

Consolidating Our Business - Scheme Guide

TRANSFER OF BUSINESS OF PEARL ASSURANCE (UNIT FUNDS) LIMITED, PEARL ASSURANCE (UNIT LINKED PENSIONS) LIMITED AND LONDON LIFE LINKED ASSURANCES LIMITED TO NPI LIMITED



Contents

1. Introduction	1
2. The proposed changes and their effect	1
3. Action you can take	2
4. The legal process	2
5. Further information	3
6. Co-owners and pension scheme trustees	3
7. Summary of the terms of the scheme	3
8. Summary of the independent expert's report	6

Definitions

1. Introduction

This guide gives you an overview of the changes we want to make to parts of our unit-linked life and pensions business (the **Scheme**). We want to consolidate the business of four of our companies so that, instead of being undertaken by all of those companies, it will be carried on by just one. This will involve a transfer of the policies of some of our customers.

We believe that the **Scheme** will enable us to work more effectively and efficiently.

In this guide we outline the key features of the **Scheme**. The guide also contains a summary of a report by an independent expert – someone approved by the Financial Services Authority (**FSA**) to prepare a report on the terms of the **Scheme**. The independent expert has considered how your interests as a policyholder may be affected by the **Scheme**.

Please take time to read this guide as it is important that you understand how the changes may affect you.

Words in **bold** are defined at the end of this guide - Definitions.

2. The proposed changes and their effect

The following companies are involved in the **Scheme**:

- Pearl Assurance (Unit Funds) Limited (**PAUF**)
- Pearl Assurance (Unit Linked Pensions) Limited (**PAULP**)
- London Life Linked Assurances Limited (**LLLA**)
- NPI Limited (**NPIL**)

These are all **Pearl Group** companies with unit-linked life and pensions business. In addition:

- **PAULP** provides annuities to some of its unit-linked pension policyholders, once retirement benefits become payable.
- **NPIL** has a range of other life and pensions business.

Subject to the receipt of court approval, it is proposed that the business of **PAUF**, **PAULP** and **LLLA** (the **Transferring Companies**) will transfer to **NPIL** on 1 October 2006. Therefore, from that date **PAUF**, **PAULP** and **LLLA** policies would become **NPIL** policies.

Your policy documents will tell you which company your policy is held with. As a general guide, policy documents issued by:

- **PAUF** or **PAULP** will carry the "Pearl" brand. Pensions and annuity policies will be with **PAULP** and other life assurance policies will be with **PAUF**. If your policy is with **PAUF** or **PAULP**, we refer to you in this guide as a **Pearl Policyholder**.
- **LLLA** will carry the "London Life" brand. If your policy is with **LLLA**, we refer to you in this guide as a **London Life Policyholder**.
- **NPIL** will carry the "NPI" brand. If your policy is with **NPIL**, we refer to you in this guide as a **NPIL Policyholder**.

Please be aware that there are other companies within the **Pearl Group** and that you may well hold a policy with one of these other companies, which the **Scheme** will not affect. The **Scheme** is only relevant to policies you hold with **PAUF**, **PAULP**, **LLLA** or **NPIL**.

If you are a **Pearl Policyholder** or a **London Life Policyholder**, then you will notice very little difference with your policy once the changes take effect. In fact, most things will remain the same:

- your policy cover and terms and conditions will be unaffected;
- payments under your policy will be made in the same way. This includes the premiums you pay us and the payments we make to you (there are some exceptions to this for **London Life Policy Holders** and holders of Pearl Stakeholder Pension Plan policies issued by **PAULP** - refer to section 7.2 for further details);
- your policy will continue to be branded as a "Pearl" or "London Life" policy;
- you will be able to contact us at the same address, and using the same telephone numbers and policy number reference; and
- if you hold a unit-linked policy:
 - the range of unit-linked funds available to you to invest in, and the names, assets, objectives, benchmarks and investment managers of those funds, will remain the same (although the **Scheme** will give **NPIL** more flexibility to achieve further efficiencies by changing the structure of those funds in the future – refer to section 7.5 below for further details);
 - immediately following the changes, you will have the same number, value and type of units as you did before.

Although the branding of your policy as a “Pearl” or “London Life” policy will not change, **NPIL** will become the provider of your policy once the **Scheme** becomes effective. This means that when we write to you in the future, we will refer to **NPIL** (rather than **PAUF**, **PAULP** or **LLLA**) as the provider of your policy. This is one difference that you may notice.

