

ECCLESIASTICAL INSURANCE OFFICE PLC

- and -

ALLCHURCHES LIFE ASSURANCE LIMITED

SCHEME

Sanctioned by the Court by Order on 28 July 2003

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Scheme pursuant to section 111 of the Financial Services and Markets Act 2000 under which the long term business of Ecclesiastical Insurance Office plc is to be transferred to Allchurches Life Assurance Limited.

PART A – INTERPRETATION

1. Definitions and Interpretations

1.1 Definitions: In this Scheme (including the Schedules), unless the subject or context requires otherwise, the following words and expressions shall have the meanings set out below.

Act means the Financial Services and Markets Act 2000;

Admissible Value means a value determined in accordance with the IPRU (INS), Chapter 4;

ALA means Allchurches Life Assurance Limited, a private company limited by shares incorporated under the Companies Act 1948 and registered in England with number 243111;

ALA Appointed Actuary means the Appointed Actuary of ALA;

ALA Board means the Board of Directors of ALA from time to time;

ALA Reassurance Agreement means the Life Reassurance Agreement between EIO as the ceding office and ALA as the reinsurer relating to certain endowment business;

Appointed Actuary means the person who from time to time is the actuary to the relevant insurer appointed pursuant to SUP;

Appointed Actuary's Report means the report of the Appointed Actuary in relation to this Scheme;

Appropriate Assets means property from amongst the Transferred Assets selected by the ALA Appointed Actuary as he considers appropriate having regard to the nature of the relevant liabilities, if any, to be matched by the property selected;

Asset Shares means asset shares as determined and maintained by the relevant Appointed Actuary;

Business Day means Monday to Friday inclusive but excluding a day on which banks in London are closed for general business;

Court means the High Court of Justice in England;

Ecclesiastical Group means Allchurches Trust Limited and its subsidiaries from time to time;

Effective Date means the time and date on which the Scheme becomes effective in accordance with paragraph 22;

EIO means Ecclesiastical Insurance Office plc, a public company limited by shares registered in England under number 24869;

EIO Appointed Actuary means the Appointed Actuary of EIO;

Encumbrance means any mortgage, charge, pledge, assignation in security, standard security, lien, option, restriction, right of first refusal, right or pre-exemption, third party right or interest, any other encumbrance or security interest of any kind and any other type of preferential arrangement (including, without limitation, title transfer and retention agreements) having a similar effect;

Endowment Certain Fund means the Endowment Certain and Long Term Sickness Fund being a separate fund, with that name, maintained by EIO prior to the Effective Date;

Excluded Policies means Policies under which any liability (whether current or future, certain or contingent) remains unsatisfied or outstanding at the Effective Date:

- (a) written by EIO in the course of carrying on long term business in the United Kingdom or any other member State, in respect of which:
 - (i) for the purpose of paragraph 6 of Schedule 12 to the Act a member State other than the United Kingdom is the State of the commitment; and
 - (ii) the Regulator has not prior to the issue of the Order provided the certificate referred to in paragraph 4 of Schedule 12 to the Act with respect to the relevant member State which is the State of the commitment,

and for these purposes *member State* and *State of the commitment* bear the meanings ascribed thereto by, or for the purposes of, the Act; or

- (b) written by EIO in the course of carrying on long term business but which are not otherwise capable of being transferred pursuant to the Act on the Effective Date

and any further policy issued by EIO pursuant to the exercise of any right or option under an Excluded Policy, as described in paragraph 8.5;

Excluded Policies Reassurance Agreement means the reassurance agreement to be entered into between EIO and ALA in respect of Excluded Policies pursuant to paragraph 8.2 as the same may be amended from time to time;

Existing Reassurance Treaties means each reassurance agreement, contract or treaty pursuant to which the long term business of EIO or any part thereof is reassured at the Effective Date;

FSA means the Financial Services Authority;

Independent Expert means Michael Arnold FIA, the actuary appointed to report on the terms of this Scheme as required by section 109(2) of the Act, or any successor appointed to act as Independent Expert and approved by the Regulator;

Infrastructure Assets means the property (excluding for the avoidance of doubt property held as investments) used by EIO in the conduct of its long term business including, but not limited to:

- (a) furniture, computers and other tenant's fittings, office equipment, software, stationery, stocks or consumables and the like and vehicles; and
- (b) books, records and documents relating to the assets referred to in paragraph (a);

(c) Infrastructure Contracts,

including all of EIO's rights against third parties to the extent that they relate to any of the above;

Infrastructure Contracts means the benefit and burden in respect of periods after the Effective Date of:

- (a) hire purchase and leasing contracts and licences to which EIO is a party as at the Effective Date and which relate solely to the Transferred Business;
- (b) contracts of employment with employees of EIO employed in the long term business of EIO;
- (c) leases of Operating Leaseholds; and
- (d) any other agreements to which EIO is a party as at the Effective Date to the extent that they relate to the Infrastructure Assets or any part thereof;

IPRU (INS) means the Interim Prudential Sourcebook for Insurers containing rules and guidance issued by the Regulator;

liabilities include (without limitation) obligations and duties of every description (whether present, future, actual or contingent);

LIBOR means the percentage which is the arithmetic mean (rounded to the nearest five decimal places with the mid-point rounded upwards) of the rates fixed by each of Lloyds TSB Bank plc, Barclays Bank plc and The Royal Bank of Scotland plc (or any successor entity of any of them) (the "**Reference Banks**") as the rate at which such Reference Banks offer sterling deposits for a three month period in the London Interbank Market at or about 11.00am on the relevant date as displayed on Reuters page LIBP (or any successor page);

long term business means the business of effecting or carrying out long term insurance contracts, being contracts falling within Annex 11.1 of IPRU (INS);

