

Simplifying our business

Scheme guide

Transferring Phoenix & London Assurance Limited (PALAL) policies to Phoenix Life Limited (Phoenix), and what it means for you

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This guide summarises our proposals to transfer all Phoenix & London Assurance Limited (**PALAL**) policies to Phoenix Life Limited (**Phoenix**). **PALAL** is a sister company to **Phoenix** and they are both part of the same group of companies, headed by **Phoenix Group Holdings**. Within this guide, and other related material, these proposals are referred to as 'the **Scheme**'.

PALAL was previously known as Sun Alliance and London Assurance Company Limited (SALAC), and this name, or the name 'Royal & Sun Alliance', may appear on your policy documents. Your policy may also have been issued by one of the three companies that came together in 1967 to form SALAC, namely Alliance Assurance Company Limited, The London Assurance and Beacon Insurance Company Limited, or by the Property Growth Assurance Company that transferred part of its business to SALAC in 1989.

Phoenix Group Holdings is the ultimate parent company of both **PALAL** and **Phoenix**, which is why you will already have seen the Phoenix logo on material sent to you. There are other companies in the group of companies owned by **Phoenix Group Holdings** but these will not be affected by the **Scheme**.

The main advantage for you will be that the **Scheme** will improve the financial security of your policy, as shown in section 8.7 of this guide. Your policy features and benefits (including any **guaranteed benefits**) and the investment strategy for your policy will not be altered by the **Scheme**. The **Scheme** will also simplify our business, which we hope will further improve our efficiency and allow us to make better use of our resources. This **Scheme** follows on from previous similar

schemes in 2005, 2006 and 2009, when the business of other companies in our group was transferred to **Phoenix**.

This **Scheme** is different to and separate from the '**scheme of arrangement**' relating to certain **with-profits** policies with guaranteed pension rates, which **PALAL with-profits** policyholders were told about in 2009. If you have a **with-profits** pension that originally had a guaranteed pension rate and your policy was covered by the **scheme of arrangement**, the benefits you gained as a result of this will not be altered by the **Scheme** we are proposing here.

In this guide you will find:

- important information about the **Scheme** and how it affects you as a policyholder of **PALAL**;
- a summary of a report by an **Independent Expert** that considers how your interests as a policyholder may be affected by the **Scheme** (section 9);
- details on how to raise any concerns you may have about the **Scheme** (section 5); and
- a copy of the formal **legal notice** of the **UK Scheme** (Appendix 2).

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

Throughout this document, you will notice words that are highlighted in bold. We explain these words in section 11 – Definitions.

You may receive other material related to this **Scheme** if you have other policies with us.

PALAL and **Phoenix** have applied to the **High Court** for permission to transfer **PALAL**'s policies to **Phoenix**. The **High Court** will only give permission if they are satisfied that all the necessary legal requirements have been met and that the proposed changes are fair to policyholders. We expect the **hearing** at the **High Court** to be held on 2 February 2011. If the **High Court** approves the **Scheme**, we expect the changes to take place on 14 February 2011. This date is known as the **transfer date**. From the **transfer date**, all **PALAL** policies, including annuities that are already being paid, will transfer to **Phoenix**. However, in order to simplify our accounting treatment, the **Scheme** will have the financial effect, within our accounts, as if the changes had taken place on 1 January 2011. This date is called the '**effective date**'. Having an **effective date** that is before the **transfer date** does not affect the way your policy is impacted under the **Scheme**. If the **effective date** and **transfer date** were on the same day, the impact would be the same for you.

An **Independent Expert**, whose appointment has been approved by our regulator, the Financial Services Authority (**FSA**), has written a report on how the proposals are likely to affect policyholders. This report provides detailed independent consideration of the implications of the proposals for the fair treatment of policyholders. This will help the **High Court** reach their decision and will also be reviewed by the **FSA** when they consider the **Scheme**. You can find a summary of this report in section 9 of this guide. The report says that, overall, the **Scheme** will not have a material adverse impact on either the security of **PALAL** policyholders' benefits or on what **PALAL** policyholders can expect their benefits to be.

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

PALAL also has a small number of policyholders resident in the Isle of Man. The Isle of Man Insurance and Pensions Authority has informed us it will not require a separate scheme for Isle of Man policyholders and these policies will be subject to the terms of the UK **Scheme** if it is approved by the **High Court**.

If the **Scheme** goes ahead, your policy will transfer to a new fund that will be set up in **Phoenix**, the '**SAL With-Profits Fund**'. You will then become a policyholder of **Phoenix** instead of **PALAL**.

Your policy number, features and benefits (including any **guaranteed benefits**) and the investment strategy for the fund where your policy is allocated will not be altered by the **Scheme**. When you call us, you will speak to the same team of people on the same phone number as you do now, and the level of service you receive will not be affected. The Phoenix name and logo will continue to be on any letters we send you and information on your policy will continue to be available through the same website at www.phoenixlifegroup.co.uk.

However, you may notice some small changes in the way your policy is managed.

