their best estimate in the held reserves.

The figures in the table above for Pearl Pre-Transfer are those for the relevant subdivision of Pearl policyholders which the Transferring Policyholders effectively share the same security with prior to the Transfer. In particular, the figures exclude the relevant amounts relating to the With-Profits portfolio of Pearl, but include the relevant Life business which effectively shares capital resources with the Transferring Policyholders.

As can be seen from the above table, the ratio of Net Assets to Pillar I Capital Requirements for the Transferring Policyholders is significantly higher post-Transfer than it is pre-Transfer. Similarly, on Pillar II basis, the equivalent ratio is significantly higher post-Transfer than it is pre-Transfer. Thus, as measured by both these ratios, the financial security of the Transferring Policyholders improves as a result of the proposed Transfer.

In my review of the Pillar II calculations, for simplicity and materiality reasons, I have not made any allowance post-Transfer for the fact that there may be a small amount of diversification credit when the non-life portfolios of BAGI and Pearl are combined. I have done this by simply assuming that the ICA of BAGI post-Transfer is equal to BAGI's ICA pre-Transfer plus the non-life ICA of Pearl pre-Transfer. The amount of such diversification credit is unlikely to be material and would in any event lead to an increase of the ratio of Net Assets to ICA post-Transfer for BAGI, which will only reinforce the conclusion below.

Pearl supplied me with the calculations on a Pillar I and a Pillar II basis. I reviewed them for reasonableness and carried out some sensitivity tests, as I deemed appropriate. I am satisfied that Pearl's calculations are suitable for the purposes of my Report. In addition, I am satisfied that the results of my sensitivity calculations do not invalidate the conclusions outlined in this report.

6.2.4 Review of Reserving Levels

After the proposed Transfer, the Transferring Policyholders will be exposed to the risk of under-reserving within the existing BAGI portfolio. Although this risk is considered through the capital calculations performed above, I deemed it necessary to consider also BAGI's reserves. Consideration was given at a high level as the BAGI's existing held reserves are relatively very small compared to those of the Transferring Policyholders (£2.0m compared with £42.7m gross held reserves as at 31 December 2010).

Pearl has supplied me with various pieces of information relating to the non-life business of Pearl and BAGI, including several external actuarial reports. This information along with the other data listed in Section 4 has formed part of the material that I have reviewed when considering the proposed Transfer. This material suggests that appropriate reserving methodologies were used to determine the reserves for both the Pearl non-life business and for BAGI.

Furthermore, Pearl tends to book its non-life reserves at a margin above their best estimate. Specifically for the non-life liabilities of Pearl pre-Transfer, the net technical provisions are £32.9m compared to Pearl's net discounted best estimate claims liabilities of £16.3m (a margin of £16.6m or 102% over their net discounted best estimate liabilities). This provides a margin for the possibility that the claims liabilities may be underestimated.

Pearl and BAGI's external actuaries have not raised any concerns that we are aware of concerning the adequacy of Pearl and BAGI's claims reserves.

I have reviewed the non-life claims reserves reported in Pearl's financial statements at each year-end along with the non-life claims paid during each year in the period between 31 December 2006 and 31 December 2010. Pearl has provided a breakdown of these amounts by portfolio within the non-life business and has also provided explanation for the larger movements. I am satisfied that these explanations appear reasonable and do not invalidate my conclusions relating to the Transferring Policyholders.

I have not carried out an independent reserve review of either the non-life liabilities of Pearl or BAGI, because I did not deem this necessary for the purposes of my work. Therefore, this Report does not provide an opinion on the adequacy of the liabilities of the Transferring Policyholders or of the reserves of BAGI. I have, however, carried out a high level review of the reasonableness of reserves for the portfolios by considering suitable benchmarks (such as the ratio of IBNR to outstanding claims reserves), the nature of the underlying liabilities and the appropriateness of the actuarial methods used in forming these reserve estimates. I then determined appropriate sensitivity tests to carry out in relation to Pearl's Non-Life ICA and hence the capital ratios, as referred to in Section 6.2.1.

Based on this analysis, I have not found anything in relation to the reserves of the non-life business of Pearl or BAGI which would invalidate my conclusions relating to the Transferring Policyholders, as described above.

In addition, I have carried out a high-level review of Pearl's Non-Life ICA as at 31 December 2009 and 31 December 2010. This review suggested that the ICA was broadly reasonable and therefore I concluded that it was not necessary for me to apply any additional sensitivity tests beyond those referred to above.

6.2.5 Chain of Security for Transferring Policyholders

Although Pearl and BAGI are part of a wider group of companies, I understand that neither company has any right to require other companies in the group to provide financial support in the event that either company experiences financial difficulties. In that sense, the chain of security which the Transferring Policyholders benefit from within the corporate structure is comparable pre and post-transfer.