Long Term Fund means the fund established and to be maintained by ALA pursuant to IPRU (INS) rule 3.1 in respect of long term business;

Minimum Solvency Margin means the required minimum margin of solvency pursuant to the Margins of Solvency rules contained in IPRU (INS);

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

Policy has the same meaning as is specified for the purposes of section 424(2) of the Act;

proceedings means any judicial, quasi-judicial, administrative or arbitration proceedings;

property includes (without limitation) property and assets of every description and rights of every description (whether present or future, actual or contingent) and includes property held on trust and securities, benefits, powers of every description and any interest whatsoever in any of the foregoing;

Regulator means the FSA or such other body as shall from time to time carry out such functions in relation to long term business carried on in the United Kingdom as are on the date of this Scheme allocated to the FSA under the Act;

Residual Asset means:

- (a) any property or other rights of EIO in respect of which the Court has not ordered the transfer to ALA under section 112(2) of the Act;
- (b) any other property of EIO attributable to the Transferred Business (including any right or benefit under a Transferred Policy) where the parties agree that their transfer should be delayed;
- (c) any other interest of EIO in any property or agreement relating thereto which EIO and ALA determine prior to the Effective Date (or in the case of any property which is already a Residual Asset, before the Subsequent Transfer Date applicable thereto) is more conveniently to be transferred pursuant to this Scheme in conjunction with any property referred to in paragraph (b) of this definition;
- (d) any proceeds of sale or income or other accrual or return whatsoever, whether or not in any case in the form of cash earned on or received after the Effective Date in respect of any such property referred to in paragraph (b) or (c) of this definition from time to time after the Effective Date but prior to any Subsequent Transfer Date;

Residual Liability means any liability whatsoever (whether present, future, actual or contingent) of EIO (other than 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;
- (b) in respect of which the Court has not ordered the transfer to ALA under section 112(2) of the Act;

RPI means the Retail Prices Index (All Items) maintained by the Central Statistical Office (or its successor from time to time) or if such index ceases to be produced or is determined by the ALA Appointed Actuary to have ceased to be the appropriate measure, such other index for measuring inflation in the United Kingdom as most closely reflects that index which the ALA Appointed Actuary may substitute therefor;

Scheme means this Scheme in its original form or with, or subject to, any modification, addition or condition which may be approved or imposed by the Court pursuant to paragraph 24 or consented to by the Court pursuant to paragraph 24;

Shareholder Fund means in relation to ALA, the assets and liabilities of ALA other than those attributable, to or represented, by the Long Term Fund and in relation to EIO, the assets and liabilities of EIO other than those attributable to, or represented by EIO's Long Term Fund and the EIO General Business Fund;

Subsequent Transfer Date means, in relation to any Residual Asset or Residual Liability, the date after the Effective Date on which such Residual Asset or Residual Liability is or is to be transferred to ALA, namely:

- (a) in respect of any Residual Asset falling within paragraph (a) of the definition thereof and of any Residual Liability which is attributable to, or connected with, that Residual Asset or which falls within paragraph (b) 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 (c) of the definition thereof and of any Residual Liability which is attributable to or connected with that Residual Asset, the date upon which the parties agree the transfer should take effect; and
- (c) in the case of any Residual Asset falling within paragraph (d) of the definition thereof, the date on which such Residual Asset is received or earned by EIO;

SUP means the Supervision Manual issued by the Regulator;

tax or 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 (without limitation) income tax, corporation tax, advance corporation tax, capital gains tax, inheritance tax, value added tax, customs duties, excise duties, stamp duty, stamp duty reserve 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 or fine in connection with any taxation;

tax relief means any relief, loss, allowance, exemption, set-off, deduction or credit in computing or against profits, gains or taxation, or any right to repayment of taxation together with any interest or supplement thereon;

transfer includes (without limitation) *assign* or *assignment* or *dispose* or *disposal* or *convey* or *conveyance* as the case may be;

Transferred Assets means all the assets of EIO whatsoever and wheresoever situated as at the Effective Date relating to the Transferred Business including without prejudice to the generality of the foregoing:

- (a) the rights, benefits and powers of EIO under or by virtue of the Transferred Policies;
- (b) 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 EIO having carried on the Transferred Business;
- (c) all client records relating to the Transferred Business;

but excluding the Residual Assets and rights, benefits and powers under the Excluded Policies and the Infrastructure Assets;

Transferred Business means the whole of the long term business of EIO carried on at the Effective Date including (i) all activities to the extent carried on for the purposes of such business and (ii) any proposals or applications for insurance not yet accepted as at the Effective Date, save to the extent that such business consists of rights, benefits, powers and liabilities under Excluded Policies;

Transferred Liabilities means all liabilities whatsoever of EIO relating to the Transferred Business whether present, future, actual or contingent (other than the Residual Liabilities and liabilities under or relating to the Excluded Policies) and in particular (but without prejudice to the generality of the foregoing) the liabilities under the Transferred Policies, all reinsurance liabilities (which for the avoidance of any doubt shall include all reinsurance cessions accepted by EIO before the Effective Date), all liability to pay levies under the Financial Services Compensation Scheme or any predecessor schemes including under the Investors Compensation Scheme or the Policyholders Protection Act and all liability to taxation arising as a result of events occurring or periods falling before the Effective Date which is attributable to the Transferred Business or to the transfer thereof pursuant to the Scheme or otherwise arising as a consequence of the provisions of or implementation of the Scheme whensoever incurred;