- Your policy provider will change to **Phoenix**.
- If you are a member of a group pension scheme for which **PALAL** acts as trustee or is the scheme administrator, **Phoenix** will become the trustee or scheme administrator in place of **PALAL**. The address where you can contact the trustee or scheme administrator will remain the same.
- Responsibility for the management of the **SAL With-Profits Fund** will rest with the Board of **Phoenix**, with input from the **Phoenix With-Profits Committee**, rather than the **PALAL** Board and With-Profits Committee.
- The **Scheme** will give **Phoenix** the right to move **non-profit** policies into a **non-profit** fund of **Phoenix** (see section 8.6).
- In the future, **Phoenix** will have the right to close the **SAL With-Profits Fund** if its value falls below a certain size. We have set out details of the process we would follow, and the effect this would have on you, in section 8.4 of this guide.

3.1 With-profits policies

This section specifically deals with those policies that are classed as '**with-profits**'. This includes those policies that are described as unitised **with-profits** or where the unitised **with-profits** option has been selected on a policy that is also **unit-linked**. If you are not sure whether your policy is **with-profits**, please call our helpline, quoting the client ID at the top of your letter.

- Your benefits will not change as a result of the transfer. Annual and/or final bonuses will be added as and when declared, in the same manner as before.
- If you have a **with-profits** pension that originally had a guaranteed pension rate, and your policy was covered by the '**scheme of arrangement**' that all **PALAL with-profits** policyholders were told about in 2009, the exchange of benefits resulting from the **scheme of arrangement** will not be altered by the **Scheme** that we are proposing here.
- Following the transfer, the new **SAL With-Profits Fund** will be managed as a stand-alone fund within **Phoenix** in much the same way as the **PALAL Long-Term Fund** has been managed. If you are a **with-profits** policyholder, you are currently entitled to a share in any surplus that may arise in the **PALAL Long-Term Fund** and as a result of the transfer you will be entitled to a share in

any surplus arising in the **SAL With-Profits Fund** in its place. Policyholders in the other **Phoenix** funds will not be entitled to any surplus that may arise in the **SAL With-Profits Fund**. In the same way, you will not be entitled to any surplus that may arise in any of the other **Phoenix** funds. See section 8.2 for a description of the structure of the **Phoenix** funds.

PALAL has published full details of how its **Long-Term Fund** is managed in its Principles and Practices of Financial Management (PPFM). From the **transfer date**, your policy will be covered by the **Phoenix** PPFM. This document, which explains in detail how each of the **Phoenix with-profits** funds is managed and benefits determined, will be amended to include information on how the new **SAL With-Profits Fund** will be run. This will follow the way in which the **Long-Term Fund** of **PALAL** is currently being run, except as noted in section 8 of this guide.

We also produce guides to explain how we manage the fund. These cover the most important points of the PPFM and how they affect you. We are making some amendments to these guides to take account of the transfer.

You can find draft copies of the revised **Phoenix** PPFM and the revised guides to how we manage the fund, which include the changes noted in this **Scheme** guide, on our website at www.phoenixlifegroup.co.uk/PALALtransfer, under 'Technical information'. There is also a summary of the main changes we are making to the **Phoenix** PPFM available on the same page of the website.

If you have a **with-profits** policy, you will receive a paper copy of the guide to how we manage the fund when we send your next annual statement following the **transfer date**. If you would like a paper copy of the revised **Phoenix** PPFM, guide or summary of changes before then, please call our helpline.

Section 8 of this guide provides more information on the changes affecting **with-profits** policies.

3.2 Non-profit policies

This section specifically deals with those policies that are classed as '**non-profit**' or are **unit-linked**.

Your benefits will be paid in the same way as before and you will see little difference to the way your policy works.

Your policy will transfer to the new **SAL With-Profits Fund**. As a **non-profit** policyholder, you are not entitled to a share in any surplus that may arise in any **with-profits** fund, and this will not change. (See section 8.2 for a description of the structure of the **Phoenix** funds.)

If you are invested in a **unit-linked** fund, your policy will move to the **SAL With-Profits Fund** and will continue to operate as before. You will see no difference in practice to the way your policy works and no changes in the way your benefits are paid. New **unit-linked** funds will be created in **Phoenix**, corresponding to those currently in **PALAL**. Initially, these will have the same assets, charges and will be priced on the same basis as the current funds. The investment strategy for these funds will not be altered by the **Scheme**.

The **Scheme** will give **Phoenix** rights, under certain conditions, to close, merge or change the investment objectives of the **unit-linked** funds, except in relation to transferred policies linked to external unit trusts. **Phoenix** can't exercise these rights without getting appropriate advice and only on terms considered fair to policyholders by the **Phoenix** Board (see section 8.5).

3.3 Annuities in payment

If you are already receiving an annuity under your policy, the timing and amount you receive, and the benefits you are currently entitled to, will not be affected by the transfer. Any guarantees you have will continue.

4 What this means for your payments

After the **transfer date**, any regular payments you receive from **PALAL** will continue as usual and your bank statement will continue to show that the payment has come from **Phoenix**.

After the **transfer date**, any direct debits or standing orders that you pay to **PALAL** will automatically be payable to **Phoenix** without you having to do anything. This change will not affect the service you receive and you don't need to fill in a new direct debit or standing order instruction.

After the **transfer date**, please remember to make cheques payable to **Phoenix Life Limited** (although cheques made payable to **PALAL** will be accepted for some time after this).

Your rights under the direct debit guarantee are not affected and will still be the same, as described below.