6.2.6 Transferability of Reinsurance

The approval of the proposed Transfer by the English High Court of Justice in accordance with Part VII of FSMA 2000 will have the effect of transferring the non-life liabilities of Pearl and the associated assets (including the relevant reinsurance protections) to BAGI.

However, Pearl has advised me (after consultation with their lawyers) that there is a small risk that some of the benefit of the reinsurance asset protecting the Churchill portfolio may not in fact transfer. The relevant part of Churchill's reinsurance portfolio is that which is governed by New South Wales Law in Australia, which Pearl believes may not recognise the proposed Transfer. However, given that Pearl's assumed benefit of this reinsurance (absent Pearl's reinsurance from Churchill) is zero and the fact that Pearl has tested this using stressed percentiles of the gross risk, I am satisfied that the risk of the benefit of this particular reinsurance not transferring has no material adverse impact on the Transferring Policyholders. Pearl has advised me that their lawyers have advised them that the benefit of all other reinsurance will transfer, which is what I would normally expect in such transfers, and I am therefore satisfied that the Transferring Policyholders will not be disadvantaged by the proposed Transfer through any lack of transfer of the benefit of outwards reinsurance.

Pearl has advised me that there is also some reinsurance governed by Canadian law, but that this is de minimis and no risk arises that this reinsurance could be lost under the proposed Transfer.

6 Impact of the Proposed Transfer on the Transferring Policyholders

6.2.7 Conclusion

I believe that the proposed Transfer is unlikely to have a material adverse effect on the financial security provided to the Transferring Policyholders.

6.3 Non-Financial Impact

6.3.1 Analysis

I understand that the group service companies currently provide administrative support to the non-life policies of Pearl. I understand further that there are no changes planned to the way the non-life policies will be managed after the proposed Transfer, with the group service companies continuing to support the non-life policies. There should therefore be no impact from a non-financial perspective of the proposed Transfer on the Transferring Policyholders.

6.3.2 Conclusion

I believe that the proposed Transfer will have no impact on the Transferring Policyholders in respect of matters other than financial security.

7 Impact of the Proposed Transfer on the Receiving Policyholders

7.1 Introduction

In this part of the Report, I have assessed the financial and non-financial impact of the proposed Transfer on the Receiving Policyholders of BAGI.

My conclusions in this section are made relative to the Receiving Policyholders' position prior to the proposed Transfer, using data and information as at 31 December 2009 and 31 December 2010. Should there be any material developments between 31 December 2010 and the anticipated Effective Date of the proposed Transfer of 31 March 2012, I may need to revisit my conclusions.

7.2 Financial Impact

7.2.1 Overview

In considering the potential financial impact of the proposed Transfer on the Receiving Policyholders, I have made use of the following capital ratios:

1. A Pillar I Capital Ratio, defined as the ratio of Net Assets to Pillar I Capital Requirements; and

2. A Pillar II Capital Ratio, defined as the ratio of Net Assets to ICA.

I have reviewed Pearl's calculations for these two ratios on a Pre and Post-Transfer basis and applied various sensitivity tests, as I deemed appropriate. In general terms, I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I.

I have also considered other general financial information such as the Chain of Security pre and post-Transfer. Details of the tests that I have performed and the factors that I have considered are described in the following sub-sections.

7.2.2 Risks to which the Receiving Policyholders are Exposed

In this sub-section, I consider the risks that the Receiving Policyholders are exposed to pre-Transfer and compare those to the risks that they would be exposed to post-Transfer.

Pre-Transfer there are only three Receiving Policyholders with outstanding claims. The total gross technical provisions including an allowance for IBNR claims and claims handling expenses were £2.0m.

As there are only three outstanding claims pre-Transfer, the Receiving policyholders are exposed to a high degree of reserve volatility pre-Transfer. In other words a small change in one of these claim amounts or the emergence of a totally new claim, can have a very material impact on the reserves of BAGI. BAGI currently has no significant external reinsurance in place which potentially might help to reduce this volatility.

The proposed Transfer would bring into BAGI a much larger group of policyholders with gross technical provisions of £42.7m, over twenty times the existing gross technical provisions of BAGI. Post-Transfer therefore, BAGI would no longer be exposed to the same level of reserve volatility, thus reducing the risk of small shocks having an adverse impact on the Receiving Policyholders. This is probably best illustrated by a simple example. Suppose BAGI receives a new claim estimated at £200,000. Assuming, for simplicity, that this claim is somewhat unexpected and BAGI's IBNR claims provision is held unchanged as a result of the reporting of this new claim, then pre-Transfer BAGI's technical provisions would need to increase by 10% (200/2,000), whereas post-Transfer, BAGI's technical provisions would only need to increase by less than 0.5% (200/45,000).