Transferred Policies means every Policy written by EIO under which any liability (whether current or future, certain or contingent) remains unsatisfied or outstanding at the Effective Date and comprised in the Transferred Business, including:

- (a) Policies written by EIO which have lapsed before the Effective Date and which are reinstated by ALA after the Effective Date; and
- (b) all proposals or applications for insurance received by EIO before the Effective Date which have not become Policies in force by the Effective Date but which subsequently become Policies,

but excluding the Excluded Policies;

Value of In Force Without Profit Business means the value calculated for the purpose of paragraph 16.1 in accordance with Schedule 1;

With Profit Fund means up to the Effective Date the existing ALA with profit fund and on and from the Effective Date that same fund which shall from then on continue to be maintained as a separate sub-fund within the Long Term Fund in accordance with paragraph 12;

Without Profit Fund means up to the Effective Date the existing ALA without profit fund and on and from the Effective Date that same fund which shall from then on continue and be maintained as a separate sub-fund within the Long Term Fund in accordance with paragraph 12;

With Profit Policy means any Policy which, at the relevant time confers on the holder a right to share in the profits of the EIO Life and Annuity Fund or the With Profit Fund (before or after the Effective Date).

- 1.2 **Headings:** Headings are inserted for convenience only and shall not affect the construction of this Scheme.
- 1.3 **Exercise of powers of control:** Where any obligation pursuant to this Scheme is expressed to be undertaken or assumed by any person, such obligation shall be construed as including a requirement on that person to exercise all rights and powers of control over the affairs of any other person which that person is properly able to exercise (whether directly or indirectly) in order to secure performance of such obligation.

- 1.4 **Modification etc. of statutes:** In this Scheme any reference to an enactment, a statutory provision or subordinate legislation shall, save where expressly provided to the contrary, include a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, re-enacted or replaced from time to time and shall include (i) any order or instrument made under such enactment, statutory provision or subordinate legislation and any amendment or replacement thereof and (ii) any past statutory provision (as from time to time modified or re-enacted) which such provision has directly or indirectly replaced or re-enacted.
- 1.5 **References:** Any reference to this Scheme shall include any Schedules to it and references in this Scheme to paragraphs, Parts or Schedules are to paragraphs of, Parts of and Schedules to this Scheme.
- 1.6 **Singular:** Any word in the singular shall include the plural and vice versa.
- 1.7 **Gender:** Any reference to the one gender shall include the other.
- 1.8 **Reference to a person:** 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.
- 1.9 **Calculation of dates:** If a period of time is specified from a given day or date or from the day or date of an act or event, it shall be calculated exclusive of that day or date.
- 1.10 **References to writing:** Any reference to writing shall include any modes of reproducing words in a legible and non-transitory form.
- 1.11 **Policyholders reasonable expectations:** Any reference in this Scheme to the policyholders reasonable expectations or similar expressions shall include a reference to the requirement on firms regulated under the Act to have regard to the interests of their customers and to treat them fairly.

PART B – INTRODUCTION

2. Introduction

- 2.1 EIO is a public company limited by shares incorporated in England on 3 August 1887 under number 24869. It changed its name to its current name on re-registration as a public company on 8 June 1981. The registered office of EIO is at Beaufort House, Brunswick Road, Gloucester GL1 1JZ.
- 2.2 ALA is a private company limited by shares incorporated in England on 19 October 1929 under number 243111. The registered office of ALA is at Beaufort House, Brunswick Road, Gloucester GL1 1JZ. ALA changed its name to its current name on 4 December 1985. It is intended that ALA should change its name to Ecclesiastical Life Limited with effect from or as soon as possible after the Effective Date.
- 2.3 Each of EIO and ALA is an authorised person for the purposes of the Act and has a Part IV permission under the Act to transact long term business in classes I, II, III, IV, VI and VII in the United Kingdom.
- 2.4 It is proposed that, subject to and in accordance with section 111 of, and Schedule 12, to the Act, the whole of the long term business and the undertaking, property, assets and liabilities of EIO attributable to such long term business, other than the Excluded Policies, shall by the Order and without any further act or instrument be transferred to ALA and thereafter shall be dealt with in accordance with this Scheme.

PART C – TRANSFER

3. Transfer of Business

- 3.1 With effect from the Effective Date the Transferred Business shall be transferred to and be vested in ALA in accordance with this Part C.

4. Transfer of Assets

- 4.1 With effect from the Effective Date the Transferred Assets shall by the Order and without any further act or instrument, be transferred by EIO to and vest in ALA, subject to all Encumbrances (if any) affecting such Transferred Assets.
- 4.2 With effect from each Subsequent Transfer Date each Residual Asset to which such Subsequent Transfer Date applies shall (subject to paragraph 10), by the Order and without any further act or instrument, be transferred by EIO to and vest in ALA, subject to all Encumbrances (if any) affecting such Residual Asset.
- 4.3 ALA shall accept without investigation or requisition such title as EIO shall have at the Effective Date to the Transferred Assets, and at each Subsequent Transfer Date to the Residual Asset then transferred.
- 4.4 EIO and ALA shall take all reasonable steps, and execute such documents, as may be reasonably required by either of them at any time to effect or perfect the transfer to and vesting in ALA of any Transferred Asset or any Residual Asset in accordance with the terms of this Scheme.
- 4.5 The Transferred Assets and Residual Assets shall be allocated as set out in Part D.

