

IN THE MATTER OF LONDON LIFE LIMITED

- and -

IN THE MATTER OF PEARL ASSURANCE LIMITED

- and -

IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

SCHEME

for the transfer of the entire long-term insurance business of
London Life Limited

to

Pearl Assurance Limited (to be renamed Phoenix Life Assurance Limited)



Ref: C1/JSR/JSS/CSR/2567526
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PART A - DEFINITIONS AND INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 In this Scheme, unless the subject or context requires otherwise, the following expressions bear the meanings respectively set opposite them:

"Actuary" means the person appointed by the relevant insurer from time to time to perform the "actuarial function", as described in SUP 4.3.13R;

"AMP" means AMP Life Limited, a company incorporated in Australia with Australian Business Number 84 079 300 379, which was formerly known as Australian Mutual Provident Society prior to its demutualisation and reconstruction pursuant to the Australian Mutual Provident Society (Demutualisation and Reconstruction) Act 1997;

"AMP UK Branch Policy" means any Policy on the United Kingdom branch register of AMP as at the LL Scheme Transfer Date which transferred to LL pursuant to the LL Scheme;

"Bailiwick of Guernsey" means the islands of Guernsey, Alderney, Sark, Herm, Jethou, Brecqhou, Burhou and Lihou;

"BLAGAB NP Sub-fund" means the sub-fund bearing that name maintained by Pearl as at the Transfer Date as a sub-fund of the Pearl Long-Term Insurance Fund in accordance with the Section 68 Order;

"Capital Requirements" means, as at the Transfer Date, the higher of:

- (a) the capital resources requirements set out in GENPRU 2.1; and
- (b) the amount determined by the governing body of the relevant entity in accordance with its capital policy;

"Closure Bonus" means the guaranteed increases in benefits (if any) required to be applied to the With-Profits Policies allocated to a WP Fund that is being merged and closed pursuant to paragraph 23, where such With-Profits Policies are being transferred to the Non-Profit Fund or another non-profit sub-fund, in accordance with the scale determined:

- (a) in the case of the LL WP Fund, in paragraph 5 of Part A of Schedule 1;
- (b) in the case of the Pearl WP Fund, in paragraph 3 of Part B of Schedule 1; and
- (c) in the case of the SERP Fund, in paragraph 3 of Part C of Schedule 1;

"COBS" means the New Conduct of Business Sourcebook issued by the FSA;

"Court" means the High Court of Justice in England and Wales;

"CRR" has the meaning given in paragraph 2.1 of Schedule 4;

"CR Amount" means such amount of assets of the Shareholders' Fund of LL as the LL Board, having obtained appropriate actuarial advice, shall determine as sufficient to ensure that LL is able to meet its Capital Requirements immediately following the Transfer Date;

"Effective Date" means 00:02 BST on 1 July 2012, except where it relates to the transfer of (i) any asset falling within paragraph (b) of the definition of Transferred Assets or (ii)

any liability falling within paragraph (b) of the definition of Transferred Liabilities, in which case the Effective Date shall be the date on which that Transferred Asset or Transferred Liability came into the ownership of, or became attributable to, LL;

"Encumbrance" means any mortgage, charge, pledge, security assignment, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, any other encumbrance or security interest of any kind and any other type of preferential arrangement (including title transfer and retention agreements) having a similar effect;

"Excluded Policies" means Policies of LL under which any liability remains unsatisfied or outstanding at the Transfer Date:

- (a) written by LL in the course of carrying on insurance business in the United Kingdom or any other EEA State, in respect of which:
 - (i) for the purpose of paragraph 1(3) of Schedule 12 to FSMA, an EEA State other than the United Kingdom is the State of the commitment; and
 - (ii) the FSA has not, prior to the making of the Order by which the Court sanctions this Scheme, provided the certificate referred to in paragraph 4 of Schedule 12 to FSMA with respect to the relevant EEA State which is the State of the commitment;
- (b) written by LL in an establishment situated in an EEA State other than the United Kingdom, in respect of which the FSA has not prior to the making of the Order by which the Court sanctions this Scheme provided the certificate referred to in paragraph 3 of Schedule 12 to FSMA with respect to the relevant EEA State;
- (c) which are Guernsey Policies (to the extent that and for so long only as the Guernsey Scheme has not yet received the requisite court approval and become operative in accordance with its terms) or Jersey Policies (to the extent that and for so long only as the Jersey Scheme has not yet received the requisite court approval and become operative in accordance with its terms); or
- (d) written by LL in the course of carrying on Long-Term Insurance Business but which are not otherwise capable of being transferred pursuant to FSMA at the Transfer Date,

and any further Policy issued by LL pursuant to the exercise of any right or option under an Excluded Policy, as described in paragraph 6.2;

"Excluded Policies Reassurance Arrangement" means a reinsurance arrangement implemented in respect of Excluded Policies pursuant to and in accordance with paragraph 6.1;

"Financial Year" means each period for which Pearl prepares annual Regulatory Returns;

"FSA" means the Financial Services Authority, or such other governmental, statutory or other authority or authorities as shall from time to time carry out all or any of such functions in relation to Long-Term Insurance Business carried on in the United Kingdom as were at the date of this Scheme allocated to the Financial Services Authority under FSMA;

"FSA Rules" means the rules and guidance issued by the FSA pursuant to Part X of FSMA from time to time, including any successor rules, guidance or legislation;

"FSMA" means the Financial Services and Markets Act 2000;

"Fund" means the Non-Profit Fund, each WP Fund or any other sub-fund of the Pearl Long-Term Insurance Fund established in accordance with this Scheme;

"GENPRU" means the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms issued by the FSA;

"Group" means:

- (a) Pearl;
- (b) its holding companies from time to time;
- (c) its subsidiaries from time to time; and
- (d) the subsidiaries from time to time of any such holding company,

and **"Group Company"** means any such entity;

"Group Reassurance Agreement" means the reinsurance agreement between LL and Pearl with an effective date of 1 July 1999 in respect of certain "Secure Pension Plus" policies issued by LL, which is referred to as INT13 by LL and Pearl;

"Guernsey Business" means the long-term insurance business carried on (as such expression is interpreted for the purpose of the Insurance Business (Bailiwick of Guernsey) Law 2002) by LL at the Guernsey Transfer Date in the Bailiwick of Guernsey;

"Guernsey Effective Date" has the meaning given in the Guernsey Scheme;

"Guernsey Policy" means a Policy under which any liability remains unsatisfied at the Guernsey Transfer Date which forms part of the Guernsey Business and which the Royal Court of Guernsey has jurisdiction to transfer pursuant to section 44(1) of the Insurance Business (Bailiwick of Guernsey) Law 2002;

"Guernsey Scheme" means the scheme of transfer referred to in paragraph 2.5(a);

"Guernsey Transfer Date" means the time and date on which the Guernsey Scheme becomes operative in accordance with its terms;

"Hybrid Policies" means any policies under the terms of which the holder is entitled to switch between with-profits and unit-linked benefits;

"hypothecated" or **"hypothecation"** means (a) allocating (notionally or physically and whether in whole or in part) assets of a WP Fund to Policies, particular Policies or specific groups of Policies in the relevant WP Fund as appropriate on whatever basis is considered appropriate (whether by reference to the maturity of the relevant Policies, guarantees or otherwise) with the return allocated to asset shares of those Policies being related to the return of the assets allocated to that group of Policies and/or (b) allocating (notionally or physically and whether in whole or in part) assets of the relevant WP Fund to liabilities in respect of the relevant WP Fund other than asset shares on whatever basis is considered appropriate with none of the return of those assets being directly allocated to asset shares and/or (c) allocating (notionally or physically and whether in whole or in part) assets as surplus assets in any estate of a WP Fund to the estate with none of the return of those assets being directly allocated to asset shares;

"ICA" has the meaning given in paragraph 2.2 of Schedule 4;

"**ICG**" has the meaning given in the FSA Rules in force as at the Transfer Date;

"**INSPRU**" means the Prudential Sourcebook for Insurers issued by the FSA;

"**IPRU(INS)**" means the Interim Prudential Sourcebook for Insurers issued by the FSA;

"**Jersey Business**" means the long-term insurance business carried on (as such expression is interpreted for the purpose of the Insurance Business (Jersey) Law 1996) by LL at the Jersey Transfer Date in or from within Jersey;

"**Jersey Effective Date**" has the meaning given in the Jersey Scheme;

"**Jersey Policy**" means a Policy under which any liability remains unsatisfied at the Jersey Transfer Date which forms part of the Jersey Business and which the Royal Court of Jersey has jurisdiction to transfer pursuant to Article 27 of, and Schedule 2 to, the Insurance Business (Jersey) Law 1996;

"**Jersey Scheme**" means the scheme of transfer referred to in paragraph 2.5(b);

"**Jersey Transfer Date**" means the time and date on which the Jersey Scheme becomes operative in accordance with its terms;

"**Linked Fund**" means an internal linked fund maintained by LL prior to the Transfer Date or by Pearl prior to or following the Transfer Date for the purpose of calculating benefits payable under Linked Policies (including such a fund maintained for the purpose of calculating benefits linked to the value of external unit trusts);

"**Linked Policies**" means Policies under which the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the Policies) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified);

"**LL**" means London Life Limited, a company incorporated in England and Wales with registered number 1179800;

"**LLAL**" means The London Life Association Limited, a company incorporated in England and Wales with registered number 41503;

"**LL Board**" means the board of directors of LL from time to time;

"**LL Contingent Loan Agreement**" means the contingent loan agreement between PGH2 and LL dated 31 December 2006;

"**LL Contingent Loan Amount**" means the total amount of interest and principal owing to PGH2 as at the Transfer Date under the LL Contingent Loan Agreement (such amount being £216 million as at 30 June 2012);

"**LL Contingent Loan Assets**" means assets selected by the LL Board from the Old LL Life Non-Profit Fund, the Old LL Pensions Non-Profit Fund and the Old LL Pensions With-Profits Fund immediately prior to the Transfer Date with a value equal, in the opinion of the LL Board and the Pearl Board (having each obtained appropriate actuarial advice), to the LL Contingent Loan Amount;

"**LL Contingent Loan Repayment Date**" means 00:01 BST on 1 July 2012, being the time and date on which repayment of the LL Contingent Loan Agreement pursuant to paragraph 14.1 shall become effective as between LL and PGH2, including, without prejudice to the generality of the foregoing, for accounting purposes;

"LLF Policies" means all Policies:

- (a) written by LLAL and transferred to AMP pursuant to the London Life Association Scheme; and
- (b) written by AMP following the London Life Association Scheme Transfer Date which were classified by AMP as part of the "London Life Fund",

which transferred to LL pursuant to the LL Scheme;

"LL Hybrid Policies" means:

- (a) all Policies written by LL prior to the LL Scheme Transfer Date that were not Policies issued to the trustees of a pension scheme for the purpose of providing benefits in retirement (where such benefits were not ascribed to individual members of that pension scheme); and
- (b) all LLF Policies,

which are Hybrid Policies;

"LL Long-Term Insurance Fund" means the Long-Term Insurance Fund of LL;

"LL Scheme" means the scheme approved by order of the Court dated 2 September 1997 providing for the transfer of part of the Long-Term Insurance Business of AMP to LL;

"LL Scheme Transfer Date" means the time and date on which the LL Scheme became effective, being 13.01 GMT on 31 December 1997;

"LL WP Asset Shares" means the asset shares of LL With-Profits Policies determined in accordance with the PPFM of LL in force immediately prior to the Transfer Date;

"LL WP Fund" means the with-profits fund bearing the name "London Life With-Profits Fund" to be established by Pearl with effect from the Effective Date as a sub-fund of the Pearl Long-Term Insurance Fund;

"London Life Association Scheme" means the scheme approved by order of the Court dated 21 February 1989 providing for the transfer of the Long-Term Insurance Business of LLAL to AMP;

"London Life Association Scheme Transfer Date" means the date on which the London Life Association Scheme became effective, being 31 March 1989;

"Long-Term Insurance Business" means the business of effecting or carrying out long-term insurance contracts as principal, being contracts falling within Part II of Schedule 1 to the RAO;

"Long-Term Insurance Fund" means the fund, or each of the funds, established and maintained by LL or Pearl (as the context requires) pursuant to INSPRU 1.5.22R in respect of Long-Term Insurance Business;

"LTICR" has the meaning given in paragraph 2.1 of Schedule 4;

"National Provident Life Fund" means the fund bearing that name maintained by NPLL as at the Transfer Date within the Long-Term Insurance Fund of NPLL in accordance with the NPLL Scheme;

"Non-Profit Fund" means the non-profit fund bearing the name "Non-Profit Fund" to be created by Pearl with effect from the Effective Date as a sub-fund of the Pearl Long Term Insurance Fund through the merger of the BLAGAB NP Sub-fund and the Pensions NP Sub-fund;

"Non-Profit Policy" means a Policy falling within Part II of Schedule 1 to the RAO that is not a With-Profits Policy;

"NPI" means National Provident Institution, a company incorporated under the National Provident Institution Act 1987;

"NPLL" means National Provident Life Limited, a company incorporated in England and Wales with registered number 3641947;

"NPLL Scheme" means the scheme approved by order of the Court dated 7 October 1999 and amended by order of the Court dated 9 February 2010 providing for the transfer of the whole of the Long-Term Insurance Business of NPI to NPLL;

"Old LL Life Non-Profit Fund" means the sub-fund bearing the name "Life Non-Profit Fund" maintained by LL as at the Transfer Date as a sub-fund of the LL Long-Term Insurance Fund in accordance with the LL Scheme;

"Old LL Life With-Profits Fund" means the sub-fund bearing the name "Life With-Profits Fund" maintained by LL as at the Transfer Date as a sub-fund of the LL Long-Term Insurance Fund in accordance with the LL Scheme;

"Old LL Pensions Non-Profit Fund" means the sub-fund bearing the name "Pension Non-Profit Fund" maintained by LL as at the Transfer Date as a sub-fund of the LL Long-Term Insurance Fund in accordance with the LL Scheme;

"Old LL Pensions With-Profits Fund" means the sub-fund bearing the name "Pension With-Profits Fund" maintained by LL as at the Transfer Date as a sub-fund of the LL Long-Term Insurance Fund in accordance with the LL Scheme;

"Order" means an order made by the Court pursuant to section 111 of FSMA sanctioning this Scheme and any order (including any subsequent order) in relation to this Scheme made by the Court pursuant to section 112 of FSMA;

"Pacific Fund" means the Shareholder Attributable Assets (as defined in the Section 68 Order) held by Pearl within the BLAGAB NP Sub-fund;

"Pearl" means Pearl Assurance Limited, a company incorporated in England and Wales with registered number 1419, which is to change its name to Phoenix Life Assurance Limited on or around the Transfer Date;

"Pearl Actuary" means the Actuary of Pearl;

"Pearl Board" means the board of directors of Pearl from time to time;

"Pearl Capital Policy" or **"PCP"** means the Pearl capital policy (under which Pearl intends to hold amounts of capital in excess of liabilities) as set out in Schedule 4 (as amended or adjusted in accordance with the provisions of Schedule 4);

"Pearl Long-Term Insurance Fund" means the Long-Term Insurance Fund of Pearl;

"Pearl Scheme" means the document annexed to the Section 68 Order (which, for the avoidance of doubt, is not a scheme approved by order of the Court) under which the

entitlement to part of the assets of the Pearl Long-Term Insurance Fund then identified as being undistributed to either policyholders or shareholders was clarified and provision was made as to the ongoing management of the Pearl Long-Term Insurance Fund;

"Pearl SERP Capital Funds" means the Pearl SERP Loan Capital Fund and the Pearl SERP Transfer Capital Fund, as such terms are defined in the Pearl SERP Scheme;

"Pearl SERP Scheme" means the scheme approved by order of the Court dated 9 February 2010 providing for the transfer to Pearl of part of the Long-Term Insurance Business of NPLL;

"Pearl Shareholders' Fund" means the Shareholders' Fund of Pearl;

"Pearl With-Profits Committee" means the committee of the Pearl Board bearing that name and established in accordance with COBS 20.3.2 to support the Pearl Board in discharging its governance responsibilities in relation to compliance with the Pearl PPFM and to supervise the WP Funds;

"Pearl WP Fund" means the fund bearing the name "90:10 Fund" maintained by Pearl as at the Transfer Date as a sub-fund of the Pearl Long-Term Insurance Fund, which shall be renamed the "Pearl With-Profits Fund" with effect from the Transfer Date;

"Pensions NP Sub-fund" means the sub-fund bearing that name maintained by Pearl as at the Transfer Date as a sub-fund of the Pearl Long-Term Insurance Fund in accordance with the Section 68 Order;