Another way of expressing the same point is to look at the ICA as a percentage of the gross technical provisions. For a non-life company in run-off by far the most significant part of its ICA will be the reserve risk component, which reflects the uncertainty in the company's estimated reserves. For BAGI, on a post-Transfer basis, the ratio of the ICA to its gross technical provisions is significantly lower than it is on a pre-Transfer basis. This demonstrates that post-Transfer the uncertainty surrounding BAGI's liabilities is significantly reduced in percentage terms by the addition of the Transferring Policyholders.

The most material risk to which the Receiving Policyholders are exposed both pre- and post-Transfer relates to non-life reserving risk. Table 6.1 above compares the total available assets of BAGI post-Transfer with their net discounted best estimate, held and 97.5th claims liabilities post-transfer. Note that the best and 97.5th estimate claims liabilities shown in Table 6.1 were based on the estimates produced by Pearl and BAGI's external actuarial advisers, adjusted by Pearl for the claims movements in the intervening period between the as at date of the external actuarial advisers' estimates and 31 December 2010.

Post-Transfer the total assets in BAGI available to pay claims liabilities are £56.5m, which is a considerable margin of £38.2m (or 209%) above their best estimate of the claims liabilities of £18.3m.

Furthermore, these total assets are £13.6m, or 32%, above the 97.5th percentile estimate of the claims liabilities of £42.9m. In other words, there is an additional £16.3m of capital over and above the capital required to meet the 97.5th percentile liabilities, available to the Transferring and Receiving Policyholders combined in BAGI post-Transfer.

As part of the FSA's ICA regime, non-life companies in run-off with liabilities with a mean team of at least five years are normally required to have sufficient resources to support a deterioration in their claims liabilities to the 97.5th percentile level. Based on the 97.5th percentile estimate of the claims liabilities (and ignoring the non-reserving risks), post-Transfer BAGI will therefore have substantially more resources (32% more) than it is required to hold by the FSA under the current ICA regime. Hence, the absolute financial security provided to the Transferring and Receiving Policyholders post-Transfer can in that sense be considered to be reasonable. Put another way, there is a significant margin available in BAGI post-Transfer to meet its liabilities, in excess of a reasonably adverse outcome for future claims outgo.

I am aware that, in the event of a winding up, direct insureds will be paid in advance of reinsureds. Pearl has advised me that all of the Receiving Policyholders are direct insureds. Therefore in the event of a winding-up post-Transfer, there will be no change in the priority afforded to the Receiving Policyholders. In addition, I consider a winding-up to be such a remote scenario that the different priority afforded to direct insureds and reinsureds does not require any further consideration by me.

Pearl has advised me that there will be no material change to the liquidity of the assets held for any group of policyholders as a result of the proposed Transfer. Furthermore, Pearl has advised me that there will be no changes to the accounting and reserving bases for Pearl and BAGI as a result of the proposed Transfer.

7.2.3 Level of Financial Security

In this sub-section, I describe the results of the comparison that I have carried out of the level of financial security that the Receiving Policyholders will benefit from post-Transfer with that which they currently benefit from Pre-Transfer. In making this comparison, I used both the Pillar I and Pillar II Capital Ratios as a measure of financial security, as described in Section 7.2.1. However, I have only shown the Pillar I ratios in my Report, as the Pillar II calculations are private to the company and the FSA, and are not available publicly.

Table 7.1 summarises the financial security provided to the Receiving Policyholders, pre- and post-Transfer, as measured by the Pillar I Capital Ratios. The Receiving Policyholders are part of BAGI pre- and post-Transfer.

7 Impact of the Proposed Transfer on the Receiving Policyholders

Table 7.1 Comparison of Financial Security Provided to Receiving Policyholders Pre and Post Transfer Pillar I Basis As at 31 December 2010 GBP Millions		
	Pre-Transfer (BAGI)	**Post-Transfer (BAGI)**
Total Capital Resources (=Net Assets)	5.0	21.6[(1)]
Pillar I Capital Requirement	3.0	3.2[(2)]
Ratio of Capital Resources to Capital Requirement (=Ratio of Net Assets to Pillar I Capital Requirement)	163%	679%[(2)]

Note:

(1) This figure does not include any surplus above their best estimate in the held reserves.

(2) Prior to the proposed transfer, the General Insurance capital requirement for the Transferring Policyholders is £3.139m, which is slightly higher than the Guarantee Fund capital requirement of £3.040m, so the Pillar I capital requirement for the Transferring Policyholders is £3.139m. For the Receiving Policyholders pre-Transfer, the General Insurance capital requirement is £38k, so the Guarantee Fund capital requirement bites and the Pillar I capital requirement for the Receiving Policyholders is £3.040m. Post-Transfer in the combined entity the General Insurance capital requirement is £3.177m (=£3.139m+£0.038m) and the Guarantee Fund capital requirement does not bite leading to an apparent reduction in the combined Pillar I capital requirements post-Transfer. This is one of the reasons why the ratio of Pillar I capital resources to capital requirements increases to 679% post-Transfer.

