

SUMMARY OF SCHEME AND INDEPENDENT EXPERT'S REPORT

Proposed transfer of the general insurance business of Pearl Assurance Limited to BA (GI) Limited

1. OVERVIEW

- 1.1 It is proposed that the entire general insurance business of Pearl Assurance Limited ("**Pearl**") (formerly Pearl Assurance Company Limited and Pearl Assurance plc) will be transferred to BA (GI) Limited ("**BA(GI)**") (formerly Britannic Assurance Company Limited and Britannic Assurance plc) under a scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Act**") (the "**Proposal**").
- 1.2 Pearl is a private limited composite insurance and reinsurance company incorporated in England. Pearl is in run off but continues to accept premiums on in-force life insurance business.
- 1.3 The bulk of Pearl's liabilities relate to contracts of life insurance (known also as long-term insurance) but Pearl also has liabilities in respect of contracts of non-life insurance and reinsurance (also known as general insurance). Pearl has not written any new general insurance contracts since 2001. Prior to 2001, it effected and carried out contracts of general insurance and reinsurance in the United Kingdom and from overseas branches.
- 1.4 Under the terms of the Proposal, all of Pearl's general insurance policies will be transferred to BA(GI). The terms of those contracts however will not otherwise be affected as a result of the transfer.
- 1.5 The Proposal is limited to Pearl's general insurance business. None of Pearl's policies of long-term insurance will be transferred by the Proposal.
- 1.6 BA(GI) is a private limited insurance and reinsurance company incorporated in England. BA(GI) carries out contracts of insurance and reinsurance in the UK, and is authorised and regulated by the FSA. Pearl and BA(GI) are both indirect subsidiaries of Phoenix Group Holdings Limited, a company incorporated in the UK.

2. PROCESS

- 2.1 The Proposal will be effected under provisions contained in Part VII of, and Schedule 12 to, the Act. These provisions permit business carried on by an insurance company in the UK to be transferred to another insurance company. The details of such a transfer must be set out in a scheme (the "**Scheme**"), which can only become effective with the sanction of the Court.
- 2.2 Pearl made an application to the Court in respect of the Proposal by a Claim Form issued on 6 December 2011. The Court hearing is expected to take place on 22 March 2012. The application to the Court was accompanied by a report on the terms of the Scheme (together with a Supplementary Report) in a form approved by the FSA and made by a person (the "**Independent Expert**") appearing to the FSA to have the skills necessary to make a proper report (the "**Independent Expert's Report**" and the "**First Supplementary Report**" respectively). A summary of the Independent Expert's Report and the First Supplementary Report appears in section 4 of this document.
- 2.3 Any person (including an employee working for Pearl or BA(GI)) who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to be heard by the Court at the Court hearing in person or by Counsel, as is the FSA. Any person who wishes to object to the application by appearing in person or by Counsel at the Court hearing is requested to notify his or her objections as soon as possible to Hogan Lovells

International LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG, solicitors for Pearl and BA(GI), quoting reference C1/JSS/TJG.

2.4 Subject to the granting of an order of the Court sanctioning the Scheme, the Scheme is expected to become effective at 11.59 pm on 31 March 2012 (the "**Effective Date**").

3. **SUMMARY OF THE SCHEME**

3.1 **Transfer of Pearl's business to BA(GI)**

Under the Scheme the entire general insurance business of Pearl will be transferred to BA(GI) in accordance with the Scheme on the Effective Date (except as provided in paragraph 3.3 below). BA(GI) will become the insurer or reinsurer in place of Pearl under policies issued by Pearl.

3.2 **Litigation**

From the Effective Date any proceedings which are pending or current by or against Pearl in respect of the transferring business will be continued by or against BA(GI).

3.3 **Excluded policies**

If any policy that Pearl has issued is not in fact capable of being so transferred for any reason, then that policy will not be transferred to BA(GI). However, Pearl has no reason to believe that any policy will not be transferred.

4. **SUMMARY OF THE INDEPENDENT EXPERT'S REPORT AND FIRST SUPPLEMENTARY REPORT**

4.1 **Background**

The Independent Expert's Report considers the likely effects of the Proposal and is intended to aid the Court's deliberations as to whether the proposed insurance business transfer from Pearl to BA(GI) should be permitted. Details of the terms of reference of the Independent Expert's Report, of matters on which the Independent Expert has placed reliance and of the purpose for which the Independent Expert's Report may be used are set out in the Independent Expert's Report. The Independent Expert has also produced a First Supplementary Report as referred to in paragraph 4.2(c) below.

4.2 **Conclusions**

- (a) The Independent Expert has considered the impact of the proposal on the transferring policyholders, the current policyholders of BA(GI) and the remaining policyholders of Pearl whose policies will not be transferring (together the "**Affected Policyholders**").
- (b) The Independent Expert has satisfied himself that it is unlikely that the Proposal 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 Proposal takes place.
- (c) The Independent Expert has produced a First Supplementary Report to update his main report, based on more recent data and information as at 30 June 2011 and to consider whether capital markets volatility during 2011 has any impact on his opinion regarding the transfer. The Independent Expert has confirmed that there are no material issues arising from the updated data and information that are likely to have any impact on the analyses underlying his opinion set out above. The Independent Expert is also satisfied that the effects of capital markets volatility do not change his opinion.

5. **COPIES OF DOCUMENTS RELATING TO THE PROPOSAL**

- 5.1 Copies of the Independent Expert's Report, the First Supplementary Report and of this document are available on the following website: <http://www.pearl.co.uk> (on the home page select 'Information Centre', click on 'Latest News' and select news item - 'Proposed Insurance Business Transfer of the Non-Life Business of Pearl Assurance Limited to BA (GI) Limited') and will also be provided, free of charge, by Hogan Lovells International LLP, solicitors for Pearl and BA(GI), whose details are given in section 2.3 of this document.
- 5.2 A copy of any further Supplementary Report made by the Independent Expert before the Court hearing in order to update the Independent Expert's Report and the First Supplementary Report will be made available on the website named in paragraph 5.1 and free of charge from Hogan Lovells International LLP.