Policyholders of **PAULP** who are members of the Pearl Assurance (Unit Linked Pensions) Limited Personal Pension Scheme (No.1) or the Pearl Stakeholder Pension Scheme will also notice that the scheme administrator under those schemes will change from **PAULP** to **NPIL**. In addition, the Pearl Assurance (Unit Linked Pensions) Limited Personal Pension Scheme (No.1) will be renamed the “Pearl Unit Linked Personal Pension Scheme”.

If you are a **NPIL Policyholder**, you will notice no change at all with your policies. However, holders of unit-linked policies issued by **NPIL** should be aware that the **Scheme** will give **NPIL** more flexibility to achieve further efficiencies by changing the structure of the unit-linked funds available to you in the future – refer to section 7.5 below for further details.

We expect the **Scheme** to become effective from 1 October 2006, subject to the receipt of court approval. We will put a note on our websites (www.pearl.co.uk, www.npi.co.uk, www.london-life.com) after the court hearing to confirm whether the **High Court** has approved the **Scheme**. We will also include a reminder in future correspondence to **Pearl Policyholders** and **London Life Policyholders** that **NPIL** has become their provider.

See section 7 of this guide for a summary of the principal terms of the **Scheme**.

3. Action you can take

Once you have read through this guide, if you are happy with the changes you do not need to do anything.

If you believe that you would be adversely affected by the **Scheme**, you are entitled to put your objections to the **High Court**. For further details of the legal process, please see section 4 below.

If you feel you need more information, please see section 5 below.

4. The legal process

To implement the **Scheme**, we must comply with Part VII of the Financial Services and Markets Act 2000. This means that the **Scheme** must be approved by the **High Court**. We have made an application to the **High Court** in respect of the **Scheme** by a claim form issued on 8 June 2006.

The court hearing for approval of the **Scheme** is expected to take place on 11 September 2006 at The Royal Courts of Justice, The Strand, London WC2A 2LL.

Any person (including any **Pearl Group** employee) who believes they would be adversely affected by the **Scheme** is entitled to put their objections to the **High Court** at the court hearing.

If you intend to appear at the hearing to object to the **Scheme**, we request that you write to **Pearl Group's** solicitors as soon as possible (and ideally before 28 August 2006): Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS.

Please quote reference RWS/JT in your letter. It would be helpful if you could set out the nature of your objections in your letter.

Please also write to **Pearl Group's** solicitors if you wish to object to the **Scheme** but do not intend to appear at the court hearing, in the way set out above.

We have appointed the **Independent Expert**, who has been approved by the **FSA**, to report on the effects of the **Scheme** on the policyholders of the **Transferring Companies** and **NPIL**. A summary of the **Independent Expert's Report** is set out in section 8 of this guide.

If the **High Court** approves the **Scheme**, the **Scheme** is expected to become effective on 1 October 2006.

We are also undertaking separate schemes to transfer certain policies relating to the Channel Islands. These schemes require the approval of the Royal Courts of Jersey and Guernsey and are conditional on the **Scheme** becoming effective. See section 7.7 of this guide for further details.



5. Further information

Until the **High Court** hearing to approve the **Scheme**, anyone can access this guide, the terms of the **Scheme** and the full **Independent Expert's Report**, free of charge, from our websites:

www.pearl.co.uk/schemeinfo
www.london-life.com/schemeinfo
www.npi.co.uk/schemeinfo

Alternatively, please call 0870 033 0002 between 9am and 6pm Monday to Friday (all calls are charged at the national rate), or write to request copies to:

SLC Team,
MP12,
The Pearl Centre,
Lynch Wood,
Peterborough,
PE2 6FY.

If you have any questions about the proposed changes, we hope the enclosed document entitled 'Your Questions Answered' will help. However, if you still have further questions about the proposed changes please call us on the helpline number above.

6. Co-owners and pension scheme trustees

Please ensure that any co-owner, or any other person with an interest in your policy, is given the opportunity to review this guide and the other documents contained in this pack.

If you are a trustee of a group pension scheme, it is your responsibility to make sure all scheme members are made aware of the changes detailed in this guide.



7. Summary of the terms of the Scheme

This section summarises the effect of the principal terms of the **Scheme**.

7.1 - Transfer of business

On the **Effective Date**, the business of the **Transferring Companies** will transfer to **NPIL**. Accordingly, policies issued by the **Transferring Companies** will transfer to **NPIL**, and **NPIL** will then become the provider of those policies in place of the relevant **Transferring Company**.