5. Transfer of Liabilities

- 5.1 With effect from the Effective Date the Transferred Liabilities shall, by the Order and without any further act or instrument (but subject to the terms of the Order and save as otherwise provided by this Scheme), be transferred by EIO to and become liabilities of ALA, and EIO shall be released from any liability in respect of the Transferred Liabilities.
- 5.2 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 (but subject to the terms of the Order and save as otherwise provided by this Scheme), be transferred by EIO to and become a liability of ALA, and EIO shall be released from any liability in respect of the Residual Liability then transferred.
- 5.3 The Transferred Liabilities and Residual Liabilities shall be allocated as set out in Part D.

6. Continuity of Proceedings

- 6.1 With effect from the Effective Date any proceedings which are pending by or against EIO in connection with the Transferred Policies, the Transferred Assets or the Transferred Liabilities shall be continued by or against ALA, and ALA shall be entitled to all defences, claims, counterclaims and rights of set-off which would have been available to EIO in relation to the Transferred Policies, the Transferred Assets and the Transferred Liabilities.

6.2 With effect from the Subsequent Transfer Date applicable thereto any proceedings which are pending by or against EIO in connection with the Residual Assets or the Residual Liabilities shall be continued by or against ALA and ALA shall be entitled to all defences, claims, counterclaims and rights of set-off which would have been available to EIO in relation to the Residual Assets and Residual Liabilities.

7. Rights and Obligations under Policies

7.1 With effect from the Effective Date ALA shall become entitled to all the rights and powers of EIO whatsoever subsisting on the Effective Date under or by virtue of the Transferred Policies.

7.2 Every person who is a holder of any of the Transferred Policies shall with effect from the Effective Date become entitled, in succession to, and to the exclusion of, any rights which he may have had against EIO under any of the Transferred Policies, to the same rights against ALA as were available to him against EIO under such policies.

7.3 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 ALA Appointed 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 ALA 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 ALA of such a Policy) if ALA 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, ALA shall be entitled to offer to such person in lieu thereof the Policy commonly offered by ALA at that time which ALA Appointed Actuary considers to be the nearest equivalent Policy.

7.4 Every person who immediately prior to the Effective Date is a party to a Transferred Policy shall, from and after the Effective Date, in substitution for any liability to or obligation owed by him thereunder to EIO, be under the same liability or obligation to ALA and (as regards Transferred Policies under which premiums or other sums attributable or referable thereto continue to be payable) shall with effect from the Effective Date account to ALA for any further or additional premiums or other sums attributable or referable thereto as and when the same become due and payable.

7.5 All references in any Transferred Policy to EIO, its board of directors, the EIO Appointed Actuary or any other officers or employees of EIO shall from and after the Effective Date be read as references to ALA, the ALA Board, the ALA Appointed Actuary or any other officers or employees of ALA or, where appropriate, agents of ALA to which the administration or investment management of the business carried on by ALA has been delegated. In particular, but without limitation, all rights and/or duties exercisable or expressed to be exercisable or responsibilities to be performed by EIO, its board of directors, the EIO Appointed Actuary or any other officers or employees of EIO in relation to any of the Transferred Policies shall, from and after the Effective Date, be exercisable or required to be performed by ALA, the ALA Board, the ALA Appointed Actuary or any other officers or employees of ALA or such agents of ALA.

8. Excluded Policies

- 8.1 The Excluded Policies shall not be transferred to ALA by this Scheme and, subject to paragraph 8.6, the liabilities under such Excluded Policies shall remain liabilities of EIO but shall at all times after the Effective Date be reassured and administered in their entirety by ALA on terms consistent with those described in this paragraph 8.
- 8.2 On or prior to the Effective Date EIO shall enter into the Excluded Policies Reassurance Agreement with ALA pursuant to which, subject to paragraph 8.6, with effect from the Effective Date, all the liabilities of EIO attributable to the Excluded Policies and all other amounts paid or payable by EIO in respect of the Excluded Policies shall be reassured in their entirety into ALA.
- 8.3 The premiums payable under the Excluded Policies Reassurance Agreement shall comprise an amount equal to:
- (a) in the case of those Excluded Policies which are not With Profit Policies, the aggregate amount of the mathematical reserves relating to the Excluded Policies reassured as at the Effective Date and in the case of the Excluded Policies which are With Profit Policies the aggregate amount of the Asset Shares relating to reassured Excluded Policies as at the Effective Date. The part of the premium referred to in this paragraph (a) shall be deemed to have been satisfied by the transfer to ALA of the appropriate proportion of the Transferred Assets; and
 - (b) all subsequent premium payments and all other amounts received by EIO in respect of such Excluded Policies at any time after the Effective Date.
- 8.4 The liability of ALA in respect of the Excluded Policies Reassurance Agreement, including the obligation to make payments in respect of claims made, annuities in payment and bonuses declared, shall be calculated so as to ensure that benefits are provided to policyholders of Excluded Policies which are the same as the benefits which would have accrued to such policyholders if such Excluded Policies had been Transferred Policies.
- 8.5 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 ALA Appointed 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 EIO 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 EIO of such a Policy) ALA shall be entitled to offer in lieu thereof the Policy commonly offered by ALA which at that time ALA considers to be the nearest equivalent Policy provided that the issue of such Policy by ALA would not, in the opinion of the ALA Appointed Actuary, result in a liability, or an increase in the liability, to tax of the holder of such Policy which would not have resulted had such Policy been issued by EIO. Any Policy issued by EIO under the provisions of this paragraph 8.5 shall be treated as an Excluded Policy for the purposes of this paragraph 8 and shall be reassured on the basis set out in this paragraph 8.

8.6 If ALA procures the novation of any Excluded Policy to ALA the property and liabilities relating to such Policy shall, to the extent not previously transferred, be transferred to ALA and such Policy shall thereafter be dealt with by ALA under the provisions of this Scheme in all respects as if such Excluded Policy were a Transferred Policy.