The Direct Debit Guarantee



- This Guarantee is offered by all Banks and Building Societies that take part in the Direct Debit Scheme. The efficiency and security of the scheme is monitored and protected by your own Bank or Building Society.
- If the amounts to be paid or the payment dates change, Phoenix Life Limited will notify you at least 10 working days in advance of your account being debited or as otherwise agreed.
- If an error is made by Phoenix Life Limited or your Bank or Building Society, you are guaranteed a full and immediate refund from your branch of the amount paid.
- You can cancel a Direct Debit at any time by writing to your Bank or Building Society. Please also send a copy of your letter to us.

Please read this guide and the enclosed information to make sure you understand our proposals.

If you are happy with the proposals, you don't need to do anything. However, you may want to keep this guide and accompanying documents with your original policy documents, in case you need them in the future.

If you have any questions or concerns, you can see the full **Scheme** document and other relevant documents, including the **Independent Expert's report**, on our website at www.phoenixlifegroup.co.uk/PALALtransfer. If you would like paper copies of these documents or if you need more help (having read this guide and the enclosed leaflet 'Simplifying our business - Your questions answered'), please either write to us at the address given in section 10 or call our helpline 0845 070 4060.

If you believe you would be adversely affected by the **Scheme**, you may put your objections to the **High Court** in the following ways.

- You can write to us at the address given in section 10, quoting reference FM10. We will send your objection and our reply to you to the **High Court**, the **Independent Expert** and the **FSA** before the **hearing**. You should raise any objection with us as soon as possible and preferably before 24 January 2011.
- You can go to the **hearing** and present your objection to the **High Court** in person.
- A representative can go to the **hearing** at the **High Court** and present your objection on your behalf. Your representative does not need legal training and could be a friend or relative.

If you or your representative plan to go to the **High Court hearing**, please write to us at the address given in section 10 quoting reference FM10, ideally before 24 January 2011. If you want to object at the **hearing**, please outline your objection in your letter so we can send this to the **High Court**, the **Independent Expert** and the **FSA** before the **hearing**. By informing us, we will also be able to let you know about any changes that may take place in relation to the **hearing**, for example a change in the time or date. We may also be able to deal directly with any concerns you have.

If you do write to us, it would help if you could please quote your client ID. You will find this at the top of the letter accompanying this pack.

6 Other parties with an interest in your policy

We are trying, as far as records allow, to contact all impacted policyholders and others with an interest in these policies to make them aware of the **Scheme**.

This will not be possible in all instances and we need your help to make sure we let everyone associated with your policy know about the **Scheme**.

If there is any other person with an interest in your policy, for example if you are a co-owner or if your policy has been assigned, please check they have received their documents. If this has not happened, make sure they can also read this guide and the other enclosed documents.

7 PALAL group pension scheme trustees

If you are a trustee of a **PALAL** group pension scheme, please be aware that, although you are the policyholder, the members of the scheme are affected by these proposals and so need to be made aware of them. It is your responsibility to make sure all scheme members know about the changes shown in this guide. We suggest that you write to your scheme members and make a copy of this guide and the enclosed leaflet 'Simplifying our business - Your questions answered' available to them.

The main points to note for you and your members are shown below.

- **PALAL** group pension schemes are transferring to **Phoenix** as a result of the **Scheme**.
- If you are the trustee, you will stay as the trustee, but your contract (policy) will move from **PALAL** to **Phoenix**.
- If you are currently the scheme administrator for the purpose of the Finance Act 2004, you will stay as such after the **transfer date**. If **PALAL** is the scheme administrator, **Phoenix** will take over this role after the transfer.
- All scheme contributions will continue to be paid to **Phoenix**.
- Trustees of group pension schemes and members who believe they would be adversely affected by the **Scheme** may put their objections to the **High Court** in the way set out in section 5 of this guide.

This section summarises the main terms of the **Scheme**.

8.1 Transferring the business

On the **transfer date**, subject to the approval of the **High Court**, all **PALAL** policies will transfer to **Phoenix**. This means that **Phoenix** will then be the product provider and responsible for the transferred policies instead of **PALAL**.

Phoenix will also take over all the rights, benefits and powers of **PALAL** in relation to the transferred policies. If your policy is transferred, you will be entitled to the same rights with **Phoenix** in respect of your policy as you had with **PALAL**.

Any contracts between **PALAL** and other people or organisations relating to the transferring insurance business, for example **reinsurance** agreements, will also transfer so they will be between **Phoenix** and that organisation or person. The existing **reinsurance** arrangements between **PALAL** and **Phoenix** will be cancelled and replaced with intra-fund agreements between the new **SAL With-Profits Fund** and the relevant existing sub-fund of **Phoenix**.

8.2 Phoenix fund structure

Phoenix divides its assets into two main funds, the **Shareholder Fund** and the **Long-Term Insurance Fund**. The **Long-Term Insurance Fund** is further divided into nine sub-funds to which different assets and types of policy are allocated.

The sub-funds are listed below.