As can be seen from the above table, the ratio of Net Assets to Pillar I Capital Requirements for the Receiving Policyholders is significantly higher post-Transfer than it is pre-Transfer. Therefore, as measured by this ratio, the financial security of the Receiving Policyholders improves as a result of the proposed Transfer.

On a Pillar II basis, the equivalent ratio is significantly lower post-Transfer than it is pre-Transfer. However, this comparison does not take into account the fact that, as there is no capital policy in BAGI pre-Transfer, the company could, at least in theory, reduce the capital to 100% of ICA. As discussed in Section 5.13.2, I understand that Phoenix intends to establish a capital policy for BAGI post-Transfer that results in a greater minimum ratio of net assets to ICA for the Transferring Policyholders post-Transfer compared to the corresponding ratio pre-Transfer in Pearl as at 31 December 2010. In that sense the level of financial protection provided to the Transferring Policyholders is effectively increased as a result of the proposed Transfer. Furthermore, although the Pillar II ratio is higher pre-Transfer than post-Transfer, I have considered the margin in excess of the ICA in BAGI post-Transfer, and am satisfied that the absolute security post-Transfer is at a reasonably robust level.

In my review of the Pillar II calculations, for simplicity and materiality reasons, I have not made any allowance post-Transfer for the fact that there may be a small amount of diversification credit when the non-life portfolios of BAGI and Pearl are combined. I have done this by simply assuming that the ICA of BAGI post-Transfer is equal to BAGI's ICA pre-Transfer plus the non-life ICA of Pearl Pre-Transfer. The amount of such diversification credit is unlikely to be material and would in any event lead to an increase of the ratio of Net Assets to ICA post-Transfer for BAGI, which will only reinforce the conclusion below.

Pearl supplied me with the calculations on a Pillar I and a Pillar II basis. I reviewed them for reasonableness and carried out some sensitivity tests, as I deemed appropriate. I am satisfied that Pearl's calculations are suitable for the purposes of my Report. In addition, I am satisfied that the results of my sensitivity calculations do not invalidate the conclusions outlined in this report.

Overall, I am satisfied that the level of financial security on both a Pillar I and Pillar II basis, combined with the Chain of Security referred to below, provided to the Receiving Policyholders post-Transfer is reasonable compared to that available to them pre-Transfer.

7.2.4 Review of Reserving Levels

For the Receiving Policyholders, a potential risk is that the reserves being transferred with the Transferring Policyholders are less prudent than those already held in BAGI, increasing the risk that the reserves in respect of the Transferring Policyholders may need to be increased at some point during the claims run-off period. However, my review of the Pearl non-life reserves (as referred to above in Section 6.2.4) means that I am satisfied that this risk will be captured through the capital adequacy assessment outlined above. Furthermore, as discussed above Pearl tends to book reserves for its non-life liabilities at a margin above their best estimates, this should mitigate the risk that these reserves should subsequently turn out to be insufficient.

7.2.5 Chain of Security for Receiving Policyholders

The Chain of the Security for the Receiving Policyholders is unchanged as a result of the proposed Transfer.

7.2.6 Conclusion

I believe that the proposed Transfer is unlikely to have a material adverse effect on the financial security provided to the Receiving Policyholders of BAGI.

7 Impact of the Proposed Transfer on the Receiving Policyholders

7.3 Non – Financial Impact

7.3.1 Analysis

I understand that BAGI's existing arrangements for policy administration, claims agreement and settlement will remain in place, with no change or impact as a result of the proposed Transfer.

7.3.2 Conclusions

I believe that the proposed Transfer is unlikely to have a material adverse effect on the non-financial security provided to the Receiving Policyholders.

8 Impact of the Proposed Transfer on the Remaining Policyholders

8.1 Introduction

In this part of the Report, I have assessed the financial and non-financial impact of the proposed Transfer on the Remaining life assurance Policyholders of Pearl.

For the purpose of my assessment of the financial impact of the Transfer on the Remaining Policyholders, it was necessary to categorise the policyholders into three subsets, namely:

- Policyholders in the Pearl With-Profits Fund (except the "SERP" With-Profits policyholders);
- Policyholders in the Pearl Non-Profits Fund; and
- All other policyholders (including the "SERP" With-Profits policyholders).

This categorisation was determined by Pearl and I have agreed that it is an appropriate subdivision of the various groups of policyholders in Pearl, given the Pearl capital structure whereby there exists different "pools" of assets in which differing groups of policyholders have different rights and interests.

My conclusions in this section are made relative to the Remaining Policyholders' position prior to the proposed Transfer, using data and information as at 31 December 2009 and 31 December 2010. Should there be any material developments between 31 December 2010 and the anticipated Effective Date of the proposed Transfer of 31 March 2012, I may need to revisit my conclusions.