"PGH2" means Pearl Group Holdings (No. 2) Limited, a company incorporated in England and Wales with registered number 5282342;

"Policy" has the meaning set out in the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361);

"PPFM" means, as required by COBS, the Principles and Practices of Financial Management prepared and issued from time to time by Pearl in respect of the relevant Fund or by LL (as the case may be);

"Proceedings" means any claim, counterclaim, complaint, petition, suit, appeal or other legal process (including any application), whether intended to have interim or final legal effect in relation to its subject matter, before any court, governmental authority, regulatory authority, tribunal, arbitration panel, ombudsman or other body subsisting or empowered by law or regulation or by the provisions of an agreement;

"RAO" means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544);

"Records" means all documents, files and other records, whether in physical or electronic form, relating to the Transferred Policies, the Transferred Assets, the Residual Assets, the Transferred Liabilities and the Residual Liabilities which are in the possession of, or under the control of, LL;

"Regulatory Returns" means the returns to the FSA required by Chapter 9, and in particular Rule 9.6, of IPRU(INS) (or any replacement of such returns);

"Relevant Amount" has the meaning given in paragraph 2 of Schedule 2;

"Relevant With-Profits Fund" has the meaning given in paragraph 23.1;

"Relevant With-Profits Fund Closure Date" means the date determined by the Pearl Board, having obtained appropriate actuarial advice, in accordance with paragraph 23.3;

"Relevant Year" has the meaning given in paragraph 1 of Schedule 2;

"Residual Assets" means:

- (a) any property of LL attributable to the Transferred Business (including any right, benefit or power of LL under any Transferred Policy) in respect of which the Court has declined to order the transfer to Pearl under section 112(2) of FSMA at the Transfer Date;
- (b) any other property of LL attributable to the Transferred Business (including any right or benefit under a Transferred Policy) where LL and Pearl agree prior to the Transfer Date that its transfer should be delayed or should not be transferred at all;
- (c) any property of LL attributable to the Transferred Business which is outside the jurisdiction of the Court or in respect of which the transfer pursuant to an order of the Court is not recognised by the laws of the jurisdiction in which the property is situated;
- (d) any property of LL attributable to the Transferred Business which cannot be transferred to or vested in Pearl on the Transfer Date for any other reason;
- (e) assets representing the CR Amount; and
- (f) any proceeds of sale or income or other accrual or return whatsoever, whether or not in any case in the form of cash, or any other property or rights earned or received from time to time after the Transfer Date but prior to any relevant Subsequent Transfer Date in respect of any such property referred to in paragraphs (a) to (e) of this definition;

"Residual Liability" means any liability whatsoever of LL that is attributable to, or connected with, the Transferred Business (other than any liability or obligation under an Excluded Policy):

- (a) that is attributable to or connected with a Residual Asset and arises at any time before the Subsequent Transfer Date applicable to that Residual Asset, including any liability to taxation; or
- (b) in respect of which the Court has declined to order the transfer to Pearl under section 112(2) of FSMA on the Transfer Date; or
- (c) that cannot be transferred to or vested in Pearl for any other reason on the Transfer Date;

"RPI" means the Retail Price Index maintained by the Office for National Statistics or such substantially equivalent index as the Pearl Board, having obtained appropriate actuarial advice, may substitute;

"Scheme" means this scheme made pursuant to Part VII of FSMA in its original form or with or subject to any modification, addition or condition which may be approved or imposed in accordance with paragraph 40;

"Scheme PFM" means, as the context requires, any or all of the Scheme Principles for the Financial Management of the LL WP Fund, the Scheme Principles for the Financial Management of the Pearl WP Fund and the Scheme Principles for the Financial Management of the SERP Fund;

"Scheme Principles for the Financial Management of the LL WP Fund" means those principles for the financial management of the LL WP Fund set out in Part A of Schedule 1;

"Scheme Principles for the Financial Management of the Pearl WP Fund" means those principles for the financial management of the Pearl WP Fund set out in Part B of Schedule 1;

"Scheme Principles for the Financial Management of the SERP Fund" means those principles for the financial management of the SERP Fund set out in Part C of Schedule 1;

"Section 68 Order" means the order made by the Secretary of State for Trade and Industry dated 13 September 1996 pursuant to section 68 of the Insurance Companies Act 1982 in relation to the Pearl Scheme under which, for the purposes of section 30(1) of the Insurance Companies Act 1982 (which was subsequently replaced by IPRU(INS) 3.3(1)), any application or transfer of assets in connection with the implementation or operation of the Pearl Scheme is not treated as being an application or transfer of assets representing any part of an established surplus referred to in section 30(1) of the Insurance Companies Act 1982;

"SERP Fund" means the fund bearing the name "Pearl SERP Fund" maintained by Pearl as at the Transfer Date as a sub-fund of the Pearl Long-Term Insurance Fund in accordance with the Pearl SERP Scheme, which shall be renamed the "SERP Fund" with effect from the Transfer Date;

"SERP Fund Charges" has the meaning given in paragraph 1 of Schedule 3;

"Shareholders' Fund" means the fund established by LL or Pearl (as the context may require) which is referred to as the shareholders' fund of the relevant company and to which is attributable the business, undertaking and associated activities not attributable to the Long-Term Insurance Fund or Long-Term Insurance Funds of the relevant company;

"Solvency II" means the Solvency II Directive (2009/138/EC), any regulation, directive, enactment, statutory provision or other legislation implementing that directive and any associated or consequential amendments or changes to FSA Rules;

"Subsequent Transfer Date" means, in relation to any Residual Asset or Residual Liability, the date (and each date) after the Transfer Date on which such Residual Asset or Residual Liability is or is to be transferred to Pearl, namely:

- (a) in respect of any Residual Asset falling within paragraph (a), (c) or (d) of the definition of Residual Assets, and of any Residual Liability which is attributable to or connected with that Residual Asset or which falls within paragraph (b) or (c) of the definition of Residual Liability, the date on which any impediment to its transfer shall have been removed or overcome;
- (b) in respect of any Residual Asset falling within paragraph (b) or (f) of the definition of Residual Assets and of any Residual Liability which is attributable to or connected with that Residual Asset, the date on which LL and Pearl agree the transfer should take effect; and

- (c) in respect of any assets representing the CR Amount, the date on which, in the opinion of the LL Board, having obtained appropriate actuarial advice, such assets (or part thereof) are no longer required to be retained in LL in order for LL to be able to meet its Capital Requirements;

"**SUP**" means the Supervision Manual issued by the FSA;

"**taxation**" means all forms of tax, duty, rate, levy, charge or other imposition or withholding whenever and by whatever authority imposed and whether of the United Kingdom or elsewhere, including income tax (including income tax or amounts equivalent to or in respect of income tax required to be deducted or withheld from or accounted for in respect of any payment), corporation tax, advance corporation tax, capital gains tax, inheritance tax, VAT, customs duties, excise duties, stamp duty, stamp duty reserve tax, stamp duty land tax, national insurance and other similar contributions, and any other taxes, duties, rates, levies, charges, imposts or withholdings corresponding to, similar to, replaced by or replacing any of them, together with any interest, penalty, surcharge or fine in connection with such taxation or in connection with the failure to file any return for the purposes of any taxation;

"**Total Retrospective Reserve**" means the total retrospective reserve calculated in accordance with INSPRU 1.3.118 to 1.3.127 (inclusive) or such other concept that Pearl may use for the same purpose from time to time;

"**Transfer Date**" means the time and date on which this Scheme becomes operative in accordance with paragraph 39.1;

"**Transferred Assets**" means all and any property of LL whatsoever and wheresoever situated comprised in or attributable to the Transferred Business:

- (a) as at the Effective Date including:
- (i) the rights, benefits and powers of LL under or by virtue of the Transferred Policies;
 - (ii) the Records, including all rights, title and interest of LL in the Records;
 - (iii) any assets relating to taxation;
 - (iv) all rights and claims (present or future, actual or contingent) against any third party in relation to the Transferred Business or arising as a result of LL having carried on the Transferred Business;
 - (v) the rights, benefits and powers of LL under any reinsurance agreements or arrangements in respect of the Transferred Business, including any assets held by LL under the terms of a reinsurance agreement or arrangement by way of premium or otherwise; and
 - (vi) all property attributable to the Excluded Policies (except if and for so long as such property constitutes a Residual Asset); and
- (b) at any time between the Effective Date and the Transfer Date which was not property of LL at 00:02 BST on 1 July 2012 but which would have fallen within paragraph (a) of this definition of Transferred Assets had it been property of LL at that time,

but excluding: (1) the Residual Assets; and (2) any rights, benefits and powers under or relating to the Excluded Policies or the Excluded Policies Reassurance Arrangement;

"Transferred Business" means the whole business, undertaking and associated activities of LL carried on at the Transfer Date, including the business, undertaking and associated activities attributable to the Shareholders' Fund of LL, but excluding the Excluded Policies;

"Transferred Liabilities" means all and any liabilities whatsoever of LL comprised in or attributable to the Transferred Business or arising in connection with or in relation to that business:

- (a) as at the Effective Date, including:
 - (i) all liabilities under the Transferred Policies;
 - (ii) all liabilities under any reassurance agreements or arrangements in respect of the Transferred Business; and
 - (iii) any liability to taxation of LL attributable to the Transferred Business or to the transfer of any such business; and
- (b) at any time between the Effective Date and the Transfer Date which were not liabilities of LL at 00:02 BST on 1 July 2012 but which would have fallen within paragraph (a) of this definition of Transferred Liabilities had they been liabilities of LL at that time,

but excluding: (1) the Residual Liabilities; and (2) any liabilities under or relating to the Excluded Policies or the Excluded Policies Reassurance Arrangement;

"Transferred Policies" means every Policy written by LL:

- (a) under which any liability remains unsatisfied or outstanding at the Effective Date and comprised in the Transferred Business, including:
 - (i) Policies written by LL which have lapsed on or before the Effective Date and which are reinstated by Pearl;
 - (ii) all proposals for insurance received by or on behalf of LL before the Effective Date which have not become Policies in force by the Effective Date but which subsequently become Policies; and
 - (iii) subject to paragraph 2.4, the Guernsey Policies (with effect from the Guernsey Effective Date only) and the Jersey Policies (with effect from the Jersey Effective Date only); and
- (b) at any time between the Effective Date and the Transfer Date which were not policies of LL at 00:02 BST on 1 July 2012 but which would have fallen within part (a) of this definition of Transferred Policies had they been policies of LL at that time,

but excluding the Excluded Policies;

"UL Investment Element" means, as the context may require:

- (a) such part or amount of any premium; or

- (b) any amount derived from a Policy (as determined by the Pearl Actuary in accordance with the relevant Policy terms) by reason of a UL Switch,

in each case to be transferred to the appropriate Linked Fund(s) in exchange for UL Units;

"UL Switch" means any transaction effected by the holder of any Policy pursuant to which UL Units are allocated to such Policy and the entitlement of the Policy to participate in profits is reduced or extinguished;

"UL Units" means notional units whose value or number varies by reference to the value of a Linked Fund for the purposes of calculating benefits payable under Linked Policies;

"VAT" means, within the EEA, such tax as may be levied in accordance with (but subject to derogations from) the Directive 77/388/EEC and, outside the EEA, any taxation levied by reference to added value or sales but for the avoidance of doubt any tax levied on capital, and any stamp duty or similar taxes, are excluded from this definition;

"With-Profits Policy" means a Policy falling within Part II of Schedule 1 to the RAO which confers on the holder a right to share in surplus (including a Policy under which either benefits provided or the contributions required to be made may vary by reference to bonuses declared on that Policy);

"WP Actuary" means the person or persons appointed by Pearl or LL or a Group Company (as the context requires) from time to time to perform the "with-profits actuary function", as set out in SUP 4.3.16AR, in respect of the relevant with-profits fund or funds;

"WP Fund" means each of the LL WP Fund, the SERP Fund, the Pearl WP Fund and any other with-profits sub-fund of the Pearl Long-Term Insurance Fund established pursuant to paragraph 20.3; and

"WPICC" has the meaning given in paragraph 2.1 of Schedule 4.

1.2 In this Scheme:

- (a) **"property"** includes property (including real property and charges registered at the Land Registry within England and Wales and at the Registers of Scotland in Scotland and elsewhere and unregistered real property and charges), assets, cash, Encumbrances, causes of action, rights (including contingent rights as to the repayment of tax) and powers of every description (whether present or future, actual or contingent) and includes property held on trust and securities, benefits, income or interest accrued but unpaid, powers of any description and any interest whatsoever in any of the foregoing;
- (b) **"liabilities"** includes duties and obligations of every description (whether present or future, actual or contingent);
- (c) **"transfer"** includes (as the context may require) "assign", "assignation" or "assignment", "dispose" or "disposal", or "convey" or "conveyance";
- (d) any reference to the singular shall include a reference to the plural and vice versa and any reference to the masculine shall include a reference to the feminine and neuter and vice versa;
- (e) any reference in this Scheme to an enactment, a statutory provision or any subordinate legislation shall be deemed to include a reference to that enactment, statutory provision or subordinate legislation as amended, replaced or re-enacted

from time to time and to any instrument or order made from time to time under such enactment, statutory provision or subordinate legislation;

- (f) except where expressly stated otherwise, any reference to any rules or regulations issued by the FSA shall be deemed to include a reference to such rules or regulations as amended or replaced from time to time, and any reference to any provision of the Handbook of rules and guidance issued by the FSA which is not in force at the date of this Scheme but will be in force by the Transfer Date shall, in respect of the period before it comes into force, be deemed to include a reference to such rules or regulations issued by the FSA as most closely corresponded to that provision at the date of this Scheme;
- (g) expressions used in this Scheme which have meanings under FSMA shall bear those meanings, including:
 - (i) "**State of the commitment**", which bears the meaning set out in paragraph 6, Part I of Schedule 12 to FSMA; and
 - (ii) "**EEA State**", which bears the meaning set out in paragraph 8, Part I of Schedule 3 to FSMA;
- (h) the expressions "**holding company**" and "**subsidiary**" shall have the same meanings as in the Companies Act 2006;
- (i) any reference to this Scheme shall include the Schedules to it and references to paragraphs, Parts or Schedules are to paragraphs or Parts of or Schedules to this Scheme;
- (j) headings are inserted for convenience only and shall not affect the construction of this Scheme;
- (k) any reference to a person shall include a reference to a body corporate, a partnership, an unincorporated association or to a person's executors or administrators, and for the avoidance of doubt, shall include a trustee;
- (l) if a period of time is specified from a given day or date or from the day or date of an actual event, it shall be calculated exclusive of that day or date;
- (m) any reference to writing shall include any modes of reproducing words in a legible and non-transitory form;
- (n) any reference to a calculation, decision, determination or opinion of any of the Pearl Board or the Pearl With-Profits Committee or the LL Board (or any similar expression) shall be deemed to include a calculation, decision, determination or opinion of a duly constituted committee or duly authorised representative of the Pearl Board or the Pearl With-Profits Committee or the LL Board (as appropriate);
- (o) a reference to "**including**" or "**includes**" means including or includes without limitation;
- (p) the expression "**variation**" shall include any variation, supplement, deletion, replacement or termination, however effected;
- (q) any reference to an amount shall be exclusive of any applicable value added or other tax;

- (r) any reference to pounds or £ shall be to pounds sterling or £ sterling in the currency of the United Kingdom;
- (s) any reference to reinsurance shall include, where applicable, arrangements between any two Funds or sub-funds of a single company equivalent to reinsurance;
- (t) any reference to a policy being "**written by**" an insurer shall include a reference to any policies written by another insurer which have been transferred or novated to that insurer; and
- (u) any reference to policyholders' reasonable expectations includes the reasonable expectations of with-profits policyholders as to the security of their policy benefits.