- 90% With-Profits Fund
- 100% With-Profits Fund
- Alba With-Profits Fund
- Britannic Industrial Branch Fund
- Britannic With-Profits Fund
- Non-Profit Fund
- Phoenix With-Profits Fund
- Scottish Mutual With-Profits Fund
- SPI With-Profits Fund

As part of the **Scheme**, a separate new fund, the **SAL With-Profits Fund**, will be created in the **Phoenix Long-Term Insurance Fund**, making 10 sub-funds in all. We will transfer all assets and liabilities of the **PALAL Long-Term Fund** to the new **SAL With-Profits Fund**, other than in relation to the existing internal capital support arrangements in **PALAL** which shall be replaced (see section 8.7).

The **Scheme** will not change any of the existing **Phoenix** policies. The current sub-funds in **Phoenix** will continue to operate as separate funds when calculating policyholder benefits.

8.3 Management of the SAL With-Profits Fund

The management of the **SAL With-Profits Fund** will follow the way that the **Long-Term Fund** of **PALAL** is currently being run, except as described in this section.

The specific powers and responsibilities that the **PALAL** With-Profits Committee had in relation to **PALAL's Long-Term Fund** will be taken on by the **Phoenix**

With-Profits Committee (WPC), which provides independent input to the **Phoenix Board** on its exercise of discretion in respect of the **Phoenix with-profits** funds.

The membership of the **Phoenix With-Profits Committee** will always include a majority of non-executive or independent members. One of these members must be an actuary who is not a director or otherwise associated with **Phoenix** or any other company within the **Phoenix Group**.

8.4 Provision for closing the SAL With-Profits Fund

As part of the **Scheme**, and in line with how **Phoenix** runs its other **with-profits** funds, **Phoenix** will be required to close the **SAL With-Profits Fund** if the statutory value of its **with-profits** liabilities falls below a certain size, for example as a result of policyholders taking their benefits or leaving the fund.

Closure can only happen if the **FSA** gives permission and is not expected to happen for at least 20 years. However, when it happens:

- any **guaranteed benefits** will be protected; and
- all **with-profits** policies will be changed into **non-profit** policies and **Phoenix** will transfer all policies, assets and liabilities from the **SAL With-Profits Fund** to a **non-profit** fund in **Phoenix**. Policyholders will receive guaranteed bonuses at a guaranteed rate that will be worked out in a way that is fair to them.

The **Scheme** contains a requirement that **Phoenix** must get written permission from the **FSA** before it can close the **SAL With-Profits Fund** in this way. The **FSA**

will work to make sure that any proposed changes are consistent with rules on treating customers fairly (**TCF**).

8.5 Future changes to unit-linked funds

This section deals with changes that will affect **unit-linked** funds, other than transferred policies that are linked to external unit trusts.

As part of the **Scheme**, if the value of the assets in any **unit-linked** fund falls below a certain amount, or if maintaining the fund (following appropriate advice) is seen as not being feasible, **Phoenix** will be able to close the fund, unless it is prevented from doing so under the terms of the relevant policies. If you are affected, your investment would be moved to a different **Phoenix unit-linked** fund with a reasonably similar investment exposure.

If, in the future, **Phoenix** decides to close any of its **unit-linked** funds, **Phoenix** will write to you, if you are affected, setting out your options.

The **Scheme** will also give **Phoenix** the ability to change the investment aims of and merge or divide the **unit-linked** funds, unless the **Phoenix Board** believes it is not appropriate or practical after taking account of the interests of the relevant policyholders. These changes can only happen if the **Phoenix Board** has first obtained appropriate advice and provided the relevant policy terms do not prevent it. If a **unit-linked** fund were to close, the policies affected would be given new units of an equal value in a different linked fund. The substitute linked fund would, in the opinion of the **Phoenix Board**, provide reasonably equivalent investment exposure.

If you are affected by any of these changes to **unit-linked** funds, you will be allowed one free switch into another fund.

8.6 Future transfer of non-profit policies in the SAL With-Profits Fund

After the **Scheme** takes place, **Phoenix** will have the right in the future to transfer any **non-profit** policy within the new **SAL With-Profits Fund** into the **Phoenix Non-Profit Fund** or another **non-profit** fund of **Phoenix**. This can happen as long as the transfer does not go against the terms of the policy and is fair to policyholders. Any policy that **Phoenix** transfers in this way will, after the transfer, continue with the same guarantees and benefit levels.

8.7 Capital policy and support arrangements

The **PALAL Long-Term Fund** currently receives loans from the **PALAL Shareholder Fund** to ensure it has enough assets to cover its liabilities. It also relies on excess assets in the **PALAL Shareholder Fund** so that **PALAL** can meet the **FSA's** capital requirements.

If the **Scheme** goes ahead, the **Phoenix** Board has agreed that, to replace the existing support arrangements described above, the **SAL With-Profits Fund** will receive a loan from the **Phoenix Non-Profit Fund** or **Shareholder Fund** so it has enough assets to cover its liabilities. Further, the **SAL With-Profits Fund** will be able to rely on excess assets in the **Phoenix Non-Profit Fund** or **Shareholder Fund** to meet the **FSA's** capital requirements.