8.2 Financial Impact

8.2.1 Overview

In considering the potential financial impact of the proposed Transfer on the Remaining Policyholders, I have made use of the following capital ratios:

1. A Pillar I Capital Ratio, defined as the ratio of Net Assets to Pillar I Capital Requirements; and
2. A Pillar II Capital Ratio, defined as the ratio of Net Assets to ICA.

I have reviewed Pearl's calculations for these two ratios on a Pre and Post-Transfer basis and applied various sensitivity tests, as I deemed appropriate. In general terms, I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I.

I have also considered other general financial information such as the Chain of Security pre and post-Transfer. Details of the tests that I have performed and the factors that I have considered are described in the following sub-sections.

8.2.2 Risks to which the Remaining Policyholders are Exposed

In this sub-section, I consider the risks that the Remaining Policyholders are exposed to pre-Transfer and compare those to the risks that they would be exposed to post-Transfer.

The size of the liabilities represented by the Transferring Policyholders (gross technical provisions of £43m) is very small compared to the liabilities of the Remaining Policyholders (gross technical provisions of £11,527m). Hence, in that sense removing the Transferring Policyholders from Pearl as a result of the proposed Transfer does not appear to impact the Remaining Policyholders materially. If anything, removing the Transferring Policyholders from Pearl post-Transfer, removes the Remaining Policyholders' exposure to liabilities (i.e. non-life insurance liabilities) that are different in nature to their own liabilities (i.e. life insurance liabilities).

To counter this, pre-Transfer Pearl benefits from a small amount of diversification benefit, which arises from the fact the liabilities of the non-life insurance portfolio are very different in nature to the liabilities of the life insurance business. However, the size of this benefit is immaterial relative to the overall size of the Remaining Policyholders' liabilities (less than 0.1%) and so the loss of this benefit as a result of the proposed Transfer does not materially impact the Remaining Policyholders.

Pearl has advised me that there will be no material change to the liquidity of the assets held for any group of policyholders as a result of the proposed Transfer. Furthermore, Pearl has advised me that there will be no changes to the accounting and reserving bases for Pearl and BAGI as a result of the proposed Transfer.

8.2.3 Level of Financial Security

In this sub-section, I describe the results of the comparison that I have carried out of the level of financial security that the Remaining Policyholders will benefit from post-Transfer with that which they currently benefit from Pre-Transfer. In making this comparison, I used both the Pillar I and Pillar II Capital Ratios as a measure of financial security, as described in Section 8.2.1. However, I have only shown the Pillar I ratios in my Report, as the Pillar II calculations are private to the company and the FSA, and are not available publicly. The comparison was made separately for each of the three groups of the Remaining Policyholders referred to in Section 8.1.

Table 8.1 summarises the financial security provided to the Remaining Policyholders, pre- and post-Transfer for each of these three groups, as measured by the Pillar I Capital Ratios. The Remaining Policyholders are part of Pearl pre- and post-Transfer.

8 Impact of the Proposed Transfer on the Remaining Policyholders

Table 8.1
Comparison of Financial Security Provided to Remaining Policyholders
Pre and Post Transfer
Pillar I Basis
As at 31 December 2010
GBP Millions

	Pre-Transfer (Pearl)			**Post-Transfer (Pearl)**		
	With-Profit (ex SERP)	**Non-Profit**	**Others (inc SERP)**	**With-Profit (ex SERP)**	**Non-Profit**	**Others (inc SERP)**
Total Capital Resources (=Net Assets)	1,399	170	57	1,392	169	53
Pillar I Capital Requirement	894	122	48	894	122	44
Ratio of Capital Resources to Capital Requirement (=Ratio of Net Assets to Pillar I Capital Requirement)	157%	139%	120%	156%	138%	119%

Note: The Capital Resources shown in this table incorporate a notional allocation of the shareholder funds to each policyholder group. This is not intended to imply any ownership rights over these funds by the relevant policyholder groups, but rather has been done to determine the effective Pillar I security for each group.

As can be seen from the above table, the ratio of Net Assets to Pillar I Capital Requirements for each of the three groups comprising the Remaining Policyholders is very slightly lower post-Transfer than it is pre-Transfer. Similarly, on Pillar II basis, the equivalent ratios for each of the three groups comprising the Remaining Policyholders are very slightly lower post-Transfer than they are pre-Transfer. However, in all cases I am satisfied that these reductions are not material. Thus, as measured by these ratios on both a Pillar I and a Pillar II basis, the financial security for the Remaining Policyholders does not change materially as a result of the proposed Transfer.

8 Impact of the Proposed Transfer on the Remaining Policyholders

Pearl supplied me with the calculations on a Pillar I and a Pillar II basis. I reviewed them for reasonableness and carried out some sensitivity tests, as I deemed appropriate. I am satisfied that Pearl's calculations are suitable for the purposes of my Report. In addition, I am satisfied that the results of my sensitivity calculations do not invalidate the conclusions outlined in this report.