9. Premiums, mandates and other instructions

9.1 All premiums and other amounts payable by the holders of Transferred Policies on and after the Effective Date shall be payable to ALA and shall be allocated to the fund to which the Policy to which they relate is allocated pursuant to paragraph 13.

9.2 Any mandate or other instruction in force on the Effective Date (including, without limitation, 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 under or in respect of any Transferred Policy to EIO shall thereafter take effect as if it had provided for and authorised such payment to ALA.

9.3 Any mandate or other instruction in force on the Effective Date as to the manner of payment of any amount in respect of a Transferred Policy given to EIO shall thereafter continue in force as an effective authority to ALA.

10. Declaration of Trust by EIO

10.1 If:

(a) any property of EIO proposed to be transferred by this Scheme is not, or is not capable of being, transferred to and vested in ALA by the Order on the Effective Date by reason of:

(i) such property being a Residual Asset; or

(ii) such property being outside the jurisdiction of the Court; or

(iii) any other reason; or

(b) any Residual Asset is not, or is not capable of being, transferred to and vested in ALA by the Order on the Subsequent Transfer Date applicable thereto; or

(c) the transfer of any property of EIO attributable to the Transferred Business outside the jurisdiction of the Court is not recognised by the laws of the jurisdiction in which such property is situated; or

(d) in any circumstances ALA shall decide before the Effective 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 EIO;

EIO shall, 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) hold any property referred to in sub-paragraphs (a) to (d) of this paragraph 10.1 as trustee for ALA absolutely.

10.2 EIO shall, in any event, be subject to ALA's exclusive directions in respect of any property referred to in sub-paragraphs (a) to (d) of paragraph 10.1 from the Effective Date until the relevant property is transferred to or otherwise vested in ALA or is disposed of (whereupon

EIO shall account to ALA for the proceeds of sale thereof), and ALA shall have authority to act as the attorney of EIO in respect of such property for all such purposes.

10.3 If any payment being made to, property being received by or right being conferred upon EIO after the Effective Date in respect of the Transferred Business, any Transferred Asset or any Residual Asset, EIO 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, ALA and ALA shall indemnify EIO on demand against any costs incurred by EIO in making any such payment or transfer.

11. Indemnities in favour of EIO

11.1 On and from the Effective Date ALA shall discharge on EIO's behalf or, failing that, shall indemnify EIO 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 the Act (whether made before, on or after the Effective Date) (other than liabilities which are the subject of paragraph (b) below) until the relevant liability is transferred to or becomes a liability of ALA;
- (b) any amount paid by EIO in respect of any liabilities of EIO relating to the Transferred Business that are, whether wholly or in part, the subject of a policy of indemnity insurance or a claim against a third party, but only to the extent that EIO shall have failed, having made a claim under a policy or against such third party, to recover any such amount pursuant to rights it may have under such policy or claim.

PART D – FUND STRUCTURE

12. Maintenance of Funds

- 12.1 **Maintenance of funds and sub-funds:** With effect from the Effective Date it shall be a requirement of the Scheme being implemented in accordance with the Act that ALA shall maintain, for management and accounting purposes, the With Profit Fund and the Without Profit Fund each as a separate sub-fund within the Long Term Fund.
- 12.2 **Further sub-funds:** ALA may establish and maintain further sub-funds within its Long Term Fund or within the With Profit Fund or Without Profit Fund from time to time unless the terms on which those sub-funds operate prejudice the reasonable expectations of the holders of Transferred Policies.

13. Transfer and allocation of Policies

- 13.1 **Allocation of Policies to the With Profit Fund:** With effect from the Effective Date, ALA shall allocate to the With Profit Fund the Transferred Policies which are With Profit Policies together with supplementary term benefits, waiver of premium riders and associated non-profit riders.
- 13.2 **Allocation of Policies to the Without Profit Fund:** With effect from the Effective Date, all Transferred Policies other than the Policies referred to in paragraph 13.1, shall be allocated to the Without Profit Fund including, for the avoidance of doubt, all Endowment Certain Fund Policies.

14. Transfer and allocation of assets

- 14.1 **Allocation to Shareholder Fund:** With effect from the Effective Date, there shall be allocated to the Shareholder Fund all rights in client records comprised in the Transferred Business.
- 14.2 **Allocation to Without Profit Fund:** With effect from the Effective Date, the following shall be allocated to the Without Profit Fund:
- 14.2.1 all the Transferred Assets which were allocated to the Endowment Certain Fund immediately prior to the Effective Date;
- 14.2.2 Appropriate Assets which form part of the Transferred Assets not referred to in paragraph 14.2.1 to match the Policy liabilities allocated to the Without Profit Fund under the Scheme. The assets will have an Admissible Value, ignoring rule 4.14 of IPRU (INS), equal to the aggregate of the value, determined in accordance with Chapter 5 of IPRU (INS) (Determination of Liabilities), of the liabilities allocated to the Without Profit Fund, including current liabilities, (net of external reinsurance), the value of such liabilities being calculated by the Appointed Actuary in accordance with IPRU (INS) on a basis consistent with that applied in the 31 December 2002 valuation by EIO (except as required to reflect any changes in applicable rules and regulations since that date) and so as to include any expense reserves, contingent tax or other tax reserves and any resilience and other mis-matching reserve in such calculation but having regard to the assets allocated;