Phoenix will provide this loan and support, and any future additional loan or support, under the terms of the **Phoenix capital policy (PCP)**, which was written into a previous scheme approved by the **High Court** and under which support can be provided to any of the **Phoenix with-profits** funds. Adherence to the **PCP** means that if the assets of the **SAL With-Profits Fund** do not cover its liabilities, **Phoenix** will make a loan from the **Phoenix Non-Profit Fund** or **Shareholder Fund** (as long as they have enough resources) to the **SAL With-Profits Fund**. And, if the **SAL With-Profits Fund** can't meet the **FSA's** requirements to hold extra capital then, as long as the **Phoenix** Board agrees, the **SAL With-Profits Fund** will be able to rely on excess assets in the **Phoenix Non-Profit Fund** and **Shareholder Fund**.

By adhering to the **PCP**, **Phoenix** holds extra capital for all its operations which is above the **FSA's** additional capital requirements. The aim is to help **Phoenix** withstand extreme financial conditions.

PALAL currently has its own capital policy but the **PCP** offers policyholders more protection. This is because changes to the **PCP** need to be approved by the **High Court** (except certain prescribed, permitted changes) and because the **PCP** moves in line with changes to the underlying risks of the business, unlike the current **PALAL** capital policy. This makes the **PCP** a more appropriate long-term capital policy that will improve financial security for **PALAL** policies after they transfer to **Phoenix**.

There is currently a very remote possibility that, in extreme circumstances, the **SAL With-Profits Fund** may have to provide financial help to another **Phoenix** fund, or that another **Phoenix** fund may have to provide financial support to the **SAL With-Profits Fund**. However, our proposals mean that the **PCP** should make sure **Phoenix** holds assets in excess of the **FSA**'s requirements for each of its funds, including the **SAL With-Profits Fund**. Because of this, we believe it is extremely unlikely that a **with-profits** policy in the **SAL With-Profits Fund** will be affected by losses from another **Phoenix** fund.

The impact of the **Scheme** on the security of **PALAL** and **Phoenix** policyholders has been reviewed by the **Independent Expert** and is taken into account in reaching his conclusions set out in section 9.

8.8 Excluded policies

If there are technical reasons why we are unable to transfer any policy or group of policies when the **Scheme** takes effect, we will treat these policies for all practical purposes in the same way as if they had transferred.

8.9 Data Protection

Following the **transfer date**, **Phoenix** will, under the terms of the **Scheme**, take over the rights and responsibilities of **PALAL** in respect of personal information which:

- relates to the insurance business of **PALAL**;
- is controlled by **PALAL**; and
- is subject to the Data Protection Act 1998.

This means that, from the **transfer date**, **Phoenix** will become the 'data controller' for this information and so will be under the same duty to respect the confidentiality and privacy of that information as **PALAL** was, when it was the data controller.

As the new data controller, **Phoenix** will use any personal information in line with any permission you have given to **PALAL**, as if you had given this permission to **Phoenix**.

The following is a summary of the report written by Mr David Murray, the **Independent Expert** who is a senior actuary and partner at Deloitte LLP. He is independent of the companies involved in the **Scheme** and his appointment has been approved by the **FSA**. He has considered the proposed changes and reported on how they may affect all policyholders involved in the **Scheme**, including current **PALAL** policyholders.

You can see the full version of his report on our website, or you can obtain a paper copy by writing to us at the address given in section 10 of this guide or by calling our helpline, 0845 070 4060.

Overview of the Scheme and main considerations

My report is concerned with the proposed **Scheme** to transfer all of the long-term business of **PALAL** to **Phoenix** and its purpose is to assist the **High Court** in deciding whether to sanction the **Scheme**.

As the **Independent Expert**, I have considered the effect which the **Scheme** may have on the various classes of **Phoenix** and **PALAL** policyholders affected by the **Scheme** as well as a number of specific matters set out in my terms of reference. In examining the implications of the **Scheme** for affected policyholders, I need to consider, in particular:

- the likely effect of the **Scheme** on the security of policyholders' benefits;
- the likely effect of the **Scheme** on the benefit expectations of policyholders;
- the fairness of any changes which may be made to the treatment of different groups of policies as a result of the provisions of the **Scheme**;
- the adequacy of any safeguards in the **Scheme** to protect the interests of transferring **PALAL** policyholders and **Phoenix** policyholders.

In most significant respects, the **Scheme** will not change the day-to-day operation of the fund to which the **PALAL** policies are allocated, or the benefit expectations of policyholders within that fund. Perhaps the most important change for the transferring **PALAL** policyholders is to the capital support that will be available to them in future, and hence to the security of their benefits. For the existing **Phoenix** policyholders, a key change is that the risks being run by the **PALAL Long-Term Fund**, and the capital resources available to it, will in future lie within **Phoenix**. I am concerned to ensure that this does not materially disadvantage the security of any group of policyholders.

Conclusions

In my opinion:

- the **Scheme** will benefit the security of **PALAL** policyholders in some respects, and overall will not materially adversely affect the benefit security of **PALAL** or **Phoenix** policyholders;
- I am satisfied that there is no material adverse impact on the benefit expectations of **PALAL** or **Phoenix** policyholders as a result of the **Scheme**;
- the changes made to certain **PALAL with-profits** policies as a result of the 2009 **scheme of arrangement** will be unaffected by this **Scheme**. In particular, the increases in value that were awarded to policies that gave up their guaranteed pension rates will not be changed, and nor will the asset mix targets for those policies, or the method of calculating payouts under the policies.
- I am satisfied that the proposed post-**Scheme** governance arrangements will not materially affect the **Phoenix** policyholders. In relation to the **PALAL** policyholders, I am satisfied that those arrangements will provide some additional protection of their future interests.
- Having an **effective date** that is before the **transfer date** does not affect the way **PALAL** or **Phoenix** policies are impacted under the **Scheme**. If the **effective date** and **transfer date** were on the same day, the impact would be the same for both **PALAL** and **Phoenix** policyholders.