PART B - INTRODUCTION

2. INTRODUCTION

- 2.1 LL is a company incorporated in England and Wales with registered number 1179800. The registered office of LL is at 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. LL has a Part IV permission under FSMA to carry on Long-Term Insurance Business in the United Kingdom in classes I, II, III, IV, VI and VII set out in Part II of Schedule 1 to the RAO.
- 2.2 Pearl is a company incorporated in England and Wales with registered number 1419. The registered office of Pearl is at 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. Pearl has a Part IV permission under FSMA to carry on Long-Term Insurance Business in the United Kingdom in classes I, II, III, IV, VI and VII set out in Part II of Schedule 1 to the RAO.
- 2.3 The purpose of this Scheme is to effect the transfer to Pearl, subject to the terms of this Scheme, of the entire long-term insurance business of LL.
- 2.4 Surplus arising in the Old LL Life With-Profits Fund and the Old LL Pensions With-Profits Fund is allocated to eligible with-profits policyholders and LL's shareholders on a 90:10 basis. It is proposed, as part of the transfer, that Policies within the Old LL Life With-Profits Fund and the Old LL Pensions With-Profits Fund will be transferred to the LL WP Fund to be established within the Pearl Long-Term Insurance Fund and that surplus arising in the LL WP Fund will be allocated 100 per cent. to eligible with-profits policyholders.
- 2.5 It is also proposed that:
- (a) the transfer of the Guernsey Policies to Pearl shall only take place to the extent that the transfer of such Policies to Pearl by the Guernsey Scheme has been approved by the Royal Court of Guernsey and has become operative and effective; and
 - (b) the transfer of the Jersey Policies to Pearl shall only take place to the extent that the transfer of such Policies to Pearl by the Jersey Scheme has been approved by the Royal Court of Jersey and has become operative and effective,
- and that, if and to the extent that the Guernsey Transfer Date or the Jersey Transfer Date (as the case may be) does not fall on or before the Transfer Date, the Guernsey Policies and/or the Jersey Policies (as the case may be) shall be reassured to Pearl on the terms set out in the Excluded Policies Reassurance Arrangement until the Guernsey Transfer Date or the Jersey Transfer Date (as the case may be).
- 2.6 PGH2 has agreed to appear by Counsel at the hearing of the Part 8 Claim Form seeking the sanction by the Court of this Scheme and will undertake to be bound thereby.
- 2.7 The FSA has agreed that, subject to the Court sanctioning this Scheme, the Section 68 Order will cease to have effect on the Transfer Date.
- 2.8 It is further proposed that, on or around the Transfer Date, Pearl will change its name to Phoenix Life Assurance Limited.

PART C - TRANSFER

3. TRANSFER OF BUSINESS

- 3.1 Each part of the Transferred Business, the Residual Assets and the Residual Liabilities shall be transferred to and be vested in Pearl in accordance with this Scheme, so that:
- (a) subject to paragraph 8, on the Transfer Date but with effect from the Effective Date, each Transferred Asset and all the interest of LL in it shall, by the Order and without any further act or instrument, be transferred to and be vested in Pearl, subject to all Encumbrances (if any) affecting such asset, in accordance with this Scheme;
 - (b) subject to paragraph 8, on and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies and all the interest of LL in it shall, by the Order and without any further act or instrument, be transferred to and be vested in Pearl, subject to all Encumbrances (if any) affecting such asset, in accordance with this Scheme;
 - (c) on the Transfer Date but with effect from the Effective Date, each Transferred Liability shall, by the Order and without any further act or instrument, be transferred to and become a liability of Pearl in accordance with this Scheme and shall cease to be a liability of LL; and
 - (d) on and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by the Order and without any further act or instrument, be transferred to and become a liability of Pearl in accordance with this Scheme and shall cease to be a liability of LL.
- 3.2 Pearl shall accept without investigation or requisition such title as LL shall have to the Transferred Assets and, at any Subsequent Transfer Date, to each Residual Asset then transferred.
- 3.3 The Transferred Assets, Residual Assets, Transferred Liabilities and Residual Liabilities shall be allocated in accordance with Part D.
- 3.4 On the Transfer Date but with effect from the Effective Date, Pearl shall:
- (a) succeed to all rights, liabilities and obligations of LL in respect of any personal data which relates to the Transferred Business and which is subject to the Data Protection Act 1998;
 - (b) become the data controller of any personal data which relates to the Transferred Business and which is subject to the Data Protection Act 1998 in place of LL and shall be deemed to have been the controller of all such data at all material times when personal data was processed; and
 - (c) in respect of any personal data which relates to the Transferred Business, be under the same duty by virtue of any law as LL was under to respect the confidentiality and privacy of any person in relation to that personal data and shall be bound by any specific notice or consent given, or request made, by the data subject which was binding on LL and which required LL not to use the personal data for marketing purposes,

and in any consent given by a data subject in respect of such data as is mentioned in this paragraph 3.4, any reference to a LL (or to any member of LL's group of companies) shall be deemed to include a reference to Pearl (and to any member of the Group).

4. CONTINUITY OF PROCEEDINGS

- 4.1 On and with effect from the Transfer Date, any Proceedings issued, served, pending, threatened or contemplated in connection with the Transferred Business, the Transferred Policies, the Transferred Assets or the Transferred Liabilities in respect of which LL is a party (including as the plaintiff, claimant, applicant, defendant, respondent, pursuer, defender or petitioner), and including any such Proceedings commenced in error against LL on or after the Transfer Date, shall be continued or (as the case may be) commenced by or against Pearl and Pearl shall be entitled to all defences, claims, counterclaims, settlements, rights of set-off and any other rights that that would have been available to LL in relation to the Transferred Business, the Transferred Policies, the Transferred Assets, the Transferred Liabilities and such Proceedings.
- 4.2 On and with effect from the Subsequent Transfer Date applicable thereto, any Proceedings issued, served, pending, threatened or contemplated in connection with the Residual Assets or the Residual Liabilities which are to be transferred on such Subsequent Transfer Date in respect of which LL is a party (including as the plaintiff, claimant, applicant, defendant, respondent, pursuer, defender or petitioner), and including any such Proceedings commenced in error against LL on or after the relevant Subsequent Transfer Date, shall be continued or (as the case may be) commenced by or against Pearl and Pearl shall be entitled to all defences, claims, counterclaims, settlements, rights of set-off and any other rights that would have been available to LL in relation to the Residual Assets and the Residual Liabilities and such Proceedings. Until such Subsequent Transfer Date, the relevant Proceedings shall be continued by or against LL provided that LL shall consult with Pearl and take account of any reasonable comments made by it in relation to such Proceedings.
- 4.3 Any judgment, settlement, order or award obtained by or against LL to the extent that it relates to any part of the Transferred Business, the Transferred Policies, the Transferred Assets, the Transferred Liabilities, the Residual Assets or the Residual Liabilities and which is not fully satisfied before the Transfer Date or, as the case may be, the applicable Subsequent Transfer Date shall, on that date and to the extent to which it was enforceable by or against LL immediately prior to such date, become enforceable by or against Pearl (to the exclusion of LL).

5. RIGHTS AND OBLIGATIONS IN RELATION TO THE TRANSFERRED BUSINESS

- 5.1 On the Transfer Date but with effect from the Effective Date, Pearl shall become entitled to all the rights, benefits and powers of LL whatsoever subsisting on the Effective Date under or by virtue of the Transferred Policies.
- 5.2 Without prejudice to the generality of paragraph 5.1, where the benefits of any Transferred Policy are held under the terms of a trust, such terms, together with the terms of any rules applicable to any pension scheme in the case of any pension scheme under which benefits are referable to a Transferred Policy, shall operate and be construed on the Transfer Date but with effect from the Effective Date on a basis which is consistent with the transfer of such Transferred Policy in accordance with the provisions of this Scheme. For the avoidance of doubt:
- (a) where the consent of LL is required under any such terms, the consent of Pearl shall, from the Transfer Date, instead be treated as required; and

(b) where a power to appoint trustees under such terms is conferred on LL, that power shall, from the Transfer Date, instead be treated as conferred on Pearl.

5.3 Every person who is a holder of any of the Transferred Policies or is a party to, or has the benefit of, any other agreement with LL relating to the Transferred Business shall, on and with effect from the Transfer Date, become entitled, in succession to, and to the exclusion of, any rights which he may have had against LL under any of the Transferred Policies or any other such agreement relating to the Transferred Business, to the same rights against Pearl (subject to the terms of this Scheme) as were available to him against LL under such Policies or such other agreement relating to the Transferred Business and (as regards Transferred Policies under which premiums or other sums attributable or referable thereto continue to be payable) shall, on and with effect from the Transfer Date, account to Pearl for any further or additional premiums or other sums attributable or referable thereto as and when the same become due and payable.

5.4 If any person entitled to do so with respect to a Transferred Policy exercises any right or option granted under the terms of that Policy and either:

(a) the right or option provides for a new, additional or replacement Policy to be issued; or

(b) it is appropriate in the opinion of the Pearl Board, having obtained the advice of the Pearl Actuary, in order to comply with that right or option to issue a new Policy,

such person shall be entitled to require that the obligation thereby arising shall be satisfied by the issue by Pearl of a Policy which complies with the terms of such right or option, but (without prejudice to the right of such person to have the right or option satisfied by the issue by Pearl of such a Policy) if Pearl is not at the time of the exercise of such right or option writing Policies complying exactly with the Policy to which such right or option refers, Pearl shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) the Policy commonly offered by Pearl which Pearl considers to be the nearest equivalent Policy in accordance with the terms and conditions applicable to Policies of Pearl at that time, provided that the issue of such alternative Policy would not, in the opinion of the Pearl Board (having obtained appropriate advice), result in a liability or in an increase in liability to taxation of the holder of such Policy (or, in the event that such liability or increase in liability would occur, Pearl shall have the option to indemnify the policyholder in full and to issue another Policy pursuant to this paragraph) or otherwise fail to satisfy his reasonable expectations.

5.5 All references relating to the Transferred Business in any Transferred Policy or any other agreement or document (including in a contract to which LL is party, a contract to which LL is not party or elsewhere and whether in writing or not) to LL, the LL Board, its Actuary, its WP Actuary or any other officers, employees or agents of LL shall from and after the Effective Date be read as references to Pearl, the Pearl Board, the Pearl Actuary, the relevant WP Actuary or any other officers, employees or agents of Pearl. In particular, but without limitation, all rights and duties exercisable or expressed to be exercisable or responsibilities to be performed by LL, the LL Board, its Actuary, its WP Actuary or any other officers, employees or agents of LL in relation to any Transferred Policy or other agreement or document relating, in each case, to the Transferred Business (including in a contract to which LL is party, a contract to which LL is not party or elsewhere and whether in writing or not) shall, from and after the Effective Date, be exercisable or required to be performed by Pearl, the Pearl Board, the Pearl Actuary, the relevant WP Actuary or any other officers, employees or agents of Pearl.

- 5.6 The transfer of any rights, benefits, liabilities and obligations under or in connection with any Transferred Policy, Transferred Asset, Residual Asset, Transferred Liability or Residual Liability pursuant to this Scheme shall take effect and shall be valid and binding on all parties having any interest in the same notwithstanding any restriction on transferring, assigning or otherwise dealing with the same and such transfer shall be deemed to take effect on the basis that it does not contravene any such restriction and does not give rise to any right to terminate, modify, acquire or claim an interest or right, or to treat an interest or right as terminated or modified.
- 5.7 Pearl shall, on and from the Transfer Date, take over from LL the administration and negotiation of proposals for insurance which would be Transferred Policies if Pearl determined to accept them (but whether or not Pearl does so determine). Pearl shall bear all expenses and liabilities in relation thereto and any liability in relation to interim death benefits. Nothing contained herein shall oblige Pearl to accept any proposal for insurance received by or on behalf of LL before the Transfer Date but not accepted by LL by then.

6. EXCLUDED POLICIES

6.1 Subject to paragraph 6.3, the Excluded Policies shall not be transferred to Pearl by this Scheme and all liabilities attributable to the Excluded Policies shall remain liabilities of LL and be fully reassured with effect from the Effective Date on the following basis:

- (a) all liabilities of LL attributable to the Excluded Policies shall be reassured in their entirety to Pearl on the Transfer Date but with effect from the Effective Date (or in the case of liabilities arising in respect of any Policy issued by LL pursuant to paragraph 6.2, on and with effect from the date on which such Policy is issued);
- (b) the liability of Pearl on the Transfer Date but with effect from the Effective Date shall be such that the rights, benefits and powers provided to holders of Excluded Policies (including any Policy issued by LL pursuant to paragraph 6.2) shall, to the extent possible, be the same as the rights, benefits and powers which would have been provided to such holders if the Excluded Policies had been Transferred Policies;
- (c) the premiums payable by LL to Pearl in connection with the provision of the reinsurance described in this paragraph 6.1 shall comprise an amount equal to:
 - (i) in respect of Excluded Policies which are Non-Profit Policies, the aggregate amount of the mathematical reserves relating to those Excluded Policies immediately prior to the Effective Date; and
 - (ii) in respect of Excluded Policies which are With-Profits Policies, the aggregate amount of the realistic value of the liabilities relating to those Excluded Policies immediately prior to the Effective Date,

provided that such amounts shall be deemed to have been satisfied by the transfer to Pearl of the appropriate proportion of the Transferred Assets and such assets or property shall be allocated to the Fund to which they would have been allocated had the Excluded Policies been Transferred Policies; and

- (iii) all subsequent premiums received by LL in respect of such Excluded Policies at any time after the Effective Date, which premiums shall be paid to Pearl as soon as practicable after they are received and credited to the Fund to which the Excluded Policies would have been allocated had they been Transferred Policies.

6.2 If any person entitled to do so with respect to an Excluded Policy exercises any right or option granted under the terms of that Policy and either:

- (a) the right or option provides for a new, additional or replacement Policy to be issued; or
- (b) it is appropriate in the opinion of the Pearl Board, having obtained appropriate actuarial advice, in order to comply with that right or option to issue a new Policy,

such person shall be entitled to require that the obligation thereby arising shall be satisfied by the issue by LL of a Policy which complies with the terms of such right or option but (without prejudice to the right of such person to have the right or option satisfied by the issue by LL of such a Policy):

- (i) Pearl shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) a Policy which complies with the terms of such right or option; and
- (ii) if Pearl is not at the time of the exercise of such right or option writing Policies complying exactly with the Policy to which the right or option refers, Pearl shall be entitled to offer to such person as an alternative (and, if accepted, in lieu thereof) the Policy commonly offered by Pearl which Pearl considers to be the nearest equivalent Policy, in accordance with the terms and conditions applicable to Policies of Pearl at that time, provided that the issue of such alternative Policy would not, in the opinion of the Pearl Board (having obtained appropriate advice), result in a liability or in an increase in liability to taxation of the holder of such Policy (or, in the event that such liability or increase in liability would occur, Pearl shall have the option to indemnify the policyholder in full and to issue another Policy pursuant to this paragraph) or otherwise fail to satisfy his reasonable expectations.

6.3 If all consents, orders, permissions or other requirements for the transfer or novation of an Excluded Policy from LL to Pearl are obtained:

- (a) such Excluded Policy shall be transferred to Pearl, and shall thereafter be treated in all respects, as if it were a Transferred Policy and not an Excluded Policy; and
- (b) all property relating to, and any liability attributable to, such Excluded Policy shall be transferred to Pearl and shall thereafter be treated in all respects as if it were a Transferred Asset or a Transferred Liability, as the case may be.

6.4 In accordance with paragraph 6.3:

- (a) Guernsey Policies shall be treated for all purposes of this Scheme as if they were Transferred Policies with effect from the Guernsey Effective Date and shall, on the Guernsey Transfer Date, be transferred to and vested in Pearl by the Order (in addition to any order of the Royal Court of Guernsey) with effect from the Guernsey Effective Date; and
- (b) Jersey Policies shall be treated for all purposes of this Scheme as if they were Transferred Policies with effect from the Jersey Effective Date and shall, on the Jersey Transfer Date, be transferred to and vested in Pearl by the Order (in addition to any order of the Royal Court of Jersey) with effect from the Jersey Effective Date.

7. PREMIUMS, MANDATES AND OTHER PAYMENTS

- 7.1 All premiums attributable or referable to the Transferred Policies shall on and after the Transfer Date be payable to Pearl and shall, on the Transfer Date but with effect from the Effective Date, be receivable and received by Pearl and shall be allocated to the Fund to which the Policy to which they relate is allocated pursuant to paragraph 15.
- 7.2 Any mandate or other instruction in force on the Transfer Date (including any instruction given to a bank by its customer in the form of a direct debit or standing order) and providing for the payment by a banker or other intermediary of premiums payable to LL under or in respect of any of the Transferred Policies shall thereafter take effect as if it had provided for and authorised such payment to Pearl.
- 7.3 Any mandate or other instruction in force on the Transfer Date as to the manner of payment of any sum payable by LL under any of the Transferred Policies shall, on and with effect from the Transfer Date, continue in force as an effective authority to Pearl.

8. DECLARATION OF TRUST BY LL

- 8.1 If:
- (a) any property of LL comprised in or attributable to the Transferred Business is not, or is not capable of being, transferred to and vested in Pearl by the Order on the Transfer Date by reason of such property being a Residual Asset or is outside the jurisdiction of the Court or otherwise; or
 - (b) in any circumstances Pearl shall decide before the Transfer Date (or, in the case of any Residual Asset, before the Subsequent Transfer Date applicable thereto) that it is expedient not to effect a transfer of any property of LL,

then LL shall, from the Transfer Date but with effect from the Effective Date (but save to the extent that giving effect to such a trust would require a consent or waiver which has not been obtained or that such a trust would not be recognised by any applicable law or that LL and Pearl agree not to give effect to such a trust for any reason), hold any property referred to in paragraphs (a) and (b) of this paragraph 8.1, together with any proceeds of sale or income or other right accrued or return arising in respect thereof, as trustee for Pearl.