- 14.2.3 all rights and benefits arising under the Existing Reassurance Treaties to the extent that they relate to Policies allocated to the Without Profit Fund and under the Excluded Policies Reassurance Agreement (to the extent that they relate to Excluded Policies which would have been allocated to the Without Profit Fund if they had been Transferred Policies);
- 14.2.4 the beneficial interest in all property held on trust pursuant to paragraph 10, to the extent that such property (or the property to which such payment, property or right relates) would have fallen within the provisions of this paragraph 14.2 if it had been capable of being transferred on the Effective Date.
- 14.3 **With Profit Fund:** With effect from the Effective Date the following shall be allocated to the With Profit Fund:
- 14.3.1 all Transferred Assets apart from those of the Transferred Assets allocated to the Shareholder Fund or the Without Profit Fund as referred to in paragraphs 14.1 and 14.2;
- 14.3.2 the beneficial interest in all property held on trust pursuant to paragraph 10, to the extent that such property (or the property to which such payment, property or right relates) would have fallen within the provisions of this paragraph 14.3 if it had been capable of being transferred on the Effective Date.
- 14.4 **Pre-Effective Date assets in With Profit Fund:** All the assets allocated to the With Profit Fund immediately prior to the Effective Date shall continue to be allocated to that sub-fund on the Effective Date except to the extent specifically referred to in the Scheme.
- 14.5 **Pre-Effective Date assets in Without Profit Fund:** All the assets allocated to the Without Profit Fund immediately prior to the Effective Date shall continue to be allocated to that sub-fund on the Effective Date except to the extent specifically referred to in the Scheme.
15. **Transfer and allocation of liabilities**
- 15.1 **Allocation of liabilities:** Subject to paragraph 15.2.2 with effect from the Effective Date, ALA shall allocate to the With Profit Fund and the Without Profit Fund (as the case may be) all Transferred Liabilities which are, or to the extent to which they are, attributable to any Transferred Assets or Transferred Policies allocated to that sub-fund.
- 15.2 **Allocation of liabilities to the With Profit Fund:**
- 15.2.1 With effect from the Effective Date ALA shall allocate to the With Profit Fund:
- (a) all liabilities attributable to the Existing Reassurance Treaties and the Excluded Policies Reassurance Agreement to the extent that they relate to Transferred Policies which are allocated to the With Profit Fund or to Excluded Policies which would have been so allocated if they had been Transferred Policies;
- (b) the obligation to discharge liabilities on EIO's behalf, or failing that to indemnify EIO, pursuant to paragraph 11.1, to the extent that such liability relates to a Transferred Liability which is allocated to the With Profit Fund or to a liability which would have been allocated to the With Profit Fund if it had been a Transferred Liability.

15.2.2 Notwithstanding paragraph 15.1, ALA shall either allocate to the With Profit Fund the following liabilities, whether the same are Transferred Liabilities, Residual Liabilities or arise after the Effective Date, or if any such liability has been met on or after the Effective Date from the Shareholder Fund or the Without Profit Fund, ALA shall transfer an amount equal to such liability net of applicable tax relief from the With Profit Fund to the Shareholder Fund or the Without Profit Fund as the case may be:

- (a) all costs, expenses, liabilities and other amounts in relation to any actual or alleged mis-selling of policies or other investment products in relation to the Transferred Business by EIO prior to the Effective Date other than any Endowment Certain Fund Policies;
- (b) all compensation liabilities in respect of mortgage endowment policies sold or guaranteed by EIO prior to the Effective Date other than Endowment Certain Fund Policies, whether or not arising as a consequence of mis-selling, falling within paragraph 15.2.2 (a);
- (c) any liability arising out of any actual or alleged negligence, breach of contract or fraud by EIO in relation to the Transferred Business prior to the Effective Date, other than the Endowment Certain Fund long term business, which in the opinion of the ALA Appointed Actuary would have been a liability met from the EIO Life and Annuity Fund if the liability had arisen prior to the Effective Date;
- (d) liabilities to taxation of EIO relating to the Transferred Business (excluding the Endowment Certain Fund long term business) (i) referable to all accounting periods ending on or prior to the Effective Date or (ii) arising as a result of any event accruing on or before the Effective Date to the extent that such taxation is not charged in respect of a specific period, with credit for and taking into account any tax relief arising in relation to any such period or such event;
- (e) liabilities incurred as a result of an actual or alleged breach of any legal or regulatory requirement in the carrying on by EIO of the Transferred Business (excluding the Endowment Certain Fund long term business) prior to the Effective Date, including without limitation an equitable apportionment of the cost of any remedial action (whenever taken) taken as a consequence of such actual or alleged breach or to permit the future conduct of such business to be in compliance with the relevant law or regulation, to the extent referable and apportionable to a period prior to the Effective Date;
- (f) subject to the consent of the Regulator, fines or penalties (whenever imposed) imposed on EIO or ALA by the Regulator or any other regulator of any of those companies in respect of the long term business of EIO (excluding the Endowment Certain Fund long term business) with respect to any act or omission, or any event occurring or circumstance subsisting, prior to the Effective Date, to the extent referable and apportionable to a period prior to the Effective Date;

except to the extent that any such liability is explicitly or implicitly allocated to the Shareholder Fund or the Without Profit Fund.