All my conclusions on the **Scheme** apply equally to the business written by **PALAL** in Jersey, Guernsey and Hong Kong.

In performing my review and preparing this report, I have had regard to financial information provided to me by **Phoenix** and **PALAL** and I have relied upon this information in reaching my conclusions.

If you have any questions about the proposed changes, the enclosed leaflet 'Simplifying our business – Your questions answered' may help.

You can see the following documents relating to the **Scheme** on our website at www.phoenixlifegroup.co.uk/PALALtransfer.

Mailing pack for PALAL policyholders	<ul style="list-style-type: none"> • 'Simplifying our business' Scheme guide • 'Simplifying our business – Your questions answered' • Example policyholder letters
Other information	<ul style="list-style-type: none"> • 'Simplifying our business' – Scheme guide for Phoenix Life Limited policyholders • Draft versions of the revised Phoenix PPFM and guides incorporating the SAL With-Profits Fund which will become effective following the transfer date • Summary of changes to the Phoenix PPFM • The full Scheme document • The full Independent Expert's report • Actuarial reports from the Actuarial Function Holders and With-Profits Actuaries of Phoenix and PALAL • The full terms of the overseas schemes

If you have any more questions, or would like paper copies of any of the documents listed above, please call our helpline on 0845 070 4060.

The helpline will be available from 9am to 5pm, Monday to Friday, up until the day before the **High Court hearing**. Low call rates apply although costs can vary between telecom providers. If you are calling from overseas please call +44 (0)151 255 5164.

This helpline is for enquiries about the **Scheme** only. If you have any general questions about your policy, please contact us on the normal customer number which you will find on previous letters that you have received from us.

You may also write to:

Phoenix & London Assurance Limited
 Restructure Team (reference FM10)
 PO Box 30
 LIVERPOOL
 L69 3HS
 United Kingdom

If you do write to us, it would help if you could please quote your client ID. You will find this at the top of the letter accompanying this pack.

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

Effective date – 1 January 2011 or any later date that **Phoenix** and **PALAL** agree, being the date on which the **Scheme** is to be treated as having taken effect for accounting purposes between **PALAL** and **Phoenix**.

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

Guaranteed benefits – the minimum amounts that will be paid in line with the terms and conditions of a policy, including any annual bonuses already added.

Guernsey Scheme – the insurance business transfer scheme under section 44(1)(C) of the Insurance Business (Bailiwick of Guernsey) Law 2002 under which we propose to transfer, from **PALAL** to **Phoenix**, some of the business relating to policies issued to people resident in the Bailiwick of Guernsey.

Hearing – the hearing at the **High Court** to approve the **Scheme**, which we expect to be held on 2 February 2011.

High Court – the **High Court** of Justice of England and Wales, Strand, London WC2A 2LL.

Hong Kong Scheme – the insurance business transfer scheme under section 24 of the Insurance Companies Ordinance under which we propose to transfer, from **PALAL** to **Phoenix**, any of the business which may have been carried on in or from within Hong Kong.

Independent Expert – Mr David Murray of Deloitte LLP, who is an actuary experienced in the issues to do with transferring long-term insurance businesses, and who has been appointed by **Phoenix** and **PALAL**, and approved by the **FSA**, as the **Independent Expert** in connection with the **Scheme**.

Independent Expert’s report – a report on the **Scheme** prepared by the **Independent Expert**.

Jersey Scheme – the insurance business transfer scheme under Article 27 and Schedule 2 to the Insurance Business (Jersey) Law 1996 under which we propose to transfer, from **PALAL** to **Phoenix**, the business carried on in or from within Jersey.

Legal notice – the notice of our application to the **High Court** for approval of the UK **Scheme**. We have included this in Appendix 2.

Long-Term Fund and Long-Term

Insurance Fund – funds that contain all the assets and liabilities relating to a company’s life assurance business and which are not held for the benefit of its shareholders.

Non-profit – a **non-profit** policy is one that is not entitled to share in the surplus of a company’s **long-term insurance fund**, such as term assurance or income protection policies. A **non-profit** fund is one from which all of the profits are distributable to shareholders.

PALAL – Phoenix & London Assurance Limited (registered number 894616), the company that was previously known as Sun Alliance and London Assurance Company Limited and which is now part of the group of companies owned by **Phoenix Group Holdings**.

Phoenix – Phoenix Life Limited (registered number 1016269), the company to which the businesses previously described as being in **PALAL** will be transferred on the **transfer date** and which is part of the group of companies owned by **Phoenix Group Holdings**.

Phoenix capital policy (PCP) – the court established capital policy for **Phoenix** in accordance with which **Phoenix** keeps a certain amount of capital, over and above the levels the **FSA** requires **Phoenix** to hold.

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

(The) Phoenix Group – the **Phoenix Group** includes Phoenix Life Limited, Phoenix & London Assurance Limited, Phoenix Pensions Limited, Scottish Mutual International Limited, Pearl Assurance Limited, NPI Limited, National Provident Life Limited and London Life Limited.