- 8.2 LL shall be subject to Pearl's directions in respect of any property referred to in paragraph 8.1 from the Transfer Date until the relevant property is transferred to or otherwise vested in Pearl or is disposed of (whereupon LL shall account to Pearl for the proceeds of sale thereof), and Pearl shall have authority to act as the attorney of LL in respect of such property for all such purposes.
- 8.3 In the event of any payment being made to, property being received by, or right being conferred upon LL after the Transfer Date in respect of the Transferred Business, any Transferred Asset, any Residual Asset or any asset referred to in paragraph 8.1, LL shall, as soon as is reasonably practicable after its receipt, pay over the full amount of such payment or (to the extent to which it is able to do so) transfer such property or right to, or in accordance with the directions of, Pearl and Pearl shall indemnify LL on demand against any costs incurred in making any such payment or transfer.
- 8.4 The CR Amount shall only be subject to the provisions of this paragraph 8 insofar as such provisions shall be consistent with LL continuing to satisfy the requirements of GENPRU in relation to its Capital Requirements.

9. INDEMNITIES IN FAVOUR OF LL

9.1 From the Transfer Date but with effect from the Effective Date, Pearl shall discharge on LL's behalf or, failing that, shall indemnify LL against:

- (a) charges, costs and claims arising in respect of all Transferred Liabilities and Residual Liabilities which are not, or are not capable of being, transferred by this Scheme or by a vesting order pursuant to section 112(1) of FSMA (whether made before, on or after the Transfer Date) (other than liabilities which are the subject of paragraph 9.1(b) or paragraph 9.2) until the relevant liability is transferred to or becomes a liability of Pearl; and
- (b) any amount paid by LL in respect of any Transferred Liabilities and Residual Liabilities of LL which are, whether wholly or in part, the subject of a policy of indemnity insurance or a claim or right of recovery against a third party, but only to the extent that LL, having made a claim under such a policy or against such third party, shall have failed to recover any such amount pursuant to rights it may have under such policy, claim or right of recovery (having used reasonable endeavours to do so).

9.2 Pearl shall indemnify LL against any costs and/or expenses which it may incur in pursuing any claim under any such policy of indemnity insurance or against any such third party as is referred to in paragraph 9.1(b). Subject thereto, LL shall take such steps as Pearl shall reasonably require in order to pursue the rights it may have under any such policy of indemnity insurance or against any such third party. Pearl shall be entitled, upon notice to LL, to have conduct of all litigation or other proceedings in respect of any such claim. In that connection, LL shall give all such assistance as Pearl may reasonably require in conducting any such proceedings.

PART D - FUND STRUCTURE

10. PURPOSE OF ALLOCATIONS

Any allocation of property or attribution of liabilities, and any re-allocation or re-attribution of the same, which is made under the terms of this Scheme for the purpose of the maintenance of a WP Fund or the Non-Profit Fund or the Pearl Shareholders' Fund is for the purpose of establishing policyholder entitlements from time to time and shall not be taken to limit the availability of all the property from time to time of Pearl to meet the liabilities which it is obliged by law to meet.

11. ESTABLISHMENT OF NEW PEARL SUB-FUND

On the Transfer Date but with effect from the Effective Date, Pearl shall establish the LL WP Fund as a separate with-profits sub-fund of the Pearl Long-Term Insurance Fund.

12. TREATMENT OF EXISTING PEARL SUB-FUNDS

12.1 On the Transfer Date but with effect from the Effective Date, Pearl shall merge the BLAGAB NP Sub-fund and the Pensions NP Sub-fund to create the Non-Profit Fund, which shall comprise all Policies, assets and liabilities of the BLAGAB NP Sub-fund and the Pensions NP Sub-fund, and which Pearl shall maintain as a separate sub-fund of the Pearl Long-Term Insurance Fund in accordance with the terms of this Scheme.

12.2 On the Transfer Date but with effect from the Effective Date, Pearl shall maintain the Pearl WP Fund and the SERP Fund as separate sub-funds of the Pearl Long-Term Insurance Fund in accordance with the terms of this Scheme.

13. TREATMENT OF THE PACIFIC FUND

13.1 On the Transfer Date but with effect from the Effective Date, Pearl shall cease to maintain accounts in respect of the Pacific Fund and all assets comprised therein shall thereafter be available for distribution in accordance with paragraph 24.

13.2 For the avoidance of doubt, all entitlement or rights of policyholders to any amounts or assets comprised within the Pacific Fund (whether created by the terms of the Section 68 Order or otherwise) shall cease on the Transfer Date but with effect from the Effective Date.

14. TREATMENT OF EXISTING CAPITAL SUPPORT ARRANGEMENTS

LL Contingent Loan Agreement

14.1 On the Transfer Date but with effect from the LL Contingent Loan Repayment Date:

- (a) LL shall transfer the LL Contingent Loan Assets to PGH2 in repayment of all amounts owing under the LL Contingent Loan Agreement;
- (b) all rights, liabilities and obligations in relation to the LL Contingent Loan Agreement, including any rights and obligations in relation to interest or other charges, shall terminate and LL shall have no obligation to pay any further amount in respect of the LL Contingent Loan Agreement;
- (c) LL shall release all of its reserves in respect of the repayment of the LL Contingent Loan Agreement; and

- (d) PGH2 shall make a capital contribution to the Pearl Shareholders' Fund comprising the LL Contingent Loan Assets.

The SERP Fund

14.2 On the Transfer Date but with effect from the Effective Date:

- (a) Pearl shall cease to maintain the Pearl SERP Capital Funds within the SERP Fund; and
- (b) all amounts held within the Pearl SERP Capital Funds shall be treated as capital support drawn down from the Pearl Shareholders' Fund in accordance with the terms of paragraph 26 and Schedule 4.

15. TREATMENT OF ASSETS ALLOCATED TO THE LL WP FUND

On the Transfer Date but with effect from the Effective Date, subject to the allocations made pursuant to this Scheme, all assets in the LL WP Fund that are not attributed to LL WP Asset Shares shall be treated, with effect from the Effective Date, as capital support drawn down from the Pearl Shareholders' Fund into the LL WP Fund in accordance with the terms of paragraph 26 and Schedule 4.

16. ALLOCATION OF POLICIES

16.1 On the Transfer Date but with effect from the Effective Date, the Transferred Policies shall be allocated on the basis that:

- (a) those within the Old LL Life With-Profits Fund and the Old LL Pensions With-Profits Fund immediately prior to the Transfer Date shall be allocated to the LL WP Fund; and
- (b) those within the Old LL Life Non-Profit Fund and the Old LL Pensions Non-Profit Fund immediately prior to the Transfer Date shall be allocated to the Non-Profit Fund.

16.2 On the Guernsey Transfer Date but with effect from the Guernsey Effective Date, each Guernsey Policy shall be allocated to the Fund to which it would have been allocated in accordance with the provisions of paragraph 16.1 had it been a Transferred Policy at the Transfer Date.

16.3 On the Jersey Transfer Date but with effect from the Jersey Effective Date, each Jersey Policy shall be allocated to the Fund to which it would have been allocated in accordance with the provisions of paragraph 16.1 had it been a Transferred Policy at the Transfer Date.

17. ALLOCATION OF ASSETS

17.1 On the Transfer Date but with effect from the Effective Date, all Transferred Assets allocated to the Old LL Life With-Profits Fund and the Old LL Pensions With-Profits Fund immediately prior to the Transfer Date, excluding the LL Contingent Loan Assets selected from the Old LL Pensions With-Profits Fund, shall be allocated to the LL WP Fund.

17.2 On the Transfer Date but with effect from the Effective Date, all Transferred Assets allocated to the Old LL Life Non-Profit Fund and the Old LL Pensions Non-Profit Fund immediately prior to the Transfer Date, excluding the LL Contingent Loan Assets selected

from the Old LL Life Non-Profit Fund and the Old LL Pensions Non-Profit Fund, shall be allocated to the Non-Profit Fund.

- 17.3 On the Transfer Date but with effect from the Effective Date, all Transferred Assets allocated to the Shareholders' Fund of LL immediately prior to the Transfer Date shall be allocated to the Pearl Shareholders' Fund.
- 17.4 On the Transfer Date but with effect from the Effective Date, any and all Transferred Assets that have not been allocated pursuant to paragraphs 17.1 to 17.3 shall be allocated on such basis as the Pearl Board may approve (having obtained appropriate actuarial advice).
- 17.5 On and with effect from the applicable Subsequent Transfer Date, each Residual Asset shall be allocated to the Fund to which it would have been allocated in accordance with the provisions of paragraphs 17.1 to 17.4 had it been a Transferred Asset.

18. ALLOCATION OF LIABILITIES

- 18.1 On the Transfer Date but with effect from the Effective Date, the following shall be allocated to the LL WP Fund:
- (a) all Transferred Liabilities allocated to the Old LL Life With-Profits Fund and the Old LL Pensions With-Profits Fund immediately prior to the Transfer Date, excluding the Transferred Liabilities attributable to the LL Contingent Loan Assets selected from the Old LL Pensions With-Profits Fund;
 - (b) all liabilities attributable to the Excluded Policies Reassurance Arrangement, to the extent that such liabilities relate to any Long-Term Insurance Business to which any Transferred Asset falling within paragraph 17.1 relates;
 - (c) the liability to indemnify LL pursuant to paragraph 8.3, to the extent that the payment or property to which such indemnity relates is allocated by paragraph 17.1 to the LL WP Fund; and
 - (d) the liability to discharge liabilities on LL's behalf, or failing that to indemnify LL, pursuant to paragraph 9.1 and the liability to indemnify LL pursuant to paragraph 9.2, to the extent that such liability relates to any Long-Term Insurance Business to which any Transferred Liability falling within paragraph 18.1(a) relates.
- 18.2 On the Transfer Date but with effect from the Effective Date, the following shall be allocated to the Non-Profit Fund:
- (a) all Transferred Liabilities allocated to the Old LL Life Non-Profit Fund and the Old LL Pensions Non-Profit Fund immediately prior to the Transfer Date, excluding the Transferred Liabilities attributable to the LL Contingent Loan Assets selected from the Old LL Life Non-Profit Fund and the Old LL Pensions Non-Profit Fund;
 - (b) all liabilities attributable to the Excluded Policies Reassurance Arrangement, to the extent that such liabilities relate to any Long-Term Insurance Business to which any Transferred Asset falling within paragraph 17.2 relates;
 - (c) the liability to indemnify LL pursuant to paragraph 8.3, to the extent that the payment or property to which such indemnity relates is allocated by paragraph 17.2 to the Non-Profit Fund; and

- (d) the liability to discharge liabilities on LL's behalf, or failing that to indemnify LL, pursuant to paragraph 9.1 and the liability to indemnify LL pursuant to paragraph 9.2, to the extent that such liability relates to any Long-Term Insurance Business to which any Transferred Liability falling within paragraph 18.2(a) relates.

- 18.3 On the Transfer Date but with effect from the Effective Date, the Transferred Liabilities allocated to the Shareholders' Fund of LL immediately prior to the Transfer Date shall be allocated to the Pearl Shareholders' Fund.
- 18.4 On the Transfer Date but with effect from the Effective Date, any and all Transferred Liabilities that have not been allocated pursuant to paragraphs 18.1 to 18.3 shall be allocated on such basis as the Pearl Board may approve (having obtained appropriate actuarial advice).
- 18.5 On and with effect from the applicable Subsequent Transfer Date, each Residual Liability shall be allocated to the Fund to which it would have been allocated in accordance with the provisions of paragraphs 18.1 to 18.4 had it been a Transferred Liability.

19. LINKED FUNDS

- 19.1 On the Transfer Date but with effect from the Effective Date, the property and any associated liabilities comprised in each Linked Fund of LL shall be allocated to and become comprised in a corresponding Linked Fund of Pearl within the Non-Profit Fund, comprising immediately following the Transfer Date the same number and value of units as were comprised within the relevant Linked Fund of LL immediately prior to the Transfer Date and having the same investment objectives immediately following the Transfer Date as the relevant Linked Fund of LL immediately prior to the Transfer Date.
- 19.2 On the Transfer Date but with effect from the Effective Date:
 - (a) subject always to the provisions of this paragraph 19, in relation to any benefits under Transferred Policies which are linked to a Linked Fund of Pearl pursuant to paragraph 19.1, Pearl shall become entitled to the same rights and powers and be subject to the same duties and liabilities as applied to LL in relation to the corresponding Linked Fund of LL immediately prior to the Transfer Date; and
 - (b) benefits under any Transferred Policy which, immediately prior to the Transfer Date, were linked to any one or more Linked Fund(s) of LL shall become linked to the corresponding Linked Fund(s) of Pearl and Pearl shall allocate to each such Transferred Policy the same number and classes of units in the corresponding Linked Fund(s) of Pearl as the number and classes of units in the relevant Linked Fund(s) of LL which were allocated to the Transferred Policy immediately prior to the Transfer Date.
- 19.3 If any property comprised in a Linked Fund of LL falls within the provisions of paragraph 8.1, all interests and rights in relation to such property shall be allocated to the relevant Linked Fund of Pearl to which such property would, had it been a Transferred Asset, have been allocated.
- 19.4 On and with effect from the relevant Subsequent Transfer Date, each Residual Asset which is comprised in a Linked Fund of LL shall be allocated to the Linked Fund of Pearl to which it would have been allocated pursuant to this paragraph 19 had it been a Transferred Asset.

PART E - OPERATION OF THE PEARL LONG-TERM INSURANCE FUND

20. MAINTENANCE OF PEARL SUB-FUNDS

- 20.1 Subject to the provisions of this Scheme, each WP Fund and the Non-Profit Fund shall at all times be separately maintained as separate sub-funds of the Pearl Long-Term Insurance Fund and Pearl shall procure that separate accounting records for each WP Fund and the Non-Profit Fund shall at all times be maintained which shall be sufficient to enable the separate identification of the property and liabilities respectively allocated to each WP Fund and the Non-Profit Fund.
- 20.2 At all times the Pearl Shareholders' Fund shall be separately maintained and Pearl shall procure that separate accounting records for the Pearl Shareholders' Fund shall at all times be maintained which shall be sufficient to enable the separate identification of the property and liabilities allocated to the Pearl Shareholders' Fund.
- 20.3 Nothing in this Scheme shall at any time prevent Pearl from:
- (a) establishing and maintaining other Long-Term Insurance Funds or other sub-funds of the Pearl Long-Term Insurance Fund and writing in, or reinsuring to, any such other Long-Term Insurance Funds or sub-funds any new Long-Term Insurance Business or any business of other Long-Term Insurance Funds or sub-funds of Pearl;
 - (b) writing in or reinsuring to the Non-Profit Fund or the Pearl WP Fund any new business;
 - (c) writing in or reinsuring to any Fund Policies issued pursuant to rights or options under the terms of the Transferred Policies; or
 - (d) establishing and maintaining new Linked Funds.

21. ALLOCATION OF EXPENSES AND CHARGES

Subject to:

- (a) paragraph 33;
- (b) Schedule 2 (in respect of the LL WP Fund); and
- (c) Schedule 3 (in respect of the SERP Fund),

expenses and charges relating to the operation of the Pearl Long-Term Insurance Fund shall be allocated as the Pearl Board, having obtained appropriate actuarial advice, considers appropriate.

22. MERGER AND CLOSURE OF LINKED FUNDS

- 22.1 Unless precluded by the terms of the relevant Policies or unless the Pearl Board, having obtained the advice of the Pearl Actuary, should consider it impracticable or inappropriate having regard to the interests of the relevant policyholders, Pearl shall be at liberty at any time and from time to time to:
- (a) amalgamate any Linked Fund or any part or parts thereof with any other Linked Fund or any part or parts thereof or divide any Linked Fund into one or more Linked Funds, or effect any combination of the aforesaid; and

- (b) modify or enlarge the investment objectives of any of its Linked Funds to permit investment in assets which are reasonably similar to, or provide reasonably similar investment exposure to, those then held or permitted to be held in that Linked Fund,

on such terms as the Pearl Board shall consider equitable as between the policyholders affected thereby (having obtained the advice of the Pearl Actuary).

22.2 On and with effect from the Transfer Date, Pearl will be at liberty at any time and from time to time to wind up any of its Linked Funds where the value of the assets of such fund is less than £5.9 million (increased annually from 31 December 2011 at the annual rate of increase of the RPI in the preceding calendar year) (or the equivalent in other currencies) or such other amount below which the Pearl Board, having obtained the advice of the Pearl Actuary, considers that maintenance of the Linked Fund in question is no longer administratively feasible.