7.2 - Premium and claim payments

Most policyholders will not notice any changes in the way they pay premiums or receive payments under their policy after the **Effective Date**. We are making arrangements with our banks and within the **Pearl Group** to ensure that, as far as possible, **Pearl Policyholders** and **London Life Policyholders** can continue to make and receive payments under their policies in the same way as they do now. This means that from the **Effective Date**:

- all cheques sent to those policy holders will appear exactly the same (except that for **London Life Policyholders** cheques will be issued by **NPIL** rather than by **LLLA**, although they will continue to carry the "London Life" brand);
- all payment requests sent to those policyholders will appear exactly the same;
- policyholders who pay premiums by cheque will continue to make cheques out to the same payee, (except for holders of Pearl Stakeholder Pension Plan policies issued by **PAULP** who will be asked to make the cheques out to **NPIL**); and
- for policyholders with standing orders or direct debits, their bank statements will show exactly the same information about payments made and received under their policies.

However, it is important to understand that from the **Effective Date**, **NPIL** will:

- be entitled to the benefit of all premiums paid by **Pearl Policyholders** and **London Life Policyholders**; and
- be responsible for all benefits payable to **Pearl Policyholders** and **London Life Policyholders**.

7.3 - Unit-linked funds

If you are a unit linked policyholder of a **Transferring Company**, your policy invests money in unit-linked funds which that **Transferring Company** holds for the purpose of determining the value of your policy. On the **Effective Date**, the assets of the unit-linked funds of that **Transferring Company** will be transferred into new 'mirror' unit-linked funds set up by NPIL. These 'mirror' funds will have the same assets, fund names, objectives, benchmarks and investment manager.

Immediately following the **Effective Date**, you will have the same number, value and type of units as you did before. Information regarding prices of the units in those funds will continue to be available:

- for **Pearl Policyholders**, at www.pearl.co.uk
- for **London Life Policyholders**, at www.london-life.com.

If you are a **NPIL Policyholder** with a unit-linked policy, there will be no changes on the **Effective Date** to the **NPIL** unit-linked funds used to determine the value of your policy. Information regarding prices of the units in those funds will continue to be available at www.npi.co.uk.

7.4 - Switching and redirection of future premiums

Many of the unit-linked policies provided by the **Transferring Companies** or by **NPIL** include terms which allow the policyholder to switch existing investments or redirect future premium payments between various unit-linked funds.

From the **Effective Date**:

- a policyholder of a **Transferring Company** will only be able to switch or redirect future premium payments between the unit-linked funds set up by **NPIL** under the **Scheme** to 'mirror' the unit-linked funds previously available to that policyholder (see section 7.3 above).
- a **NPIL Policyholder** will be able to switch or redirect future premium payments between the unit-linked funds previously available to that policyholder (but not the 'mirror' funds set up by **NPIL** under the **Scheme**).

However, the **Scheme** allows **NPIL** to make additional unit-linked funds available to **Pearl Policyholders**, **London Life Policyholders** or **NPIL Policyholders** in the future, if it decides to do so.

7.5 - Future changes to our unit-linked funds

One way we may seek to achieve efficiencies in the future is by combining or closing some of our unit-linked funds. For example:

- if two unit-linked funds have similar investment objectives, we may wish to combine them.
- if a particular unit-linked fund is considered too small to remain viable, we may wish to close that fund.

The **Scheme** gives **NPIL** flexibility to combine or close its unit-linked funds in the future. It also enables **NPIL**:

- to divide or change the name of its unit-linked funds; and
- to modify the investment objectives of its unit-linked funds so that they can invest in reasonably similar asset classes (or asset classes with reasonably similar returns) to those already permitted.

We believe that having the flexibility to deal with our unit-linked funds in these ways may benefit our policyholders, because it may enable certain funds to operate for longer than would otherwise have been the case.

If we wish to take any of these steps, the terms of the **Scheme** are designed to protect our policyholders' rights. In particular, we must comply with the **FSA's** rules which require us to treat our customers fairly and to pay due regard to our customers' interests.

If we decide to close any of our unit-linked funds, we will write to affected policyholders and set out your options. We will give you a reasonable amount of time to decide what you want to do.

7.6 - Costs of the Scheme

Policyholders will not pay for any of the costs incurred by the **Transferring Companies** or **NPIL** in connection with the **Scheme**.