- 15.2.3 A mis-selling liability referable and apportionable to a period or an act or omission occurring in part before and in part after the Effective Date may be allocated to whichever of the With Profit Fund and Without Profit Fund the relevant Policy is allocated or in part to the With Profit Fund and in part to the Without Profit Fund.
- 15.2.4 Levies paid pursuant to the Financial Services Compensation Scheme after the Effective Date which are determined by reference to net premium income are to be allocated to the With Profit Fund and the Without Profit Fund in proportion to the amount of premium income earned (net of internal reinsurance premiums) on the policies allocated to those funds during the period by reference to which the relevant levy is made. Industry levies payable other than those referred to above will be allocated on a fair and equitable basis.
- 15.3 Notwithstanding paragraph 15.1, all Transferred Liabilities which are current liabilities of EIO at the Effective Date under Transferred Policies and the expense reserve in the EIO Life and Annuity Fund shall be allocated to the Without Profit Fund.
- 15.4 The ALA Reassurance Agreement shall be terminated with immediate effect following its transfer pursuant to the Scheme, but without affecting any cessions made prior to the Effective Date and so that all liabilities of ALA in respect of cessions prior to the Effective Date relating to Transferred Policies allocated to the With Profit Fund (or Excluded Policies reassured to the With Profit Fund) shall continue to be liabilities of the Without Profit Fund and any sums due in respect of such liabilities shall be credited to the With Profit Fund.
- 15.5 All Transferred Liabilities of EIO not allocated to the With Profit Fund pursuant to the Scheme shall be allocated to the Shareholder Fund or the Without Profit Fund as the ALA Appointed Actuary shall decide.
- 16. Transfers into and out of the With Profit Fund**
- 16.1 There shall be transferred from the Without Profit Fund and allocated to the With Profit Fund an amount equal to the Value of In Force Without Profit Business, calculated in accordance with Schedule 1, in cash or other admissible assets (as referred to below).
- 16.2 On and with effect from the Effective Date ALA shall allocate to the With Profit Fund £5 million in cash on account of the amount referred to in paragraph 16.1. As soon as the final amount as at the Effective Date has been determined in accordance with Schedule 1 the difference between the sum paid on account (*A*) and such final amount (*B*), plus an amount equivalent to interest at LIBOR on the Effective Date on the difference from the Effective Date to the date of allocation shall, if *A* is less than *B*, be transferred from the Without Profit Fund to the With Profit Fund or, if *B* is less than *A*, be transferred to the Without Profit Fund from the With Profit Fund. For the avoidance of doubt such transfers are in addition to the property allocated to the funds pursuant to paragraph 13 (*Allocation of Policies*).
- 16.3 On and with effect from the Effective Date, ALA's Shareholder Fund shall no longer be entitled to receive an amount equal to one-ninth of the cost of bonuses allocated on With Profit Policies in the With Profit Fund. As compensation for the loss of this right, the With Profit Fund shall be debited and the Without Profit Fund shall be credited with the sum of £100,000 on the Effective Date.

- 16.4 On and with effect from the Effective Date, the With Profit Fund shall be debited and the Without Profit Fund shall be credited with the sum of £5.252 million being payment by the With Profit Fund for the benefit afforded to that sub-fund of the management charges prescribed pursuant to paragraph 19.1.
- 16.5 If during the period of 7 (seven) years commencing with the Effective Date, ALA were to begin writing single premium with profit bond Policies in the Without Profit Fund, the Without Profit Fund shall be debited and the With Profit Fund shall be credited with such sum as is determined in accordance with the provisions of Schedule 3.
- 16.6 If during the period of 6 (six) years commencing with the Effective Date, either (a) a decision is made by the ALA Board to cease to write long term business (other than business supplemental to Policies issued before such cessation of business) or (b) the ALA Appointed Actuary certifies that the annual premium equivalent (calculated on the basis set out in the notes to Schedule 2) from new long term business sold by ALA in a financial year is less than £50,000 , the Without Profit Fund shall be debited and the With Profit Fund shall be credited with such sum as is determined in accordance with the provisions of Schedule 4.
- 16.7 Any amounts to be credited or allocated by ALA to the With Profit Fund or to be debited or transferred out of the With Profit Fund in accordance with this paragraph 16 may, at the election of the ALA Board on the advice of the ALA Appointed Actuary, instead of being satisfied by the transfer of cash be satisfied by the allocation of Appropriate Assets, such assets having an Admissible Value, ascertained ignoring rule 4.14 of IPRU (INS), equal to the amount which would otherwise be transferred in cash.

PART E – OPERATION OF THE LONG TERM FUND

17. Annuities

17.1 **Annuities:** This paragraph applies to a Policy that is allocated to the With Profit Fund and, following the vesting of that Policy, benefits are to be taken in the form of an annuity other than a with profit annuity. To the extent that such benefits are taken, they shall be paid from the Without Profit Fund provided that there is transferred from the With Profit Fund to Without Profit Fund the amount needed to purchase the annuity in the Without Profit Fund, calculated on the basis of the then current annuity rates used by the Without Profit Fund (unless the then current annuity rates are not considered by the ALA Appointed Actuary to be appropriate, in which case the amount shall be based upon the rates determined by him).

18. Management of the With Profit Fund

18.1 ALA shall manage the affairs of the With Profit Fund in accordance with past practice having regard to the interests of holders of Policies allocated to that sub-fund and to the principles referred to in the Appointed Actuary's Report.

18.2 ALA shall ensure that:

18.2.1 at all times the aggregate of the assets of the Without Profit Fund and the Shareholder Fund exceed the liabilities of those funds by an amount which is no less than the Minimum Solvency Margin in relation to the business of the Without Profit Fund, as determined by the ALA Appointed Actuary;

18.2.2 it complies with the provisions of paragraph 3 of the Introduction to Schedule 3 and paragraph 2 of the Introduction to Schedule 4.

18.3 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 any of the funds in accordance with this Scheme, the ALA Board, on the advice of the ALA Appointed Actuary and subject to the Act, may make such adjustment between funds as it considers appropriate in accordance with the principles underlying this Scheme to take account of such delay.