22.3 In the event that Pearl determines to wind up a Linked Fund pursuant to paragraph 22.2, it shall cancel units in that Linked Fund allocated to Policies and allocate to the relevant policyholders, without charge, new units of an equal value (as determined by the Pearl Board having obtained the advice of the Pearl Actuary) in a different Linked Fund in substitution for the cancelled units. The substitute Linked Fund shall be a fund from among those available from Pearl at the time to holders of Policies of the same class as the Policies held by the relevant policyholders and which, in the opinion of the Pearl Board, having obtained the advice of the Pearl Actuary, provides reasonably equivalent investment exposure to the Linked Fund so wound up.

22.4 Where any policyholder is affected by the application of paragraph 22.1 or 22.2:

- (a) without prejudice to any entitlement for a policyholder to effect a switch under the terms of the Policy, one such switch shall be permitted by Pearl, even where such switch was not permitted under the terms of the Policy, from the affected fund or funds into one or more funds to which that policyholder's Policy is, by its terms, linked, provided this switch is effected during the period from the date when he receives notification that his policy may be affected until the date 12 months after the relevant change has occurred; and
- (b) any switching charge that would otherwise apply as a consequence of such switch during the period from the date when he receives notification that his policy may be affected until the date 12 months after the relevant change has occurred shall be waived in respect of the first (but not any subsequent) occasion when such charge would have applied.

If such a Policy is linked to two or more funds, this paragraph 22.4 shall apply separately in respect of each such fund that is the subject of the application of paragraph 22.1 or 22.2, as the case may be.

22.5 In the event that the Pearl Board, having obtained the advice of the Pearl Actuary, considers that any group of policyholders may have been disadvantaged financially by any action taken pursuant to the provisions of this paragraph 22, the Pearl Board shall consider whether appropriate compensation should be contributed to the relevant Policies. Any proposal to pay compensation pursuant to this paragraph 22.5 shall be notified to the FSA in advance of its payment.

23. **MERGER AND CLOSURE OF THE PEARL WP FUND, THE SERP FUND OR THE LL WP FUND**

- 23.1 If the liabilities calculated in accordance with all applicable regulatory requirements (gross of reinsurance) relating to With-Profits Policies allocated or reassured to the Pearl WP Fund, the SERP Fund or the LL WP Fund (each such fund being, for the purposes of this paragraph 23, a "**Relevant With-Profits Fund**") fall below £50 million, Pearl shall be required, subject to having obtained appropriate actuarial advice and the prior written approval of the FSA and having declared the appropriate Closure Bonus, to transfer the Policies, assets and liabilities allocated to the Relevant With-Profits Fund to the Non-Profit Fund (or such other non-profit sub-fund of the Pearl Long-Term Insurance Fund established pursuant to paragraph 20.3 as the Pearl Board may consider appropriate) and to close the Relevant With-Profits Fund on the Relevant With-Profits Fund Closure Date in accordance with paragraphs 23.3 and 23.4.
- 23.2 In addition, Pearl may at any time transfer the Policies, assets and liabilities allocated to a Relevant With-Profits Fund to another WP Fund (on such terms as the Pearl Board, having obtained appropriate actuarial advice, considers appropriate, including as to the future management and treatment of both the Policies transferred out of the Relevant With-Profits Fund and the Policies allocated or reassured to the other WP Fund) and close the Relevant With-Profits Fund on the Relevant With-Profits Fund Closure Date, providing that prior to the Relevant With-Profits Fund Closure Date:
- (a) Pearl has obtained a certificate from an independent actuary to the effect that, in his opinion, the merger will not adversely affect the reasonable expectations of the holders of Policies transferred out of the Relevant With-Profits Fund or of Policies allocated or reassured to the other WP Fund; and
 - (b) the FSA has given its written approval to the merger.
- 23.3 The Relevant With-Profits Fund Closure Date shall be the date determined by the Pearl Board, having obtained appropriate actuarial advice, being no more than 12 months following the approval of the FSA referred to in paragraph 23.1 or paragraph 23.2 (as the case may be).
- 23.4 On the Relevant With-Profits Fund Closure Date, Pearl shall re-allocate all Policies, assets and liabilities allocated to that Relevant With-Profits Fund immediately prior to the Relevant With-Profits Fund Closure Date, to the Fund or Funds selected by the Pearl Board pursuant to paragraph 23.1 or paragraph 23.2 (as the case may be) on such basis as the Pearl Board, having obtained appropriate actuarial advice, considers appropriate.
- 23.5 Where With-Profits Policies are transferred from a WP Fund to the Non-Profit Fund (or another non-profit sub-fund) pursuant to paragraph 23.1, from the Relevant With-Profits Fund Closure Date the appropriate Closure Bonus shall be applied to Policies which were With-Profits Policies allocated to the Relevant With-Profits Fund immediately prior to the Relevant With-Profits Fund Closure Date until the termination (in accordance with their terms) of such Policies and such Policies shall have no right or eligibility to participate in any of the profits of Pearl arising after the Relevant With-Profits Fund Closure Date. For the avoidance of doubt, nothing in this paragraph 23.5 shall limit the right or eligibility of a With-Profits Policy to participate in the profits of Pearl arising after the Relevant With-Profits Fund Closure Date where such Policy is allocated to another WP Fund.
- 23.6 From the Relevant With-Profits Fund Closure Date:
- (a) the Scheme PFM of the Relevant With-Profits Fund shall cease to have effect;

- (b) all references in this Scheme to the Relevant With-Profits Fund shall be disregarded; and
- (c) each Policy allocated to the Relevant With-Profits Fund immediately prior to the Relevant With-Profits Fund Closure Date shall be deemed to be amended with effect from the Relevant With-Profits Fund Closure Date to reflect the relevant provisions of this paragraph 23.

24. DISTRIBUTIONS OF SURPLUS WITHIN PEARL

24.1 Pearl, having obtained the advice of the Pearl Actuary, shall determine the amount of surplus within the Non-Profit Fund at least once in respect of each Financial Year of Pearl, and the Pearl Board, having obtained advice from the Pearl Actuary, shall determine the proportion thereof to be available for distribution to the Pearl Shareholders' Fund (which shall then be allocated to the Pearl Shareholders' Fund) and the proportion to be carried forward within the Non-Profit Fund.

24.2 Pearl, having obtained appropriate actuarial advice, shall determine the amount of surplus within each WP Fund at least once in respect of each Financial Year of Pearl. The level of surplus ascertained in respect of each WP Fund shall be determined to the extent considered appropriate by the Pearl Board by applying the relevant principles from time to time set out in the PPFM and the established practices and methodology applied by LL or Pearl (as the case may be) and shall be reviewed by the relevant WP Actuary. The Pearl Board, having obtained the advice of the relevant WP Actuary, shall determine the proportion thereof to be available for distribution and allocation in accordance with this paragraph 24 and the proportion to be carried forward within the relevant WP Fund. In giving his advice, the relevant WP Actuary shall have regard to such considerations as he shall think appropriate, which shall include the relevant principles from time to time set out in the PPFM and the established practices and methodology applied by LL or Pearl (as the case may be) in relation to the particular WP Fund or the Transferred Policies comprised therein. For the purposes of this paragraph 24.2, references to "established practices" or "established practices and methodology" shall be construed:

- (a) in relation to any Transferred Policies, as references to the practices and methodology of LL that were established prior to the Transfer Date and applied by LL immediately prior to the Transfer Date in respect of those policies (or the fund from which they are transferred at the Transfer Date); and
- (b) in relation to a WP Fund of Pearl established before the Transfer Date, as references to the practices and methodology of Pearl that were established prior to the Transfer Date and applied by Pearl immediately prior to the Transfer Date in relation to that WP Fund or the policies comprised within it,

and references to the relevant principles set out in the PPFM shall be construed accordingly.

24.3 Subject as otherwise provided in this Scheme, the Pearl Board may appropriate out of the surplus of the assets over the liabilities of the WP Funds, or allocate to reserve within such sub-fund, such amounts as it considers necessary after consultation with the relevant WP Actuary and such amounts shall be carried forward as part of the WP Funds.

24.4 100 per cent. of the surplus arising within the LL WP Fund or the SERP Fund and resolved by the Pearl Board (having obtained appropriate actuarial advice) to be available for distribution shall be allocated to holders of Policies eligible to participate in the surplus of the LL WP Fund or the SERP Fund (as the case may be).

- 24.5 Surplus arising within the Pearl WP Fund and resolved by the Pearl Board (having obtained appropriate actuarial advice) to be available for distribution shall be allocated on the following basis:
- (a) not less than 90 per cent. of the amount so resolved shall be allocated to holders of Policies eligible to participate in the surplus of the Pearl WP Fund; and
 - (b) the remainder shall be available for transfer to the Pearl Shareholders' Fund or the Non-Profit Fund or such other non-profit sub-fund of the Pearl Long-Term Insurance Fund established pursuant to paragraph 20.3, as the Pearl Board may direct from time to time.
- 24.6 The amount which the Pearl Board determines to allocate or distribute from a WP Fund pursuant to paragraph 24.4 or paragraph 24.5(a) (as the case may be) shall be allocated as bonus, or otherwise in augmenting the benefits, on the relevant Policies included within the LL WP Fund, the Pearl WP Fund or the SERP Fund (as the case may be) or reassured to the LL WP Fund, the Pearl WP Fund or the SERP Fund (as the case may be) under paragraph 6.1 or otherwise. Such allocation or augmentation shall be made in such form, and among such one or more of the classes or sections of such Policies, and at such times, and on such principles, and by such methods, as the Pearl Board shall determine, having obtained the advice of the relevant WP Actuary who shall have regard, in giving that advice, to such considerations as he shall think appropriate, which shall include the relevant principles from time to time set out in the PPFM of that fund.
- 24.7 For the avoidance of doubt, subject to COBS, FSMA, INSPRU and GENPRU, any surplus within the Non-Profit Fund which the Pearl Board has not resolved to be available for distribution may be used by Pearl for such purposes as the Pearl Board may consider appropriate (including for the provision of capital support to any WP Fund).
25. **DEBITS AND CREDITS**
- 25.1 Except as may be required or permitted under this Scheme (including this paragraph 25 and paragraph 26), no amount shall be transferred from or debited or charged to any WP Fund.
- 25.2 On the Transfer Date but with effect from the Effective Date, Pearl shall be entitled to transfer from or debit or charge to any WP Fund:
- (a) any amount permitted by law;
 - (b) any amount permitted or required by this Scheme;
 - (c) any amount to the extent that consideration equal to the fair market value at the date of transfer (as determined by the Pearl Board, having obtained appropriate actuarial advice) of the amount transferred, debited or charged is paid by the transferee to that WP Fund;
 - (d) any amount that the Pearl Board (who shall in turn have regard to the views of the relevant WP Actuary) considers appropriate for the servicing or repayment of capital (if any) contributed to the relevant WP Fund;
 - (e) any amount in accordance with the contractual obligations of Pearl from time to time;
 - (f) all amounts payable in respect of With-Profits Policies and other Policies written in or allocated or reassured to the WP Fund arising by reason of surrender, death,

disability, maturity or other event giving rise to a claim (including amounts payable because of any guarantee or option in any such Policy or the payment or vesting of an annuity);

- (g) all costs, liabilities, losses and declines in value of investments arising from the property allocated to the WP Fund;
- (h) all costs, expenses, charges, losses and liabilities resulting from the purchase, holding, valuation or sale of any property allocated to the WP Fund;
- (i) any amount for the purposes of investment and re-investment in the ordinary course of business; or
- (j) any other amounts which are:
 - (i) required by this Scheme to be debited from or charged to the relevant WP Fund; or
 - (ii) determined by the Pearl Board (having obtained the advice of the appropriate WP Actuary) to be properly debited from, or properly charged to, the relevant WP Fund.

25.3 On the Transfer Date but with effect from the Effective Date, there shall be credited to each WP Fund all of the following:

- (a) all premiums received by Pearl in respect of all Policies within, or benefit allocated to, the WP Fund;
- (b) all investment gains, earnings, income and profits arising from the assets or business within the WP Fund;
- (c) all amounts received under reinsurance arrangements made in respect of liabilities of the WP Fund which are reassured;
- (d) the amount of all premium income or consideration or proceeds received in respect of the undertaking by the WP Fund of any reinsurance of any liability under any Policy which is not written within the WP Fund;
- (e) the amount or value (in whatever form or manner it shall be received) of:
 - (i) any financial assistance or support properly given to the WP Fund pursuant to and in accordance with paragraph 26.2;
 - (ii) the consideration received by the WP Fund in respect of any financial assistance or support properly given to another WP Fund pursuant to and in accordance with paragraph 26.4; and
- (f) any other amounts which are:
 - (i) required or permitted by this Scheme to be credited to or received by the relevant WP Fund; or
 - (ii) determined by the Pearl Board (having obtained the advice of the appropriate WP Actuary) to be properly attributable to or properly received by the WP Fund.

26. CAPITAL SUPPORT AND THE PEARL CAPITAL POLICY

- 26.1 On the Transfer Date but with effect from the Effective Date, Pearl shall adopt and comply with the PCP. The PCP shall only be amended or adjusted in accordance with the provisions of Schedule 4.
- 26.2 The Pearl Board, having obtained appropriate actuarial advice, may in accordance with paragraph 6 of Schedule 4 determine that the Non-Profit Fund or the Pearl Shareholders' Fund can provide financial assistance or support to any WP Fund.
- 26.3 The repayment of any financial assistance or support provided pursuant to paragraph 26.2 (and the repayment of any amount required to service such financial assistance or support) shall not (for the purposes of determining amounts distributable to policyholders of the relevant WP Fund) be treated as a distribution or transfer of surplus of the relevant WP Fund.
- 26.4 No financial assistance or support shall be provided from a WP Fund to another Fund unless:
- (a) the surplus assets of the Non-Profit Fund and the assets of the Pearl Shareholders' Fund are exhausted at the time the financial assistance or support is provided; and
 - (b) the terms of the financial assistance or support are, in the opinion of the relevant WP Actuary, no less favourable than arm's length commercial terms and will not detrimentally affect the reasonable expectations of the holders of With-Profits Policies in the relevant WP Fund and the relevant WP Actuary has so certified to the Pearl With-Profits Committee.

27. FUTURE FINANCIAL MANAGEMENT OF THE WP FUNDS

- 27.1 Pearl shall manage its affairs in accordance with applicable laws and regulatory requirements from time to time and in particular shall manage each WP Fund in accordance with applicable principles and practices of financial management, as amended from time to time, as required pursuant to COBS 20.3.1R, and:
- (a) in relation to the LL WP Fund, the Scheme Principles for the Financial Management of the LL WP Fund;
 - (b) in relation to the Pearl WP Fund, the Scheme Principles for the Financial Management of the Pearl WP Fund; and
 - (c) in relation to the SERP Fund, the Scheme Principles for the Financial Management of the SERP Fund.
- 27.2 The Pearl Board shall (save to the extent that such practice is inconsistent with the provisions of this Scheme, including paragraph 27.1, or of the relevant Scheme PFM and to the extent considered appropriate by the Pearl Board) manage:
- (a) the Pearl WP Fund and the SERP Fund having regard to the established practices of Pearl as set out in the Pearl WP Fund PPFM and the SERP Fund PPFM in force immediately prior to the Transfer Date, as they applied in respect of the relevant WP Fund; and

- (b) the LL WP Fund having regard to the established practices of LL as set out in its PPFM in force immediately prior to the Transfer Date, as they applied in respect of the Transferred Policies comprised within the LL WP Fund.

27.3 The provisions of paragraph 27.2 shall be subject to amendment, in relation to a particular WP Fund, in accordance with paragraph 27.4 as if this paragraph were part of the Scheme PFM of the relevant WP Fund.

27.4 Subject to having obtained the prior written approval of the FSA, at any time after the sanction of the Scheme, the Pearl Board may amend a Scheme PFM if such an amendment:

- (a) is, in the opinion of the Pearl Board (having obtained appropriate advice), necessary to:
 - (i) respond to changes in the business or economic environment;
 - (ii) protect the interests of policyholders; or
 - (iii) respond to any change in, or a new interpretation of, any law, regulation, policy or practice;
- (b) is necessary to correct an error or omission;
- (c) would improve the clarity or presentation of the relevant Scheme PFM without materially affecting the substance of them; or
- (d) is immaterial.