8.2.4 Chain of Security for Remaining Policyholders

The Chain of the Security for the Remaining Policyholders is unchanged as a result of the proposed Transfer.

8.2.5 Impact on Benefits for Remaining Policyholders

I am not aware of any changes caused by the proposed Transfer in the cashflow, nature or size of any benefits that relate to the Remaining Policyholders.

8.2.6 Conclusion

I believe that the proposed Transfer is unlikely to have a material adverse effect on the financial security provided to the Remaining life assurance Policyholders of Pearl.

8.3 Non – Financial Impact

8.3.1 Analysis

I understand that Pearl's existing arrangements for policy administration, claims agreement and settlement for its life assurance policyholders will remain in place after the proposed Transfer, with no change or impact as a result of the proposed Transfer.

8.3.2 Conclusions

I believe that the proposed Transfer will have no impact on the non-financial security provided to the Remaining life assurance Policyholders of Pearl.

Appendix A Engagement Letter

This Appendix contains the relevant section from our Engagement Letter, dated 9 August 2010.

Provision of Independent Expert services in connection with the proposed transfer (the "Transfer") of the run-off non-life liabilities of Pearl Assurance Limited ("Pearl") to BA (GI) Limited ("BAGI"), both companies being part of the Phoenix Group Holdings group of companies, in accordance with Part VII of the Financial Services & Markets Act 2000 ("FSMA")

(b) Services

We will provide the following services ("**Services**") in support of the Project. In summary, the IE will consider the merits of the Transfer from the perspective of each of the groups of policyholders affected by the Transfer and deemed to require separate consideration by the IE. We will carry out the work we believe we need to perform in order to enable the IE to form an opinion on the Transfer. This opinion will be included within the Scheme Report. Our work is likely to include, amongst other things, all or part of the following Services:

A. An initial meeting with you and your advisors, PricewaterhouseCoopers ("PwC"), to discuss and identify areas which the IE will need to consider through the Project ("**the initial meeting**").

B. Production and provision of data requests detailing the information that we require and, following provision by you of this information, any further information necessary in order to provide the remainder of the Services under the Project.

C. An analysis (where necessary) of the:

   (i) Liabilities being transferred (including incurred but not reported ("IBNR") claims reserves);

   (ii) Liabilities not being transferred (including IBNR claims reserves), if any;

   (iii) Assets available, both pre and post the Transfer, to the policyholders affected by the Transfer;

   (iv) Allocation of reinsurance protection to different groups of policyholders, if appropriate; and

   (v) Other assets to be transferred.

D. Comparison of the solvency positions of Pearl and BAGI, including consideration of any intra-group reinsurance contracts or guarantees that exist or may be provided, with the aim of comparing the current solvency position with the solvency position immediately after the Transfer is implemented. The consideration of the solvency position of these companies is expected to be carried out by comparing available capital against Individual

Capital Assessment values and regulatory minimum capital, based on solvency regulations, or by comparing other suitable metrics on a pre and post-transfer basis.

E. Analysis of the publicly available information on the financial strength of Pearl and BAGI, where available, including rating agency reports, analysts' reports, annual report and accounts and financial statements.

F. Analysis of the effect of the Transfer on non-financial aspects for the policyholders being transferred, the remaining policyholders of Pearl and the existing policyholders of BAGI.

G. Consideration of a draft of the Transfer document ("the Scheme") to be put before the FSA. After reviewing this draft, we will inform you of any material adverse impact upon Interested Parties (as defined in Section 6 of this Contract) that we identify at that time, so that you can consider these in structuring the Transfer.

H. Preparation of a draft Scheme Report which will be provided by us to you, your legal advisers and the FSA.

I. Discussion of the draft Scheme Report with the FSA.

J. Production of the Scheme Report, for submission to the Court.(*)

K. Production or approval of a summary of the Scheme Report (the "Summary Report") that forms part of the Summary Statement for inclusion within letters to Policyholders. (*)

L. Consideration of any objections raised against the Transfer and, if required, corresponding with you, your legal advisers and the FSA in relation to them.

M. Production of supplemental reports, as requested (eg to respond to objections raised by Interested Parties, or questions raised by the Court). (*)

N. Attendance (if necessary) at and/or testimony for the Directions Hearing and Court Hearing. (*)

O. Attendance at Board meetings and meetings with your other advisers and to receive other briefings.

Items marked (*) above are the "**Deliverables**" for the purpose of the Terms and Conditions of this Contract.

If, during the production of the Scheme Report, we identify any further items which should be reviewed at the proposed Transfer date then we would be able to carry out such additional work by using the Change Order procedures outlined in Appendix A to increase the scope of work included in this engagement letter. Similarly, if the FSA requires changes to the process which affect the scope set out herein, we will use the Change Order procedure to amend the scope of work.