Phoenix Group Holdings – the parent company of the Phoenix group of companies (the **Phoenix Group**) incorporated in the Cayman Islands, registered number 202172.

Phoenix With-Profits Committee – the role of this committee is to help the **Phoenix** Board in relation to the **Phoenix with-profits** funds. The committee provides an independent opinion when assessing whether **Phoenix** is keeping to its Principles and Practices of Financial Management (PPFM) and in how any competing or conflicting rights and interests of policyholders and, if it applies, shareholders have been addressed.

Reinsurance and reinsured – an arrangement whereby some or all of the risk one company has under some of its policies is passed to another company, for the payment of a premium. **Reinsured** business is business that is subject to **reinsurance**.

SAL With-Profits Fund – a new **with-profits** fund within **Phoenix** into which all of the business of **PALAL** will be transferred following approval of the **Scheme**.

Scheme – the legal document to be approved by the **High Court** which sets out how the business of **PALAL** will transfer to **Phoenix**. The **Scheme** sets out the terms under which, from the **transfer date**, **Phoenix** will be responsible for the policies which are currently the responsibility of **PALAL**.

Scheme of arrangement – the **scheme of arrangement** under Part 26 of the Companies Act 2006 that became effective on 31 December 2009. Under its terms, certain **PALAL with-profits** pension policyholders exchanged their option to convert their maturity value into an annuity on guaranteed rates for an immediate increase to the value of their policies together with a change to the underlying investment practices.

Shareholder Fund – the part of a company's assets and liabilities relating to its life insurance business held outside its **long-term insurance fund** and for the benefit of its shareholders. It includes the shareholders' original investment in the company and the profits which have been transferred out of the **long-term insurance fund** and kept within the company.

TCF (Treating Customers Fairly) – one of the **FSA's** 11 principles which aims to make sure firms carry out their business to a high standard, taking into account customers' interests and increasing their confidence in the financial services industry.

Transfer date – 14 February 2011 or any later date that **Phoenix** and **PALAL** agree. This is the date on which the assets, liabilities and policies of **PALAL** will transfer to **Phoenix** under the **Scheme**.

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

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

Appendix 1

Overseas schemes (Jersey, Guernsey and Hong Kong)

PALAL has a small number of policies that may have been taken out in or from within Jersey, Guernsey or Hong Kong, or which were issued to people resident in Guernsey. We will transfer these policies separately under a **Jersey Scheme, Guernsey Scheme and Hong Kong Scheme**. We refer to these together as the ‘overseas schemes’. These schemes will be presented to the Royal Court of Jersey, the Royal Court of Guernsey and the High Court of the Hong Kong Special Administrative Region respectively. We are also working with the Jersey Financial Services Commission (JFSC), the Guernsey Financial Services Commission (GFSC) and the Office of the Commissioner of Insurance in Hong Kong (OCI).

The overseas schemes are based on mainly the same terms as the UK **Scheme** and incorporate the terms of the UK **Scheme**. The summary of the **Scheme** in section 8 of this guide and the summary of the **Independent Expert’s report** in section 9 apply equally to the overseas schemes. In terms of the overseas schemes, where we refer to the approval of the **High Court** in section 8.1, you should read this as approval by the Royal Court of Jersey, the Royal Court of Guernsey or the High Court of the Hong Kong Special Administrative Region, as appropriate.

The court hearings for the approval of the overseas schemes are expected to take place as follows.

- **Jersey Scheme:** 9am on 8 February 2011 at the Royal Court of Jersey, Royal Court Building, Royal Square, St Helier, Jersey JE1 1JG.
- **Guernsey Scheme:** at the Royal Court of Guernsey, The Royal Court House, St Peter Port, Guernsey GY1 2PB. The time and date for this court hearing will be made available on our website at www.phoenixlifegroup.co.uk/PALALtransfer as soon as they are confirmed.
- **Hong Kong Scheme:** at the High Court of the Hong Kong Special Administrative Region, High Court Building, 38 Queensway, Hong Kong. The time and date for this court hearing will be made available on our website at www.phoenixlifegroup.co.uk/PALALtransfer as soon as they are confirmed.

If you believe you would be adversely affected by any one of the overseas schemes, you may put your objections to the Royal Court of Jersey, the Royal Court of Guernsey or the High Court of the Hong Kong Special Administrative Region in the following ways.

- You can write to us at the address given in section 10, quoting reference FM10. We will send your objection and our reply to you to the **Independent Expert**, the JFSC, GFSC or OCI (whichever applies) and the relevant court before the hearing. If you have an objection, you should raise it with us as soon as possible and preferably before 24 January 2011.
- You can go to the hearing and present your objection to the relevant court in person.
- A representative can go to the hearing at the relevant court and present your objection on your behalf.

If you or your representative plan to come to the Jersey, Guernsey or Hong Kong court hearing, please write to us at the address given in section 10, quoting reference FM10, ideally before 24 January 2011. If you want to object at a hearing, please outline your objection in your letter so we can send this to the relevant court, the **Independent Expert** and the relevant supervisory organisation before the hearing. By informing us, we will be able to let you know about any changes that may take place to the relevant hearing, for example a change in the time or date. We may also be able to deal directly with any concerns you have.