28. REALLOCATION OF CERTAIN POLICIES

Pearl may re-allocate to the Non-Profit Fund, or such other non-profit sub-fund of the Pearl Long-Term Insurance Fund established pursuant to paragraph 20.3, any Non-Profit Policy comprised within a WP Fund provided that:

- (a) such re-allocation is not contrary to the terms of the Policy; and
- (b) in the opinion of the Pearl Board, having obtained appropriate actuarial advice, assets with a market value which is fair and equitable (in the context of the risks being re-allocated to the Non-Profit Fund in respect of the Policy) are being transferred or reallocated from the relevant WP Fund to the Non-Profit Fund.

29. LL HYBRID POLICIES

29.1 On the Transfer Date but with effect from the Effective Date, any premium received in respect of a LL Hybrid Policy shall be credited to the LL WP Fund and the UL Investment Element of such premium shall be transferred to the Non-Profit Fund.

29.2 On the Transfer Date but with effect from the Effective Date, whenever a UL Switch is effected under the terms of a LL Hybrid Policy, the UL Investment Element arising in respect of that switch shall be transferred from the LL WP Fund to the Non-Profit Fund.

29.3 On the Transfer Date but with effect from the Effective Date, upon the occurrence of any event which causes some or all of the UL Units allocated to a LL Hybrid Policy to cease to be so allocated, such UL Units shall be cancelled and the value of the UL Units (as determined by the Pearl Board, having taken appropriate actuarial advice, in accordance with the terms of the relevant Policy) shall be transferred to the LL WP Fund.

29.4 On the Transfer Date but with effect from the Effective Date, any payment due to the holder of a LL Hybrid Policy shall be made from the LL WP Fund.

30. **CONTINUITY WITH PREVIOUS SCHEMES AND ORDERS**

30.1 **Release of the LL Scheme**

On the Transfer Date but with effect from the Effective Date, this Scheme shall supersede the whole of the LL Scheme, whose provisions shall be replaced by the provisions of this Scheme and cease to have effect. This shall be without prejudice to any accrued or pre-existing rights and liabilities under the LL Scheme as between AMP and LL or between LL and any other person which remain to be fulfilled or which are capable of being exercised immediately prior to the Transfer Date (except to the extent that such liabilities or rights are modified by the terms of this Scheme). Such rights and liabilities of LL shall transfer to Pearl pursuant to this Scheme.

30.2 **Release of the Pearl SERP Scheme**

On the Transfer Date but with effect from the Effective Date, this Scheme shall supersede the whole of the Pearl SERP Scheme, whose provisions shall be replaced by the provisions of this Scheme and cease to have effect. This shall be without prejudice to any accrued or pre-existing rights and liabilities under the Pearl SERP Scheme as between NPLL and Pearl or between Pearl and any other person which remain to be fulfilled or which are capable of being exercised immediately prior to the Transfer Date (except to the extent that such liabilities or rights are modified by the terms of this Scheme).

30.3 **Release of the Pearl Scheme**

On the Transfer Date but with effect from the Effective Date, this Scheme shall supersede the whole of the Pearl Scheme, whose provisions shall be replaced by the provisions of this Scheme and cease to have effect.

31. **DELAY IN ALLOCATIONS TO THE FUNDS**

If there is, for any reason, any delay (for which provision is not expressly made in this Scheme) in the allocation of any receipt, payment or other item to a Fund or the Pearl Shareholders' Fund in accordance with this Scheme, the Pearl Board, having obtained appropriate actuarial advice and subject to FSMA, shall make such adjustment, including to allow for investment return earned during the period from (and excluding) the Effective Date to (and including) the date on which such adjustment is made, between such funds as it considers appropriate in accordance with the principles underlying this Scheme to take account of such delay.

PART F - TAXATION OF THE PEARL LONG-TERM INSURANCE FUND AND THE PEARL SHAREHOLDERS' FUND

32. TAXATION OF THE PEARL SHAREHOLDERS' FUND

- 32.1 Taxation payable by Pearl which relates to assets of the Pearl Shareholders' Fund shall be charged or credited to the Pearl Shareholders' Fund.
- 32.2 Deferred taxation calculated on the same basis as that applied to Pearl generally for a particular accounting period shall be attributed to the Pearl Shareholders' Fund, but only to the extent that it relates to the assets, liabilities and operations of the Pearl Shareholders' Fund.

33. TAXATION OF THE WP FUNDS

- 33.1 Taxation attributable to each WP Fund shall be calculated, so far as is practicable, on the basis that each of the SERP Fund and the LL WP Fund is a separate mutual life assurance company and that the Pearl WP Fund is a separate proprietary life assurance company, and the amount so calculated shall be charged or credited to the relevant WP Fund.
- 33.2 For the purposes of the calculation referred to in paragraph 33.1:
- (a) no charge shall be made to any WP Fund in respect of any taxation which becomes due and payable on or after the Transfer Date as a result of the transfers of the Transferred Assets, the Transferred Liabilities, the Residual Assets, the Residual Liabilities and the Transferred Policies under this Scheme, or the reinsurance of the Excluded Policies pursuant to this Scheme, which would not have become so payable had this Scheme not been effected;
 - (b) all appropriate allowances, reliefs and rights to repayments which would be reasonably expected to be claimed or received by a fund in such circumstances are deemed to have been successfully claimed and received; and
 - (c) the amount of any interest paid by the LL WP Fund to any other Fund or the Shareholders' Fund pursuant to paragraph 26 shall be treated as if it were interest paid to a third party.
- 33.3 In the event that there is a material change to the basis upon which taxation is charged to mutual or proprietary life assurance companies in the United Kingdom, Pearl may change the basis upon which tax is attributable to each WP Fund, subject to prior notification to the FSA, to the extent that the Pearl Board, having obtained appropriate advice, considers necessary to ensure that the effect of paragraph 33.1 continues to be, so far as possible, that intended as at the Transfer Date.
- 33.4 The Pearl Board, having obtained the advice of the appropriate WP Actuary, shall attribute taxation to the relevant WP Fund only to the extent that it is satisfied that such attribution does not adversely affect the reasonable expectations of the holders of Policies allocated to that WP Fund. The amount charged or credited to a WP Fund in accordance with paragraph 33.1 may be reduced or increased to the extent that the Pearl Board, having obtained appropriate advice, believes necessary in order to comply with COBS 20.2.
- 33.5 Deferred taxation calculated on the same basis as that applied to Pearl generally for a particular accounting period shall be attributed to the relevant WP Fund, but only to the extent that it relates to the assets, liabilities and operations of that WP Fund, provided,

however, that although that WP Fund shall be charged with the deferred taxation, assets equal in value to any provision for deferred taxation shall be retained in that WP Fund.

33.6 Any charge arising in respect of taxation which is incurred by Pearl as a result of a transfer of surplus from the Pearl WP Fund to any other fund of Pearl shall, in accordance with past practice in Pearl, be charged to the Pearl WP Fund, but shall not be charged to the asset shares of Policies allocated to the Pearl WP Fund.

34. TAXATION OF THE NON-PROFIT FUND

34.1 Subject to paragraph 34.2, all taxation relating to Pearl not specifically attributed in accordance with paragraphs 32 and 33 shall be charged or credited to the Non-Profit Fund.

34.2 Deferred taxation shall be calculated on the same basis as that applied to Pearl generally for an accounting period to the extent that it relates to the assets, liabilities and operations of the Long-Term Insurance Fund. The balance of such deferred taxation after deducting the amounts computed in accordance with paragraph 33.5 and attributed to any WP Fund shall be attributed to the Non-Profit Fund.

PART G - REASSURANCE ARRANGEMENTS

35. INWARDS REASSURANCE ARRANGEMENTS

Pearl shall be entitled to procure that any Fund shall undertake and discharge reinsurance obligations (whether with another member of the Group or otherwise) in respect of any Long-Term Insurance Business on such terms as the Pearl Board shall determine from time to time, having obtained appropriate actuarial advice (in particular having been advised that the terms of the proposed reinsurance are not likely to affect adversely the reasonable expectations of the policyholders in any Fund affected).

36. OUTWARDS REASSURANCE ARRANGEMENTS

Pearl shall be entitled to procure that any Fund shall reinsurance (whether with another member of the Group or otherwise) obligations under any Policy which is attributed to and included within that Fund on such terms as the Pearl Board shall determine from time to time, having obtained appropriate actuarial advice (in particular having been advised that the terms of the proposed reinsurance are not likely to affect adversely the reasonable expectations of the policyholders in any Fund affected).

37. INTERNAL REASSURANCE BETWEEN A WP FUND AND/OR ANOTHER WP FUND AND/OR THE NON-PROFIT FUND

37.1 Pearl shall be entitled to establish arrangements equivalent to reinsurance between any Funds on such terms as the Pearl Board shall determine from time to time, having obtained appropriate actuarial advice (in particular having been advised that the terms of the proposed reinsurance are not likely to affect adversely the reasonable expectations of the policyholders in any Fund affected).

37.2 In relation to any internal reinsurance arrangement within Pearl, including any arrangement established pursuant to paragraph 37.1 or paragraph 38.1, Pearl shall be entitled to:

- (a) amend the terms of such internal reinsurance arrangement; and
- (b) procure (at such date as it shall determine) that such internal reinsurance arrangement shall cease to have effect,

provided that the Pearl Board (having obtained appropriate actuarial advice and, in particular, having been advised that such amendment or termination is not likely to affect adversely the reasonable expectations of the policyholders in the Fund affected) determines that such amendments, or the terms upon which such arrangement ceases to have effect, are equitable as between the cedant fund and the reinsuring fund.

38. TERMINATION OF EXISTING GROUP REASSURANCE AGREEMENT

38.1 On the Transfer Date but with effect from the Effective Date, the Group Reinsurance Agreement shall cease to have effect and shall be replaced by a new arrangement equivalent to reinsurance between the LL WP Fund and the Pearl WP Fund, on terms having the same financial effect.

38.2 Pearl shall be entitled subsequently to amend the replacement arrangement referred to in paragraph 38.1 in accordance with the terms of paragraph 37.2.

PART H - MISCELLANEOUS PROVISIONS

39. TRANSFER DATE AND EFFECTIVE DATE

- 39.1 This Scheme shall become operative at 00.01 BST on 30 September 2012 or such other time and date as LL and Pearl may agree (being a date and time falling after the making of the Order sanctioning this Scheme).
- 39.2 Unless this Scheme shall have become operative on or before 31 December 2012 or such later date, if any, as LL and Pearl may approve and the Court may allow, this Scheme shall lapse.
- 39.3 In so far as this Scheme creates rights and obligations that exist only between the parties to it, it shall so far as possible be treated as having become effective as between the parties on the Effective Date or, in respect of the LL Contingent Loan Agreement only, the LL Contingent Loan Repayment Date, including, without prejudice to the generality of the foregoing, for accounting purposes and for determining the level of policyholder benefits, and references in this Scheme to the Effective Date and the LL Contingent Loan Repayment Date and the phrases "with effect from the Effective Date" and "with effect from the LL Contingent Loan Repayment Date" shall be construed accordingly.
- 39.4 No transfer of any asset nor allocation of any liability made under this Scheme shall be treated, if and to the extent that such transfer or allocation would affect the legal rights or obligations of any third party, as being effective with regard to that third party before the Transfer Date.
- 39.5 Any Transferred Asset which ceases to be an asset of LL between the Effective Date and the Transfer Date shall be deemed to have been disposed of by Pearl at the date on which it was disposed of by LL and any Transferred Asset which is acquired by LL between the Effective Date and the Transfer Date shall be deemed to have been acquired by Pearl at the date on which it was acquired by LL.
- 39.6 Any Transferred Liability which ceases to be a liability of LL between the Effective Date and the Transfer Date shall be deemed to have been discharged by Pearl at the date on which it was discharged by LL and any Transferred Liability which becomes a liability of LL between the Effective Date and the Transfer Date shall be deemed to have become a liability of Pearl at the date on which it became a liability of LL.

40. MODIFICATION OR ADDITIONS

- 40.1 LL and Pearl may consent for and on behalf of themselves and all other persons concerned to any modification of or addition to this Scheme or to any further condition or provision affecting the same which, prior to its sanction of this Scheme, the Court may approve or impose.
- 40.2 Subject to paragraphs 27.4 and 40.4, at any time after the sanction of this Scheme, Pearl shall be at liberty to apply to the Court for consent to amend its terms, provided that in any such case:
- (a) the FSA shall be notified of and have the right to be heard at any hearing of the Court at which such application is considered; and

- (b) such application shall be accompanied by a certificate from an independent actuary to the effect that in his opinion the proposed amendment will not:
 - (i) adversely affect the reasonable expectations of the holders of Policies of Pearl immediately prior to the Transfer Date; or
 - (ii) adversely affect the reasonable expectations of the holders of Transferred Policies or Excluded Policies.

40.3 If such consent is granted, Pearl may amend the terms of this Scheme in accordance with such consent.

40.4 The consent of the Court shall not be required in relation to minor and/or technical amendments to the terms of this Scheme (including amendments to correct manifest errors) that may be identified by the Pearl Board, provided that the FSA has been notified of the same and has indicated that it does not object thereto.

41. **EVIDENCE OF TRANSFER**

41.1 The production of a copy of the Order and of this Scheme, with any modifications made under paragraph 40, shall for all purposes be conclusive evidence of the transfer to, and vesting in, Pearl of:

- (a) from the Transfer Date, the Transferred Business, the Transferred Assets and the Transferred Liabilities; and
- (b) from each relevant Subsequent Transfer Date, the Residual Assets and the Residual Liabilities.

41.2 In order to enable Pearl to complete any title to any property or interest in land transferred to and vested in it by virtue of this Scheme by notice of title or otherwise or in order to deduce title, without prejudice to paragraphs 3 and 41.1, this Scheme and/or the Order, with any modifications made under paragraph 40, together with any document ancillary thereto (including a certificate of any officer or employee of Pearl identifying the relevant property or interest in land) shall be deemed to be, and may be used as, a general disposition, conveyance or (as the case may be) assignation of such property or interest in favour of Pearl.

42. **COSTS AND EXPENSES**

The costs and expenses incurred by Pearl and LL in relation to the preparation and carrying into effect of this Scheme, whether before, on or after the Transfer Date, shall be borne by the Pearl Shareholders' Fund.

43. **THIRD PARTY RIGHTS**

It is not intended that any person who is not a party to this Scheme may enforce any of its terms, whether by virtue of the Contracts (Rights of Third Parties) Act 1999 or otherwise.

44. **GOVERNING LAW**

This Scheme shall be governed by and construed in accordance with English law.

Dated: 24 September 2012

SCHEDULE 1

Scheme principles for the financial management of the WP Funds

PART A

Scheme Principles for the Financial Management of the LL WP Fund

1. BONUS DECLARATIONS

Bonuses will be determined having regard to the experience of the LL WP Fund and to the equitable distribution of surplus (including any estate that may arise in the LL WP Fund which the Pearl Board considers may be distributed but excluding any capital support provided under the terms of the Pearl Capital Policy) amongst holders of Policies allocated or reassured to the LL WP Fund according to the actuarial principles described in this Part A.

2. ACTUARIAL PRINCIPLES

2.1 The actuarial principles adopted in determining bonuses in the LL WP Fund will continue to be such as will satisfy the reasonable expectations of holders of Policies allocated or reassured to the LL WP Fund. Such expectations will be determined, inter alia, by the experience of the LL WP Fund and the overall financial position of Pearl.

2.2 The actuarial principles are based on the asset share concept. Asset shares of different groups of Policies shall accumulate on a basis described in the PPFM for the LL WP Fund and as determined by the Pearl Board, having obtained appropriate actuarial advice. Without limitation, such basis may include an allocation of investment return as if distinct and different asset mixes had been allocated to identified groups of Policies (whether or not the LL WP Fund in fact holds such assets) or any other form of hypothecation.

2.3 Asset share calculations and the basis for determining bonuses for Policies within the LL WP Fund will not be changed to reflect any charge in respect of financial support of any kind, either explicit (in accordance with paragraph 26 of this Scheme or otherwise) or implicit (in terms of the availability of assets outside the LL WP Fund to provide support). For the avoidance of doubt, this paragraph shall not restrict or prohibit the deduction of such charges where, prior to the implementation of this Scheme, such deductions were made.

2.4 Following the implementation of the Scheme (including the repayment of the LL Contingent Loan Agreement pursuant to paragraph 14.1 and the redesignation of the assets in the LL WP Fund not attributable to LL WP Asset Shares pursuant to paragraph 15), the assets of the LL WP Fund shall be attributable to policyholder asset shares, any capital support that has been provided to the LL WP Fund under the terms of the Pearl Capital Policy and any estate which may arise from time to time. There shall be no estate on the Transfer Date.