We will liaise with you and your professional advisers in order to complete the Project. In liaising with your professional advisers and in order for you to take their advice, we accept that your professional advisers will see drafts of the Deliverables. In return, you agree that your professional advisers will only see such drafts in their capacity as your professional advisers, that they will have the same duties as you to keep such drafts confidential and that in providing drafts and final versions of the Reports and through our interactions, we are not extending our responsibilities to you or the Court that we acknowledge in this contract.

The scope of our services and any deliverables will be limited solely to the Services and Deliverables set out in this Contract. We will make no representations in respect of, and will not consider any other aspect of, your operations. We would be pleased to advise you on any other matters within the scope of our authorisation that are not within the above scope of our Services. If you would like us to do so, please contact us to discuss your requirements. If we agree to carry out any further work, the terms set out in this Contract will apply, but the precise scope of the additional services will be agreed in accordance with Section 9 below.

Appendix B **Experience of Independent Expert**

David Hindley FIA

David Hindley is a General Insurance Partner in Deloitte's Actuarial & Insurance Solutions Practice. David's clients include UK and overseas General insurance companies, reinsurers, P&I clubs, Lloyd's syndicates and captives. He provides financial and strategic advice to these clients covering areas such as reserving, pricing, product design and valuation. As well as over twenty years general insurance consulting experience, he also spent six years working for a reinsurer before starting his consulting career.

David has been carrying out Part VII work since 2003. He is well known as a Part VII Independent Expert by the FSA, Court and in the insurance market more generally and has a very clear understanding of the work required to successfully deliver a Part VII project.

Examples of recent experience:

- Independent expert under FSMA Part VII General Insurance Business Transfers for the following insurance groups: R&SA (2005/6), CIGNA/ACE (2005), XL Re (2006).
- UK insurer (ongoing): Independent expert under FSMA Part VII General Insurance Business Transfer
- UK run-off insurer (2009): Advisory role in relation to FSMA Part VII General Insurance Business Transfer
- Lead actuarial Partner for Royal & Sun Alliance audit.
- Reserve reviews for several insurers / Lloyd's syndicates / reinsurers covering a wide range of classes of business, including UK personal lines, U.S Casualty and Asbestos, Pollution and Health Hazard claims..
- Actuarial advice and Independent Expert services to a UK client in relation to their specialist marine business.
- Scheme Actuary and Vote Adjudicator for a number of UK Schemes of Arrangement.
- Annual estimation of liabilities for a major UK-based P&I club.
- Solvency 2 Gap Analysis and QIS4 assignments for a number of UK clients.
- Advice to the Corporation of Lloyd's around their RBC model, and more recently in relation to their Solvency 2 internal model.

Specialisms/expertise include:

- Actuarial advice to P&C Insurance and Reinsurance companies.
- Holds Practising Certificates for Statements of Actuarial Opinion for Lloyd's Syndicates.
- Member of Deloitte's Global Asbestos, Pollution and Health Hazards working group.

Industry/Professional positions held:

- David is a Fellow of the Institute of Actuaries.

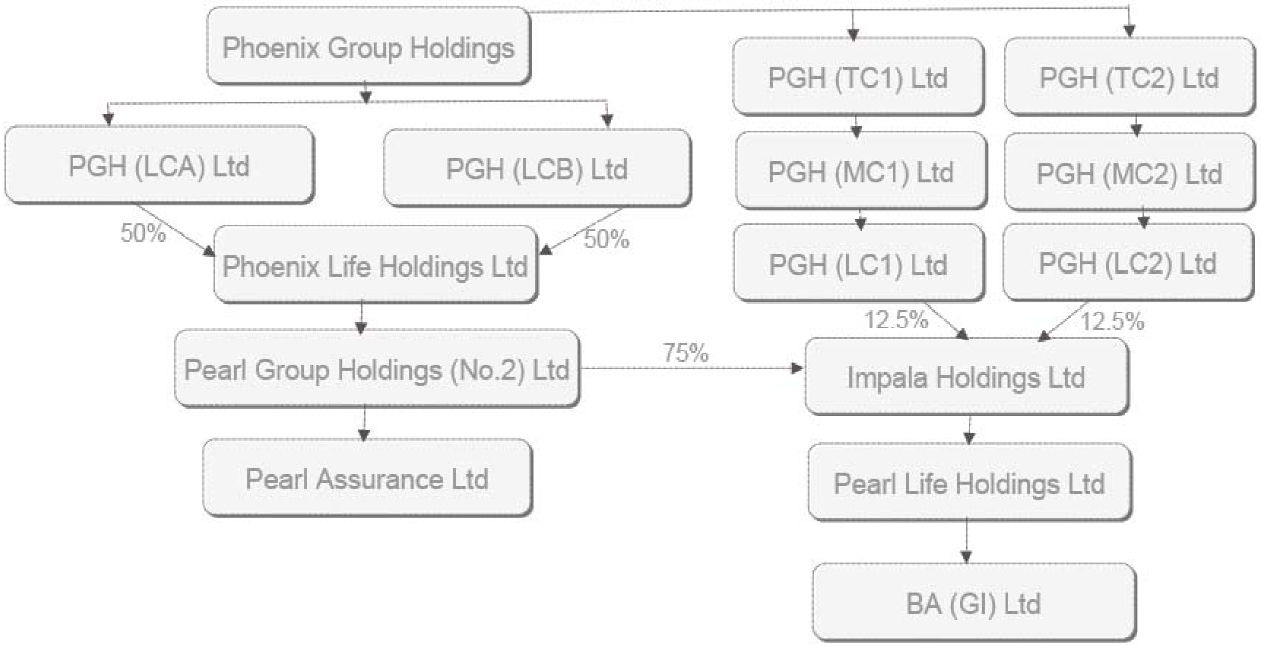
- He was a member of the Council of the Institute of Actuaries from 2004 to 2009 and was also the Chairman of the General Insurance Board of the Institute and Faculty of Actuaries from 2004 to 2005.