If you do write to us, it would help if you could please quote your client ID. You will find this at the top of the letter accompanying this pack.

If the Royal Court of Jersey, the Royal Court of Guernsey and the High Court of the Hong Kong Special Administrative Region approve the overseas schemes, transfers will take place in line with these schemes from the **transfer date**, or a later date if the relevant courts order this.

The UK tax status of **PALAL** policies for Jersey, Guernsey and Hong Kong policyholders does not change as a result of the **Scheme** taking place. There will also be no change in the Jersey, Guernsey or Hong Kong tax status of **PALAL** policies as a result of this **Scheme** taking place.

If, for any reason, the overseas schemes are not approved by the **transfer date**, the policies that would have been transferred in line with those schemes will be **reinsured to Phoenix**, although they will remain with **PALAL**. Whether the UK **Scheme** is approved does not depend on the overseas schemes also being approved.

More information

You can see or obtain copies of the overseas schemes and the full **Independent Expert's report**. They are available for inspection or collection during office hours from our solicitors as shown below. They are also available from our website at www.phoenixlifegroup.co.uk/PALALtransfer or by calling our helpline on 0845 070 4060, or +44 (0)151 255 5164 if you are calling from overseas.

Jersey Scheme - at the office of Mourant Ozannes, 22 Grenville Street, St Helier, Jersey JE4 8PX, up to the date of the Jersey court hearing.

Guernsey Scheme - at the office of Mourant Ozannes, 1 Le Marchant Street, St Peter Port, Guernsey GY1 4HP, up to the date of the Guernsey court hearing.

Hong Kong Scheme - at the office of Slaughter and May, 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong, up to the date of the Hong Kong court hearing.

Please ask our solicitor to allow you to inspect or collect copies of the documents, which are available for no charge.

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Appendix 2

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT

IN THE MATTER OF PHOENIX & LONDON ASSURANCE LIMITED

- and -

IN THE MATTER OF PHOENIX LIFE LIMITED

- and -

IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

Notice is hereby given that on 22 October 2010 an Application was made under section 107 of the Financial Services and Markets Act 2000 (the '**Act**') in the High Court of Justice, Chancery Division, Companies Court in London by Phoenix & London Assurance Limited ('**PALAL**') and Phoenix Life Limited ('**Phoenix**') for Orders:

- (i) under section 111 of the Act sanctioning a scheme (the '**Scheme**') providing for the transfer to Phoenix of the entire insurance business carried on by PALAL; and
- (ii) making ancillary provision in connection with the Scheme pursuant to sections 112 and 112A of the Act.

A copy of the report on the terms of the Scheme prepared by an Independent Expert in accordance with section 109 of the Act (the '**Scheme Report**'), Scheme guides containing a statement setting out the terms of the Scheme and a summary of the Scheme Report, and the Scheme document may be obtained free of charge by contacting PALAL or Phoenix (as appropriate) using the telephone number or address set out below. These documents and other related documents (including actuarial reports and sample copies of the communications to policyholders) are available on the website of Phoenix at www.phoenixlifegroup.co.uk/PALALtransfer

Any questions or concerns relating to the proposed transfer should be referred to PALAL or Phoenix (as appropriate) using the telephone number or address as follows:

Phoenix Life Limited and Phoenix & London Assurance Limited
Restructure Team (reference FM10)
PO Box 30
LIVERPOOL
L69 3HS
United Kingdom

Telephone: 0845 070 4060 or if phoning from overseas, +44 (0)151 255 5164.

If you have a policy with PALAL or Phoenix, please quote your policy number in any correspondence. This can be found on your policy documents or annual statement.

The Application is due to be heard at the Royal Courts of Justice, Strand, London WC2A 2LL on 2 February 2011. Any person (including any employee of PALAL or Phoenix) who thinks that he or she would be adversely affected by the carrying out of the Scheme may attend the hearing and express their views, either in person or by legal representative. Anyone intending to do so is asked to inform PALAL or Phoenix at the address provided above or the Solicitors named below in writing as soon as possible and preferably before 24 January 2011 setting out their grounds of objection.

Any person who objects to the Scheme but does not intend to attend the hearing may make representations about the Scheme by giving written notice of such representations to PALAL or Phoenix (as appropriate) or to the Solicitors named below in writing as soon as possible and preferably before 24 January 2011.

Dated October 2010

Slaughter and May
One Bunhill Row
London EC1Y 8YY
Ref: OAW/WOH

Solicitors to PALAL and Phoenix

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Any more questions about the Scheme?

Please call our helpline on

0845 070 4060

or visit www.phoenixlifegroup.co.uk/PALALtransfer

Lines are open Monday to Friday 9am to 5pm.

Low call rates apply although costs can vary between telecom providers.

If you are calling from overseas, please call +44 (0)151 255 5164.

We may monitor or record calls.

**If you would like this information in large print, in Braille,
or on cassette or CD, please call 0845 070 4060.**

Phoenix

Phoenix Life Limited and Phoenix & London Assurance Limited are authorised and regulated by the Financial Services Authority.

Phoenix Life Limited is registered in England No. 1016269

Phoenix & London Assurance Limited is registered in England No. 894616

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