2.5 The estate may (to the extent that the following debits and credits are not met by adjustments to asset share calculations or bonuses made in accordance with the terms of this Scheme and the PPFM for the LL WP Fund):

- (a) act as a smoothing account for the purposes of paragraph 2.7 below and shall accordingly be credited or debited with the difference between payouts (excluding any increase due to payment of guaranteed benefits) and asset shares;
- (b) be debited with the cost of providing guarantees; and

- (c) be debited or credited with the difference between amounts allocated or charged to asset share and the amounts allocated or charged to the LL WP Fund in accordance with the PPFM for the LL WP Fund (excluding amounts allocated to or charged for any capital support provided to the LL WP Fund).
- 2.6 Any capital support provided by Pearl to the LL WP Fund shall be repayable to the Pearl Shareholders' Fund or the Non-Profit Fund (as the case may be) from amounts which might otherwise be attributed to the estate pursuant to paragraph 2.5, at the discretion of the Pearl Board.
- 2.7 Central to the operation of with-profit funds is the smoothing of short term investment fluctuations in determining returns on with-profits policies. Pearl will pursue an approach to smoothing for the LL WP Fund that is consistent with the reasonable expectations of holders of Policies allocated or reassured to the LL WP Fund. The normal operation of smoothing is intended to be balanced in that good years for investment returns will even out bad years. If the good years outweigh the bad years then the benefit will be passed on to policyholders. In the event that this does not prove to be the case, then adjustments to asset share calculations will be incorporated to an extent consistent with policyholders' reasonable expectations. Any further assets required to support smoothing will be met by the estate of the LL WP Fund or, if necessary, the Pearl Capital Policy and, in any event, policyholders will receive their guaranteed benefits.
- 2.8 Asset share techniques will incorporate any changes which are appropriate in the opinion of the Pearl Board, having obtained appropriate actuarial advice. These may be brought about either by improvements in practices (within the company or the industry) or by changes to professional guidance amongst other things.

3. **INVESTMENT POLICY**

- 3.1 The investment policy for the LL WP Fund from time to time shall be determined by the Pearl Board, having obtained appropriate actuarial advice. In setting the investment policy for the LL WP Fund, the Pearl Board shall use reasonable endeavours to pursue an investment policy for the assets attributed to Policies allocated or reassured to the LL WP Fund which is in the best interests of the holders of those Policies, subject to normal considerations of prudence and having regard to any reserving requirements of the LL WP Fund and the capital resource requirements which would be applicable to the LL WP Fund if it constituted the entire Pearl Long-Term Insurance Fund.
- 3.2 The investment policy of the LL WP Fund will not be changed for the purpose of reducing any capital support required for the LL WP Fund, although it may be changed to ensure that Pearl as a whole can continue to meet UK statutory solvency and regulatory capital requirements. Nothing in this Part A will prevent Pearl from applying asset liability management techniques typical in the industry and in accordance with policyholders' reasonable expectations.
- 3.3 The investment policy in respect of any Policy allocated to the Old LL Life With-Profits Fund prior to the Transfer Date will not be changed for the purpose of meeting the cost of any guarantees contained within Policies allocated to the Old LL Pensions With-Profits Fund prior to the Transfer Date.

4. **ASSET SHARE CHARGES**

- 4.1 No liabilities, including any charges or expenses, shall be deducted from the asset share of any Policy allocated to the LL WP Fund following the Transfer Date except to the extent that such liabilities were deducted from asset shares prior to the Transfer Date in

accordance with the PPFM of LL in force immediately prior to the Transfer Date, including in respect of:

- (a) any costs arising from the future experience of the Long-Term Insurance Business in the LL WP Fund over and above those provided for in realistic policyholder liabilities (such as the cost of providing guaranteed benefits); and
- (b) taxation.

4.2 For a period of ten years following the Transfer Date:

- (a) Pearl shall ensure that the amount of tax charged to the asset shares of Policies allocated to the LL WP Fund shall be no more than the amount that would have been charged to the asset shares of those Policies had they been allocated to separate funds in Pearl for pensions and life business respectively (equivalent to the Old LL Pensions With-Profits Fund and Old LL Life With-Profits Fund), including as a result of any change in the basis on which taxation is charged to mutual or proprietary life assurance companies in the United Kingdom during this period; and
- (b) to the extent that the amount of tax payable in respect of Long-Term Insurance Business allocated to the LL WP Fund is greater than the amount of tax that would have been payable had separate funds been maintained in respect of pensions and life business, the additional amount of tax shall be met by the Pearl Shareholders' Fund or the Non-Profit Fund (as determined by the Pearl Board).

5. **CLOSURE BONUS**

5.1 If the LL WP Fund is to be merged with the Non-Profit Fund in accordance with paragraph 23 of this Scheme, then the Pearl Board, having obtained appropriate actuarial advice, shall calculate the surplus then existing and likely to arise in the LL WP Fund on a basis which reflects the then current and likely financial, operating and other circumstances, without any allowance for the cost of any additional reserving in respect of such surplus.

5.2 For the purposes of paragraph 5.1 of this Part A, any amount transferred into the LL WP Fund by way of capital support, including any interest accrued thereon, shall not be accounted for as a liability of the LL WP Fund to the extent that the Pearl Actuary determines that the value of the assets allocated to the LL WP Fund would, if it were so counted, be less than the amount necessary to meet the reasonable expectations of the holders of Policies allocated to the LL WP Fund.

5.3 100 per cent. of the total surplus determined in accordance with paragraph 5.1 of this Part A shall be used to determine a scale of guaranteed increases in benefit for With-Profits Policies then allocated to the LL WP Fund (including any Hybrid Policies to the extent that such policies have with-profits benefits as at the date of merger) which will be applicable for all future years until the termination (in accordance with their terms) of each of the remaining With-Profits Policies allocated to the LL WP Fund (including any Hybrid Policies to the extent that such policies have with-profits benefits as at the date of merger) which are entitled to receive guaranteed increases in benefit under that scale and such Policies shall thereafter have no further right to participate in any of the profits of Pearl.

6. **NEW BUSINESS AND REASSURANCE**

6.1 No new Long-Term Insurance Business undertaken by Pearl after the Transfer Date shall be allocated to the LL WP Fund other than:

- (a) Policies written by Pearl pursuant to paragraph 5.4 or paragraph 6.2 of this Scheme in relation to any Transferred Policy or Excluded Policy;
- (b) additional premiums or increments receivable in respect of, or Policies coming into force as a result of any option or right contained in, any Policy allocated to the LL WP Fund which:
 - (i) arise otherwise than at the instigation of the holder of such a Policy;
 - (ii) would be allocated to such Policy in accordance with the practices or procedures of LL applicable to such Policy prior to the Transfer Date; or
 - (iii) would, in the opinion of the Pearl Actuary, if allocated to any fund other than the LL WP Fund, fail to satisfy the reasonable expectations of the holder of such a Policy;
- (c) Excluded Policies which are novated to Pearl;
- (d) reinsurance obligations undertaken pursuant to Part G of this Scheme; and
- (e) such other Policies, premiums or increments as may:
 - (i) be agreed by the Pearl Board and the Pearl With-Profits Committee to be more conveniently written in the LL WP Fund than in any other sub-fund in Pearl, whether for systems or administration reasons or otherwise; and
 - (ii) derive from or otherwise be related to any Transferred Policy or Excluded Policy.

6.2 Reassurance business will only be accepted by Pearl in respect of the LL WP Fund on such terms and in such volumes as approved by the Pearl Board, having obtained appropriate actuarial advice and having regard to the reasonable expectations of the holders of Policies allocated or reassured to the LL WP Fund. Approval of the terms will be given if, in addition to normal controls and guidance, the WP Actuary is satisfied that such reinsurance will not absorb capital within Pearl which can reasonably be foreseen as necessary to support the business of the LL WP Fund.

7. MIS-SELLING LIABILITIES

7.1 Subject to paragraph 7.2 of this Part A and notwithstanding any provision contained in the LL Scheme, any liability for compensation or redress or other costs in respect of the mis-selling of Policies allocated to the LL WP Fund shall be met by the Non-Profit Fund or the Pearl Shareholders' Fund, as the Pearl Board, having obtained appropriate actuarial advice, shall determine.

7.2 A payment or transfer of liabilities made to correct an error and which has the effect of restoring a policyholder, or former policyholder, and the LL WP Fund to the position that they would have been in if the error had not occurred is not a payment of compensation or redress for the purposes of paragraph 7.1 of this Part A.

PART B

Scheme Principles for the Financial Management of the Pearl WP Fund

1. INVESTMENT POLICY

1.1 The investment policy for the Pearl WP Fund shall be set by the Pearl Board, having obtained appropriate actuarial advice.

1.2 In setting investment policy for the Pearl WP Fund, the Pearl Board shall:

- (a) use reasonable endeavours to pursue an investment policy for the assets attributed to the Policies allocated or reassured to the Pearl WP Fund which is in the best interests of the holders of those Policies, subject to normal considerations of prudence, and having regard to the bonus policy in paragraph 2 of this Part B;
- (b) to the extent that this is considered necessary to ensure that the investment policy for the Pearl WP Fund is consistent with policyholders' reasonable expectations, have regard to the excess assets over regulatory capital requirements, if any, in the Non-Profit Fund and the Pearl Shareholders' Fund, but otherwise set the investment policy on the basis that no support will be provided by the free assets of any other sub-fund of the Pearl Long-Term Insurance Fund or the Pearl Shareholders' Fund (save to the extent that the Pearl Board, having obtained appropriate actuarial advice, so determines) and having regard to any reserving requirements of the Pearl WP Fund and the capital resource requirements which would be applicable to the Pearl WP Fund if it constituted the entire Pearl Long-Term Insurance Fund;
- (c) maintain the asset mix for With-Profits Policies allocated or reassured to the Pearl WP Fund in proportions which are consistent with the interests of policyholders, subject to such constraints as may, in the opinion of the Pearl Board, having obtained appropriate actuarial advice, be necessary to reduce the risk of the Pearl Long-Term Insurance Fund as a whole being unable to meet its statutory solvency and regulatory capital requirements; and
- (d) use reasonable endeavours (provided that such endeavours will not result in another sub-fund of Pearl being treated unfairly) to ensure that the Pearl WP Fund is not treated unfairly in comparison with the other sub-funds of the Pearl Long-Term Insurance Fund,

provided that nothing in this paragraph 1.2 shall prevent Pearl from implementing short term tactical asset allocation decisions from time to time which may not be consistent with these requirements.

2. BONUS POLICY

2.1 The bonus policy for the Pearl WP Fund shall be set by the Pearl Board, having obtained appropriate actuarial advice.

2.2 In determining the bonus policy for With-Profits Policies which are allocated or reassured to the Pearl WP Fund, the Pearl Board shall have regard to:

- (a) the bonus and surrender policy adopted by Pearl in relation to the Pearl WP Fund prior to the Transfer Date, as set out in the PPFM of Pearl in relation to the Pearl WP Fund;
- (b) the financial position and performance of the Pearl WP Fund from time to time;
- (c) the liabilities of the Pearl WP Fund, calculated in accordance with all applicable regulatory requirements, as set out in Pearl's annual Regulatory Returns; and
- (d) the capital resource requirements which would be applicable to the Pearl WP Fund if it constituted the entire Pearl Long-Term Insurance Fund,

but shall not set the bonus policy on the basis that support will be provided by the free assets of any other sub-fund of the Pearl Long-Term Insurance Fund, save to the extent that the Pearl Board, having obtained appropriate actuarial advice, so determines.

2.3 Subject to paragraph 3 of this Part B, in particular the bonus policy for the Pearl WP Fund shall aim to distribute the surplus assets in the Pearl WP Fund (in excess of those already earmarked for distribution to policyholders prior to the Effective Date, which shall include any estate in the Pearl WP Fund determined to be distributable by the Pearl Board but exclude any capital support provided under the terms of the Pearl Capital Policy) to With-Profits Policies allocated or reassured to the Pearl WP Fund (to the extent that participation by such With-Profits Policies in the distribution of such surplus assets is appropriate), such that distributions of surplus shall:

- (a) take place progressively and equitably during the anticipated period of existence of the Pearl WP Fund, taking into account the financial strength of the Pearl WP Fund from time to time;
- (b) take account of the anticipated transfers out of the Pearl WP Fund in accordance with paragraph 24.5 of the Scheme; and
- (c) seek to produce the result that after all sums falling to be paid in respect of all With-Profits Policies allocated or reassured to the Pearl WP Fund have been so paid, no such surplus shall remain.

For the avoidance of doubt, no Long-Term Insurance Business reassured into the Pearl WP Fund immediately following the Transfer Date (including all future premiums, increments or switches under the relevant Policies) shall be entitled to participate in any distribution of surplus assets in the Pearl WP Fund.

2.4 Where With-Profits Policies allocated or reassured to the Pearl WP Fund contain any discretion to determine the amount or value of any benefit, accrual or charge, including any discretion in relation to the determination of:

- (a) benefits allocated to Policies, whether by way of bonus, interest or otherwise;
- (b) the surrender, transfer and paid up value of any Policy; or
- (c) variable charges levied in relation to With-Profits Policies,

Pearl shall be responsible for securing within the Pearl WP Fund the equitable treatment of, and the equitable allocation of benefits to, holders of such Policies, having obtained

appropriate actuarial advice and having regard to the different classes of such Policies within the Pearl WP Fund.

3. CLOSURE BONUS

3.1 If the Pearl WP Fund is to be merged with the Non-Profit Fund in accordance with paragraph 23 of this Scheme, then the Pearl Board, having obtained appropriate actuarial advice, shall calculate the surplus then existing and likely to arise in the Pearl WP Fund on a basis which reflects the then current and likely financial, operating and other circumstances, without any allowance for the declaration of future bonuses or associated transfers out of the Pearl WP Fund which would be made in accordance with paragraph 24.5 of this Scheme.

3.2 Not less than 90 per cent. of the total surplus determined in accordance with paragraph 3.1 of this Part B shall be used to determine, taking into account the associated transfers which would be made out of the Pearl WP Fund in accordance with paragraph 24.5 of this Scheme, a scale of guaranteed increases in benefit for With-Profits Policies then allocated to the Pearl WP Fund (including any Hybrid Policies to the extent such policies have with-profits benefits as at the date of merger) which will be applicable for all future years until the termination (in accordance with their terms) of each of the remaining With-Profits Policies allocated to the Pearl WP Fund (including any Hybrid Policies to the extent that such policies have with-profits benefits as at the date of merger) which are entitled to receive guaranteed increases in benefit under that scale and such Policies shall thereafter have no further right to participate in any of the profits of Pearl.

4. SMOOTHING

The intention is that smoothing will be cost neutral over time.

5. CHARGES

Where charges are applied to Policies allocated or reassured to the Pearl WP Fund by reference to, or having regard to, solvency or financial position or prospects, only the solvency or financial position or prospects of the Pearl WP Fund shall be taken into account.

6. HYPOTHECATION

6.1 Assets allocated to the Pearl WP Fund may be hypothecated providing that prior to the hypothecation being implemented the Pearl Board, having taken appropriate advice (including appropriate actuarial advice), has confirmed in writing that it considers that:

- (a) the hypothecation (i) is unlikely to have a material adverse effect on the interests of any group or generation of holders of Policies allocated or reassured to the Pearl WP Fund and (ii) is unlikely to have an adverse effect on the interests of holders of Policies allocated or reassured to the Pearl WP Fund considered as a whole. If the hypothecation is likely to result or does result in a distribution of surplus assets in the Pearl WP Fund to holders of those Policies which is different from the distribution of those surplus assets which would occur or would have occurred had the hypothecation not been implemented, that shall not of itself be considered to be an adverse effect on the interests of holders of such Policies if the Pearl Board is of the opinion that the distribution of surplus assets following implementation of the hypothecation is fair; and

- (b) if applicable, the hypothecation is unlikely to have a material adverse effect on the interests of any group or generation of holders of Policies in WP Funds other than the Pearl WP Fund (as appropriate).

6.2 The provisions of paragraph 6.1 above shall apply notwithstanding any term of any Policy or any pre-existing practice of Pearl that would or might otherwise preclude the implementation of the hypothecation and, to the extent that these provisions conflict with any other provisions of this Scheme, the provisions of paragraph 6.1 above shall prevail.

7. **MISCELLANEOUS BUSINESS RISK**

Any business risk which, prior to the Transfer Date, may have been charged to the Pacific Fund in the event that the estate of the Pearl WP Fund was insufficient to meet the relevant cost or reserve requirement in accordance with the PPFM for the Pearl WP Fund in force immediately prior to the Transfer Date shall, following the Transfer Date, be met by the Pearl Shareholders' Fund or the Non-Profit Fund (as determined by the Pearl Board, having taken appropriate actuarial advice), but only to the extent that there is no estate within the Pearl WP Fund available to meet such cost or reserve requirement.