Appendix C **Company Structure Charts**

This Appendix contains schematic company structure charts for Phoenix Group Holdings group companies, with only the relevant companies being shown.

Appendix C Company Structure Charts

Simplified Corporate Structure



Classification: Confidential 1

Appendix D Definition of Terms and Glossary

Companies

BAGI is BA (GI) Limited.

Pearl is Pearl Assurance Limited.

Phoenix is Phoenix Group Holdings, the holding company of both Pearl and BAGI.

Definitions Specific to the Report

Affected Policyholders means collectively:

- the Transferring Policyholders (that is, all current non-life policyholders of Pearl);
- the Receiving Policyholders (that is, all current policyholders of BAGI); and
- the Remaining life assurance Policyholders of Pearl, that are not subject to Transfer.

Effective Date means the date on which the proposed Transfer will be effected. The Effective Date is subject to the approval of the Court and is expected to be on 31 March 2012.

The **SERP** fund is a with-profits fund established by Pearl to receive holders of "SERP" policies purchased from National Provident Life and transferred to Pearl by means of a Part VII transfer in 2010. SERP stands for Self-Employed Retirement Plans.

The Transfer means the proposed transfer of the run-off non-life liabilities of Pearl to BAGI, both companies being part of the Phoenix Group Holdings group of companies, in accordance with Part VII of FSMA.

Transferring Liabilities means all liabilities related to the Transferring Policies.

Transferring Policies means the insurance policies together with all related rights and benefits to be transferred under the proposed Transfer on the Effective Date from Pearl to BAGI.

Transferring Policyholders means the policyholders of the Transferring Policies.

Other Definitions

The **Best Estimate** of liabilities is intended to represent the expected value (i.e. the mean) of the distribution of possible outcomes of those liabilities.

Appendix D **Definition of Terms and Glossary**

Capital refers to:

- Money used to create income, either as an investment in a business or an income property;
- The money or property comprising the wealth owned or used by a person or business enterprise;
- The accumulated wealth of a person or business; and/or
- The net worth of a person or business represented by the amount by which its assets exceed its liabilities.

Chain of Security refers to the different elements of funding which may be available to policyholders to pay their claims. So in the first instance that would be the claims reserves of the insurance company and then, if those reserves proved to be insufficient, the insurance company's additional capital. There may then be additional links in the "chain", such as parental guarantees supporting companies within the group structure.

Claims Reserves means the sum of reported outstanding claims and IBNR amounts.

Deloitte means Deloitte LLP.

Pillar I is one of the bases of the regulatory capital framework specified by the FSA Handbook, required to be calculated by UK insurance companies in order to report their solvency positions to the FSA and for public disclosure in the FSA Returns. Companies are required to publish their Pillar I calculations each year and these are externally audited.

Pillar II is one of the bases of the regulatory capital framework specified by the FSA Handbook, required to be calculated by UK insurance companies in order to privately report their solvency positions to the FSA. Pillar II figures are not published or audited and are commercially sensitive.

Technical Provisions, also referred to as **Net Outstanding Reserves** refers to the sum of Claims Reserves and the Unearned Premium Reserves.

Abbreviations

FSA means the United Kingdom's Financial Services Authority.

FSMA means the Financial Services & Markets Act 2000.

IBNR means Incurred But Not Reported, and includes:

- An estimate for claims that have not been reported, but have been incurred ("pure" IBNR); and

- An estimate for future movements on claims that have already been reported ("IBNER" or Incurred But Not Enough Reported).

ICA means Individual Capital Assessment required under ICAS.

ICAS is the Individual Capital Adequacy Standards, the FSA's rules governing Capital adequacy for insurers.