7.7 – Jersey and Guernsey schemes

PAUF issued a small number of policies in the course of carrying on business in Jersey and Guernsey which remain in force. In addition **LLLA**, in the course of carrying on business in the United Kingdom, issued a small number of policies to persons who were Guernsey residents when their policies were issued.

PAUF (and in Guernsey, **LLLA** also) have made applications to the Royal Courts of Jersey and Guernsey to transfer those policies to **NPIL** under separate schemes in those jurisdictions.

The court hearing for approval of the Jersey scheme is expected to take place on 13 September 2006 at The Royal Court of Jersey, Royal Square, St Helier, Jersey.

The court hearing for approval of the Guernsey scheme is expected to take place on 13 September 2006 at The Royal Court of Guernsey, The Royal Court House, St Peter Port, Guernsey GY1 2PB.

Any person (including any **Pearl Group** employee) who believes they would be adversely affected by the schemes in Jersey or Guernsey is entitled to put their objection to the Jersey or Guernsey court (as applicable) at the relevant court hearing.

If you intend to appear at the hearing to object to the Jersey or Guernsey schemes, please write as soon as possible to **Pearl Group's** legal advisers:

- Ogier, Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG (in relation to the Jersey scheme), quoting reference MSY/NMP.
- Ogier, Coutts House, Le Truchot, St Peter Port, Guernsey GY1 1WD (or from 3 July 2006 Ogier, Ogier House, St Julian's Avenue, St Peter Port, Guernsey GY1 1WA) (in relation to the Guernsey scheme), quoting reference SHD/MRJ as soon as possible.

If the Royal Courts of Jersey and Guernsey approve the transfer of the relevant policies under those schemes, those policies will transfer to **NPIL** on the same terms as the **Scheme** on the **Effective Date**.

Copies of the terms of the schemes to be undertaken in Jersey and Guernsey can be obtained in the ways set out in section 5. Policyholders in Jersey and Guernsey may also obtain documents relevant to schemes in those jurisdictions from the offices of **Pearl Group's** legal advisers set out above.

7.8 - Isle of Man resident policyholders

PAUF issued a small number of policies in the course of carrying on business in the Isle of Man which remain in force. In addition **LLLA**, in the course of carrying on business in the United Kingdom, issued a small number of policies to persons who were Isle of Man residents when their policies were issued.

Those policies will be transferred under the **Scheme**. We have obtained legal advice which confirms that a separate scheme is not required in the Isle of Man to transfer those policies.

8. Summary of the Independent Expert's Report

The following is a short summary of the **Independent Expert's Report**, prepared by a senior actuary from outside the **Pearl Group**. The full version is available at www.pearl.co.uk/schemeinfo, www.london-life.com/schemeinfo and www.npi.co.uk/schemeinfo, or from the helpline number or address set out in section 5 of this guide.

Summary of the report by the Independent Expert, Mr Mike Arnold, a principal of Milliman, Consultants and Actuaries based at their London office and a Fellow of the Institute of Actuaries.

I have been appointed by **Pearl Group** as an independent expert to prepare a report in connection with the **Scheme** and my appointment for that purpose has been approved by the **FSA**.

This summary should be read in the context of the assessment of the **Scheme** and should not be used for any other purpose. In the event of any doubt regarding the interpretation of this summary, the text of the full **Independent Expert's Report** will prevail. The reliances and limitations set out in the full **Independent Expert's Report** regarding my assessment of the **Scheme** apply to this summary.

8.1 - Summary and overall conclusions

I confirm that the description of the **Scheme** as set out in sections 2 and 7 of this guide is consistent with my understanding.

In my report I have considered the effect of the **Scheme** on all current policyholders of the **Transferring Companies** and **NPIL**.

All my comments on the **Scheme** apply equally to the schemes to be undertaken in Jersey and Guernsey which are described in section 7.7 of this guide.

In summary, my conclusions are:

- the security of the benefits of the existing **NPIL** policyholders and the policyholders of the **Transferring Companies** will not be materially affected by the implementation of the **Scheme**; and
- the fair treatment and reasonable benefit expectations of the existing **NPIL** policyholders and the policyholders of the **Transferring Companies** will not be materially affected by the **Scheme**.

8.2 - Security of benefits

Security for the policyholders in **NPIL** after the **Scheme** is implemented is strongly related to the financial strength of **NPIL** and to the projected financial strength of **NPIL** in the future.

The amount by which the long term fund assets exceed the long term fund liabilities (including the mathematical reserves) provides security for guaranteed benefits.