PART C

Scheme Principles for the Financial Management of the SERP Fund

1. INVESTMENT POLICY

1.1 The Pearl Board shall determine the investment policy of the SERP Fund, having obtained appropriate actuarial advice.

1.2 In setting investment policy for the SERP Fund, the Pearl Board shall:

- (a) use reasonable endeavours to pursue an investment policy for the assets attributed to the Policies allocated or reassured to the SERP Fund which is in the best interests of the holders of those Policies, subject to normal considerations of prudence, and having regard to the bonus policy set out in paragraph 2 of this Part C;
- (b) have regard to any reserving requirements of the SERP Fund and the capital resource requirements which would be applicable to the SERP Fund if it constituted the entire Pearl Long-Term Insurance Fund;
- (c) maintain the asset mix for With-Profits Policies allocated or reassured to the SERP Fund in proportions which are consistent with the interests of policyholders subject to such constraints as may, in the opinion of the Pearl Board, having obtained appropriate actuarial advice, be necessary to reduce the risk of the Pearl Long-Term Insurance Fund as a whole being unable to meet its statutory solvency and regulatory capital requirements;
- (d) use reasonable endeavours (provided that such endeavours will not result in another sub-fund of Pearl being treated unfairly) to ensure that the SERP Fund is not treated unfairly in comparison with the other sub-funds of the Pearl Long-Term Insurance Fund; and
- (e) not set the investment policy on the basis that support will be provided by the free assets of any other sub-fund of the Pearl Long-Term Insurance Fund, save to the extent that the Pearl Board, having obtained appropriate actuarial advice, so determines,

provided that nothing in this paragraph 1.2 shall prevent Pearl from implementing short term tactical asset allocation decisions from time to time which may not be consistent with these requirements.

2. BONUS POLICY

2.1 The bonus policy for the SERP Fund shall be set by the Pearl Board, having obtained appropriate actuarial advice.

2.2 In determining the bonus policy for With-Profits Policies which are allocated or reassured to the SERP Fund, the Pearl Board shall have regard to:

- (a) the bonus and surrender policy adopted by Pearl in relation to the SERP Fund prior to the Transfer Date, as set out in the PPFM of Pearl in relation to the SERP Fund;
- (b) the financial position and performance of the SERP Fund from time to time;

- (c) the liabilities of the SERP Fund, calculated in accordance with all applicable regulatory requirements, as set out in Pearl's annual Regulatory Returns; and
- (d) the capital resource requirements which would be applicable to the SERP Fund if it constituted the entire Pearl Long-Term Insurance Fund,

but shall not set the bonus policy on the basis that support will be provided by the free assets of any other sub-fund of the Pearl Long-Term Insurance Fund, save to the extent that the Pearl Board, having obtained appropriate actuarial advice, so determines.

- 2.3 Subject to smoothing as referred to in paragraph 4 of this Part C, the bonus policy for Policies allocated to the SERP Fund shall be determined with the intention of distributing equitably all of the assets of the SERP Fund to the holders of such Policies, including any estate arising in the SERP Fund determined to be distributable by the Pearl Board but excluding any capital support provided under the terms of the Pearl Capital Policy.

3. **CLOSURE BONUS**

- 3.1 If the SERP Fund is to be merged with the Non-Profit Fund in accordance with paragraph 23 of this Scheme, then the Pearl Board, having obtained appropriate actuarial advice, shall calculate the surplus then existing and likely to arise in the SERP Fund on a basis which reflects the then current and likely financial, operating and other circumstance, without any allowance for the cost of any additional reserving in respect of such surplus.

- 3.2 100 per cent. of the total surplus determined in accordance with paragraph 3.1 of this Part C shall be used to determine a scale of guaranteed increases in benefit for With-Profits Policies then allocated to the SERP Fund which will be applicable for all future years until the termination (in accordance with their terms) of each of the remaining With-Profits Policies allocated to the SERP Fund which are entitled to receive guaranteed increases in benefit under that scale and such Policies shall thereafter have no further right to participate in any of the profits of Pearl.

4. **SMOOTHING**

A smoothing account shall be maintained which shall be credited or debited with the difference between the payouts (excluding any increase due to payment of guaranteed benefits) and the asset shares. The intention is that smoothing will be cost neutral over time.

SCHEDULE 2

Costs, expenses and charges to the LL WP Fund

1. Except as provided in paragraph 4 of this Schedule 2, the expenses attributable to the LL WP Fund for each calendar year (the "**Relevant Year**") in respect of administration services and investment management services shall be calculated by aggregating:
 - (a) in respect of administration expenses:
 - (i) 6.60 per cent. of annualised premium (or, in the case of single premium policies, 0.66 per cent of such single premium) payable in respect of new Policies allocated to the LL WP Fund in the Relevant Year; and
 - (ii) the Relevant Amount (as set out in paragraph 2 of this Schedule 3) per Policy in force on 1 January of the Relevant Year and allocated to the LL WP Fund, increased to reflect the percentage increase in the RPI for the period from 1 July 1997 to 1 July in the Relevant Year (or, in the case of Group Pension Policies allocated to the LL WP Fund, 0.248 per cent of reserves attributable to those Policies as at 1 January in the Relevant Year); and
 - (b) in respect of investment management expenses, such amount as is determined by the Pearl Board, having obtained appropriate actuarial advice, to be fairly and equitably allocable to the LL WP Fund in the Relevant Year.
2. For the purposes of paragraph 1 of this Schedule 2, the "**Relevant Amount**" means:
 - (a) in respect of a basic life and general annuities With-Profits Policy that was an AMP UK Branch Policy, £20.21;
 - (b) in respect of a pension business With-Profits Policy that was an AMP UK Branch Policy, £20.21;
 - (c) in respect of (i) a basic life and general annuities With-Profits Policy that was an LLF Policy or (ii) a life LL Hybrid Policy, £19.77;
 - (d) in respect of a pension business With-Profits Policy that was an LLF Policy (excluding pension LL Hybrid Policies), £22.33;
 - (e) in respect of a Secure Pension Plus With-Profits Annuity, £28.66; and
 - (f) in respect of a pension LL Hybrid Policy, £65.29.
3. Where the period in respect of which an amount is payable in accordance with paragraph 2 of this Schedule 2 is a fraction of a calendar year the amount payable shall be determined in accordance with the formula $P = A \times (D/Y)$, where:

P = amount payable;

A = amount calculated in accordance with paragraph 2 of this Schedule 3;

D = days comprised in the period in respect of which the amount is payable; and

Y = 365 or, if the calendar year concerned is a leap year, 366.

4. The provisions of paragraphs 1 to 3 of this Schedule 2 shall not apply to any Policy written by Pearl into the LL WP Fund after the Transfer Date that does not fall within a category of Policy listed in paragraph 2 of this Schedule 2. Any expenses payable in respect of administration services and investment management services attributable to any such Policy shall be debited and charged as determined by the Pearl Board, having obtained appropriate actuarial advice.
5. At any time after the expiry of the period of five years from the Transfer Date, Pearl may review the operation of paragraphs 1 to 3 of this Schedule 2 and make such modifications to its provisions as are approved by the Pearl With-Profits Committee, having obtained appropriate actuarial advice.

SCHEDULE 3

Costs, expenses and charges to the SERP Fund

1. There shall be allocated to the SERP Fund only such amounts in respect of expenses and charges as are determined in accordance with this Schedule 3.
2. Subject to paragraph 4 of this Schedule 3, amounts in respect of maintenance and termination expenses (excluding investment management fees) to be allocated to the SERP Fund in respect of Policies allocated to the SERP Fund (the "**SERP Fund Charges**") shall be calculated annually by multiplying the annual per policy charge applicable at the time (determined as referred to in the provisions below) by the number of policies in force on 1 July in each calendar year and shall, so far as practicable, be so allocated monthly in advance. For this purpose, the annual per policy charges shall be set at the levels set out in the following table, adjusted (on a compound basis) on 30 June in each calendar year, commencing on 30 June 2010, by reference to the sum of:
 - (a) the change in RPI over the previous 12 months; and
 - (b) 1 per cent. per annum.

Per policy expenses applicable for the calendar year ending on 31 December 2010	Regular premium non-paid-up policy charges (£)	Single premium and paid-up policy charges (£)
Self Employed Retirement Plan	53.97	21.68

3. Amounts in respect of investment management fees to be allocated to the SERP Fund shall at any time be the lower of:
 - (a) a monthly fixed charge equivalent to an annual rate equal to 0.1125 per cent. of the average value of the property of the SERP Fund; and
 - (b) the equivalent charge incurred by the National Provident Life Fund for similar services pursuant to paragraph 5 of Schedule 4 of the NPLL Scheme.
4. The total increase (in percentage terms) applying to the SERP Fund Charges after 31 December 2009, based on the annual adjustments made in accordance with paragraphs 2(a) and 2(b) of this Schedule 3, shall not at any time be more than the total increase (in percentage terms) in the same period which applies to charges for similar services incurred by the National Provident Life Fund for similar services pursuant to Schedule 4 of the NPLL Scheme.

SCHEDULE 4

Pearl Capital Policy

1. This Schedule sets out the Pearl Capital Policy to be adopted with effect from the Effective Date. Terms defined in this Schedule bear the meanings given to these terms in the FSA Rules in force as at the Transfer Date.

Capital prior to implementation of Solvency II

2. Prior to the implementation of Solvency II in the United Kingdom, Pearl intends to hold amounts of capital in excess of liabilities on each of the following three bases (subject to amendment from time to time under paragraph 8 below):

2.1 *Test 1: Pillar 1*

The sum of:

- (a) in respect of each WP Fund, the proportion of the Capital Resources Requirement ("**CRR**") attributable to that fund, plus an amount equal to the greater of:
 - (i) the value of any positive free assets; and
 - (ii) 175 per cent. of the proportion of the Long-Term Insurance Capital Requirement ("**LTICR**") attributable to that fund less its With-Profits Insurance Capital Component ("**WPICC**"); and
- (b) 70 per cent. of the proportion of the CRR attributable to the Non-Profit Fund less 100 per cent. of the sum of the total positive free assets of the WP Funds, to the extent that those free assets represent the value of future transfers to a non-profit fund or the Pearl Shareholders' Fund, a negative overall result being permitted.

2.2 *Test 2: Pillar 2 (ICA)*

The sum of:

- (a) in respect of each WP Fund, 130 per cent. of the proportion of the Individual Capital Assessment ("**ICA**") attributable to that fund; and
- (b) 130 per cent. of the proportion of the ICA attributable to the Non-Profit Fund.

2.3 *Test 3: Pillar 2 (ICG)*

The sum of:

- (a) in respect of each WP Fund, 110 per cent. of the proportion of the ICG attributable to that fund; and
- (b) 110 per cent. of the proportion of the ICG attributable to the Non-Profit Fund.

Capital following implementation of Solvency II

3. Prior to the implementation of Solvency II in the United Kingdom, Pearl shall design such replacements for the three capital tests set out in paragraph 2 as it considers appropriate in the context of the regulatory changes brought about by Solvency II to ensure that Pearl can meet its Pillar 1 capital requirements (as that expression is used under Solvency II) in internally specified stress scenarios which the Pearl Board reasonably considers to be appropriate for Pearl from time to time, having regard to the risk appetite which the Pearl

Board has set for Pearl as a whole from time to time and the requirement to treat policyholders fairly. These replacement tests may take such form, be in such number and may make reference to such new solvency requirements as the Pearl Board, having obtained appropriate actuarial advice, considers appropriate, and different tests may apply to different Funds.

4. These tests shall replace the tests set out in paragraph 2 on the date on which Pearl becomes required to hold regulatory capital in accordance with FSA Rules which implement Solvency II, provided that the FSA has been notified (not less than three months prior to the implementation date for Solvency II in the United Kingdom) of the proposed new tests and has not objected thereto prior to their implementation.

Liquidity

5. In addition to the capital tests, Pearl intends, both prior to and following the implementation of Solvency II, to satisfy a liquidity test as follows:
 - 5.1 Pearl intends that the Non-Profit Fund and the Pearl Shareholders' Fund together should have sufficient admissible assets to meet the Pillar 1 liabilities of the Non-Profit Fund and the Pearl Shareholders' Fund, together with sufficient liquid assets to meet any immediate demands from the WP Funds for support in accordance with the Pearl Capital Policy (actual capital injections to meet either regulatory or realistic liabilities) plus an additional amount to be determined by the Pearl Board at least once per annum. Liquid assets shall mean, for this purpose, assets which are capable of being transferred from the Non-Profit Fund or the Pearl Shareholders' Fund to the WP Funds and which are appropriate assets, in the opinion of the Pearl Board (having obtained appropriate actuarial advice), for the WP Funds to hold.
 - 5.2 The additional amount referred to in paragraph 5.1 will be derived by considering the ability of the Non-Profit Fund and the Pearl Shareholders' Fund to meet the same test (excluding the additional amount) in the same range of internally specified stress scenarios as is used under paragraph 8 below to derive the capital policy percentages from time to time.

Support from Non-Profit Fund or the Pearl Shareholders' Fund

6. In the event that the value of the assets of any WP Fund falls below the regulatory minimum value of assets which must be held in that fund plus 0.5 per cent. of the Total Retrospective Reserve in respect of such WP Fund (or £5m if greater), support will be provided to that fund by way of a loan or other contribution arrangement from the Non-Profit Fund or the Pearl Shareholders' Fund to the extent that the Pearl Board determines there are assets in those funds available to make such a loan or contribution.
7. In addition, in the event that any WP Fund cannot, prior to implementation of Solvency II, meet the proportion of the CRR or ICA which is attributable to it from its own capital resources or, following the implementation of Solvency II, such equivalent requirements as may be specified under the terms of the replacement tests referred to in paragraphs 3 and 4, the Pearl With-Profits Committee can recommend that the Pearl Board holds additional capital in the Non-Profit Fund or the Pearl Shareholders' Fund to meet any shortfall. To the extent that the Pearl Board does not or cannot make sufficient assets available, then it will be necessary to take other actions within the relevant WP Fund to ensure that it can meet the proportion of the CRR or ICA or (following the implementation of Solvency II) other equivalent requirement which is attributable to it from its own capital resources.

Changes to the Pearl Capital Policy

8. The percentages in paragraph 2 of this Schedule 4 and any percentage margins specified in the new tests created pursuant to paragraphs 3 and 4 of this Schedule 4 will be subject to regular review by the Pearl Board to ensure that the Pearl Capital Policy continues to meet the underlying objective, namely that Pearl can meet Pillar 1 and (prior to implementation of Solvency II) Pillar 2 capital requirements in internally specified stress scenarios which the Pearl Board reasonably considers to be appropriate for Pearl from time to time, having regard to the risk appetite which the Pearl Board has set for Pearl as a whole from time to time and the requirement to treat policyholders fairly. Where consistent with this objective, the Pearl Board may specify increased or decreased percentages.
9. The internally specified stress scenarios used to determine the percentages specified in paragraph 2 of this Schedule 4 as at the date of the Order sanctioning this Scheme were designed in November 2011 by reference to a risk appetite of Pearl having a 1 in 20 chance over a one year time period of failing to meet its Pillar 1 capital requirements or the Pearl Board's assessment of its capital requirements as set out in its Pillar 2 capital assessment.
10. Following the Transfer Date, the Pearl Board may change the stress scenarios used to determine the percentages in paragraph 2 of this Schedule 4 from time to time and any percentage margins specified in the new tests created pursuant to paragraphs 3 and 4 of this Schedule 4 in order to reflect a change to the risk appetite which the Pearl Board has set for Pearl as a whole. To the extent that such a change would have the effect of reducing the amount of capital required to be held by Pearl, Pearl shall be required to obtain a certificate from an independent actuary to the effect that, in his opinion, the proposed change to the stress scenarios is unlikely to have a material adverse effect on the interests of the holders of Policies of Pearl overall; providing that no such certificate shall be required in relation to any change to the stress scenarios made in connection with the initial implementation of replacement capital tests pursuant to paragraphs 3 and 4 of this Schedule 4.
11. If FSA rules governing the calculation of any component of the Pearl Capital Policy change materially, the Pearl Board may also make other amendments to the Pearl Capital Policy which it considers to be appropriate for Pearl, subject to ensuring that, following such amendments, the Pearl Capital Policy continues to meet the underlying objective set out in paragraph 8 of this Schedule 4.

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

No. 4240 OF 2012

IN THE MATTER OF LONDON LIFE LIMITED

- and -

IN THE MATTER OF PEARL ASSURANCE LIMITED

- and -

**IN THE MATTER OF THE FINANCIAL SERVICES AND
MARKETS ACT 2000**

SCHEME

(pursuant to Part VII of the Financial
Services and Markets Act 2000)

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