

## **SUMMARY OF PROPOSED CHANGES TO THE DEMUTUALISATION SCHEME**

### **1. Introduction and Background**

National Provident Life Limited (NPLL) is proposing to transfer part of its business to Pearl Assurance plc (Pearl). This proposal is known as '**the Scheme**' and is described in the enclosed Scheme Guide. In connection with the Scheme, NPLL is seeking to obtain the approval of the High Court to some changes to the Demutualisation Scheme.

The Demutualisation Scheme provides that, if the terms of the Demutualisation Scheme prove "impossible, impracticable or inequitable to implement", then NPLL may decide, with the consent of the National Provident Life Fund Supervisory Board (**the Supervisory Board**), to apply to the High Court for consent to amend the terms of the Demutualisation Scheme, provided that:

- the Insurance Regulator, i.e. the Financial Services Authority (FSA), is notified of the High Court hearing and has the right to be heard at the hearing; and
- an independent actuary certifies that in his opinion, the proposed amendments will not adversely affect the reasonable expectations of, or reduce the protections conferred by the Demutualisation Scheme on, NPLL policyholders.

A copy of the independent actuary's certificate and his report in relation to the Scheme are available on the NPI website at **www.npi.co.uk**. That report sets out that, in the independent actuary's opinion, it has become inequitable to implement certain provisions of the Demutualisation Scheme and the proposed amendments to the Demutualisation Scheme will not adversely affect the reasonable expectations, or the protection, of NPLL policyholders.

In addition, NPLL's With-Profits Actuary has produced a report in relation to the Scheme. This report, also available on the NPI website at **www.npi.co.uk**, includes a review of the proposed amendments to the Demutualisation Scheme and sets out his opinion that it has become inequitable to implement certain provisions of the Demutualisation Scheme and that the proposed changes to the Demutualisation Scheme will not adversely affect the reasonable expectations, or the protection of, NPLL policyholders.

The Board of NPLL has accordingly concluded that continued implementation of the Demutualisation Scheme in its current form is inequitable and has decided to apply to the High Court to amend some of the terms of the Demutualisation Scheme. The Supervisory Board has consented to the application and amendments.

The next section of this document summarises and explains the changes to the Demutualisation Scheme, which fall into three categories. The full text of the changes is available on the NPI website at **www.npi.co.uk**.

### **2. Proposed Changes to the Demutualisation Scheme**

#### *2.1 Principles of Financial Management*

- The proposed changes to the Demutualisation Scheme would allow NPLL greater flexibility in determining the investment strategy for the NPLL with-profits fund.

- The Demutualisation Scheme currently requires a common investment policy to be adopted across all of NPLL's policies. The changes will mean that, in future, we may be able to invest, for certain groups of policies, a proportion of the fund in equity-type investments that have the potential to give higher returns in the longer term, thereby potentially improving investment outlook. **As with all equity-based investments, there is a risk that the value of your investment could go down as well as up.** However, we will only change our investment approach when we believe the time is right, with full regard to market conditions, if we believe it will preserve the fair treatment of policyholders within the NPLL fund and following advice from the NPLL With-Profits Actuary and the consent of the Supervisory Board.

## 2.2 *Transfer of amounts to and from NPLL funds*

- Some minor changes have been proposed to the Demutualisation Scheme to allow greater flexibility in the transfer of amounts to and from, and between, the different NPLL funds. This is necessary to facilitate the transfer of assets to Pearl as part of the Scheme.

## 2.3 *Shareholder Equalisation Fund (SEF)*

- NPLL is proposing to establish a new 'shareholder equalisation fund' for NPLL shareholders as compensation for the loss in value of the 'support charges' that would have been due to the shareholder if the Scheme did not take place. These support charges are in accordance with the Demutualisation Scheme and relate to funds provided by the NPLL shareholder in 2000 at the time of demutualisation.
- When taken together with the Scheme and the other changes to the Demutualisation Scheme, we do not expect that there will be any material impact on NPLL policyholders as a result of setting up the SEF.

## 3. **Next Steps**

We would encourage you to read all the enclosed information to make sure you understand our proposals.

The approval of the Scheme and the changes to the Demutualisation Scheme are inter-conditional, meaning that neither will go ahead unless both have been approved by the High Court. If the High Court approves both the Scheme and the changes to the Demutualisation Scheme, the changes to the Demutualisation Scheme are expected to take place on the same date as the Scheme Transfer Date – 15 February 2010.

If you believe you would be adversely affected by the changes to the Demutualisation Scheme, you may put your objections to the High Court. The process for objecting to the Demutualisation Scheme is the same as the process for objecting to the Scheme, and is explained in section 6 of the enclosed Scheme Guide.

Following the Court hearings in respect of the Scheme and the proposed amendments to the Demutualisation Scheme, which are scheduled to take place simultaneously on 20 January 2010, the Pearl and NPI websites at [www.npi.co.uk](http://www.npi.co.uk) and [www.pearl.co.uk](http://www.pearl.co.uk) will be updated to show the outcomes. We will also put a recorded message on our Scheme Helpline **0845 602 9296**.