Security is also provided by the margins for prudence in the assumptions used to calculate the long term business fund liabilities. Policyholder security is also affected by:

- the nature and volume of future new business;
- the potential volatility in future economic, mortality, sickness, expense and persistency experience;
- support from the parent company;
- future capital payments out of, or capital injections into, the long term fund; and
- reinsurance arrangements.

I have considered the security of the policyholders affected by the transfer that will take place under the **Scheme**. These different groups of policyholders are:

- the existing policyholders of **NPIL** (including National Provident Life Limited, a member of the **Pearl Group** which has reinsured certain of its liabilities into **NPIL**); and
- the policyholders of the **Transferring Companies**.

I conclude that the security of the benefits of the existing **NPIL** policyholders and the policyholders of the **Transferring Companies** will not be materially affected by the implementation of the **Scheme**.

8.3 - Treating customers fairly

In the assessment of 'treating customers fairly', consideration must be given to the expectations of those customers. Where there exist non-guaranteed or discretionary elements to the benefits such as reviewable premiums and non-guaranteed charges on unit-linked policies, I must consider the likely effects of the **Scheme** on the benefits relative to the expectations of policyholders.

8.3.1 - Unit-linked policyholders

Unit-linked funds will be created in **NPIL** which are equivalent to those in the relevant **Transferring Company** and **NPIL** unit-linked policies will continue to be linked to the same internal funds as held on the **Effective Date**. Policyholders will therefore see no immediate difference in the value of their unit holdings as a result of the **Scheme**.

There will be no immediate change in investment policy for any parts of the business and **NPIL** intends that any premium reviews will be conducted in line with previous practice.

There is no intention to change the current approach for determining the discretionary elements of unit-linked policies, which include annual management charges, deductions for risk benefits and policy fees, nor the approach used to determine unit prices.

8.3.2 - Other policyholders

NPIL will continue to manage its with profits business in accordance with its Principles and Practices of Financial Management.

Policyholders of non-profit, non-linked business have largely guaranteed benefits and so will not be affected by the **Scheme**, provided there are adequate financial resources.

8.3.3 - Service levels

It is my understanding that the level and quality of administration service will not be different after implementation of the **Scheme**.

8.3.4 - Conclusion

I believe that the implementation of the **Scheme** will not materially affect the fair treatment of existing **NPIL** policyholders nor policyholders of the **Transferring Companies**.

Definitions

Effective Date - 1 October 2006 or such other date as the High Court determines that the Scheme will become effective.

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

High Court – the High Court of Justice of England and Wales.

Independent Expert – Mr Michael Arnold of Milliman, Consultants and Actuaries, who is an actuary experienced in the issues concerned with the transfer of long term insurance businesses.

Independent Expert's Report – a report on the Scheme prepared by the Independent Expert.

LLLA - London Life Linked Assurances Limited.

London Life Policyholder – a current policyholder of LLLA.

NPIL - NPI Limited.

NPIL Policyholder – a current policyholder of NPIL.

PAUF - Pearl Assurance (Unit Funds) Limited.

PAULP - Pearl Assurance (Unit Linked Pensions) Limited.

Pearl Assurance – Pearl Assurance plc, a member of the Pearl Group.

Pearl Group – Pearl Group Limited and its subsidiaries, which include the Transferring Companies and NPIL.

Pearl Policyholder – a current policyholder of PAUF or PAULP.

Scheme – the insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 under which we propose to transfer the business of the Transferring Companies to NPIL.

Transferring Companies – PAUF, PAULP and LLLA; and **Transferring Company** means any one of those companies.

Pearl Group Ltd No.05282342 and Pearl Group Services Ltd No. 5549998.
The following companies are subsidiary companies of Pearl Group Ltd and are authorised and regulated by the Financial Services Authority: Pearl Assurance plc No. 1419, Pearl Assurance (Unit Funds) Ltd No. 1027138, Pearl Assurance (Unit Linked Pensions) Ltd No. 1122485 , Pearl ISA Ltd No. 3597973, London Life Ltd No. 1179800, London Life Linked Assurances Ltd No. 1396188, NPI Ltd No. 3725037, National Provident Life Ltd No. 3641947, UKLS Financial Services Ltd No. 3715118 .
All companies are registered in England at The Pearl Centre, Lynch Wood, Peterborough PE2 6FY. Tel. 01733 470470. We may record or monitor telephone calls to improve service and for our mutual protection.