18.4 Except to the extent specifically provided in the Scheme, the With Profit Fund may not at any time after the Effective Date give any financial assistance or support to any other fund without the prior approval of the ALA Board on the advice of the ALA Appointed Actuary. In giving this advice, the ALA Appointed Actuary must confirm to the ALA Board the reasons which he considers justify the giving of the proposed financial assistance or support and that he is satisfied that such assistance or support will not impair the reasonable expectations of the holders of the Transferred Policies allocated or reassured to the With Profit Fund.

18.5 None of the provisions for separation of the With Profit Fund shall limit the availability of all assets of ALA to meet all the liabilities which it is obliged by law or regulation to meet.

19. Expenses, charges and fees

19.1 The only amounts to be debited to the With Profit Fund in respect of the Policies which are allocated to the With Profit Fund (including Excluded Policies reassured to the With Profit Fund) by way of acquisition (including commission), maintenance (including commission), (excluding investment management charges) will be determined as follows and be credited

to the Without Profit Fund. The level of expenses for each calendar year shall be those set out in Schedule 2, adjusted (in the case of per policy amounts) on 1 January 2004 and annually thereafter by the percentage increase in the published RPI over the 12 month period ending on 30 June in the preceding calendar year plus 1.5%. The amounts shall be payable monthly in arrears.

- 19.2 Investment management charges (inclusive of investment, accounting and valuation costs) will be charged as specified in Schedule 2, the charges to be levied on a monthly basis.
- 19.3 If at any time the ALA Appointed Actuary and an independent expert determine that circumstances, including without limitation changes in regulation or legislation, have resulted in the level of administration expenses incurred by both ALA and similar companies to ALA changing by an exceptional amount, they shall agree an appropriate adjustment to the amounts referred to in paragraph 19.1 to take into account such circumstances.

20. **Taxation of the With Profit Fund**

- 20.1 In this paragraph, notwithstanding any other provision of this Scheme, references to **Taxation** mean United Kingdom corporation tax, non-recoverable withholding taxes and deferred tax.
- 20.2 The With Profit Fund shall, in respect of any period commencing on or after the Effective Date, be charged or credited with an amount in respect of Taxation calculated on the basis of the following assumptions:
- 20.2.1 that the With Profit Fund constitutes the whole of the long term fund of a mutual life assurance company (the **Notional Company**) carrying on business in the UK with no business other than the business carried on in the With Profit Fund;
- 20.2.2 that all allowances, reliefs and rights to repayment of Taxation that would, in the opinion of the ALA Appointed Actuary, reasonably be expected to be claimed or received by the Notional Company are successfully claimed and received;
- 20.2.3 that the Notional Company has the benefit of all reliefs and other credits in respect of Taxation available for carry forward in relation to (i) the business carried on in the With Profit Fund prior to the Effective Date and (ii) the Transferred Business insofar as it is allocated to the With Profit Fund, in each case from periods commencing before the Effective Date;
- 20.2.4 that any assets transferred to the With Profit Fund were acquired by the Notional Company at their market value at the Effective Date.
- 20.3 The amounts calculated pursuant to paragraph 20.2 shall be calculated on the basis of Taxation law and practice prevailing at the time and shall be certified by the ALA Appointed Actuary.
- 20.4 The amounts charged or credited to the With Profit Fund pursuant to paragraph 20.2 shall be charged or credited on the latest due date or dates on which they would have been paid or received by the Notional Company. To the extent that they are not actually charged or credited on such dates, the amounts charged or credited shall be adjusted to reflect the delay between the time when they were due and the time when they are actually made.

- 20.5 The With Profit Fund shall be credited or charged (as appropriate) with any amount by which any charge or credit pursuant to paragraph 20.2 is subsequently shown to have been excessive or inadequate. Any amount credited or charged under this paragraph 20.5 shall be adjusted to reflect the delay between the time when the adjusting credit or charge is made and the time when the original credit or charge was made, or the time when the last correcting credit or charge in respect of the same period was made, whichever is the later.
- 20.6 If there is a material change in the basis on which life assurance companies are subject to Taxation, paragraph 20.2 shall be amended to the extent that the ALA Appointed Actuary, having consulted with ALA's auditors, considers it necessary or desirable to ensure that the effect of that paragraph is that the With Profit Fund will be charged or credited in respect of any liability to Taxation with the amount with which it would have been charged and credited had it been a separate mutual life assurance company carrying on business under the changed basis of Taxation.
- 20.7 The allocation of credits and debits in respect of Taxation to the With Profit Fund under this Scheme, including pursuant to this paragraph 20.7, shall be made on a fair and arm's length basis and, notwithstanding the terms of any assessment, agreement or settlement submitted to, or made with, any Taxation authority by any member of the Ecclesiastical Group, no amounts in respect of Taxation shall be debited or credited to the With Profit Fund in excess of the amounts which would have been so debited or credited on a fair and arm's length basis.
- 20.8 All Taxation relating to ALA not otherwise referred to in this paragraph or elsewhere in this Scheme shall be charged elsewhere than to the With Profit Fund.
- 21. Accounting records**
- 21.1 Appropriate accounting records shall at all times be maintained after the Effective Date which are sufficient to maintain the separate identification (for all relevant purposes including taxation) of the assets and liabilities allocated to each sub-fund in the Long Term Fund.

PART F – MISCELLANEOUS PROVISIONS

22. Effective Date

- 22.1 Subject to paragraph 22.2, this Scheme shall become effective and the Effective Date shall occur at 11.59 p.m. on 31 July 2003 or on such other date and time as EIO and ALA shall agree being a date and time falling after the making of the Order sanctioning this Scheme.
- 22.2 Unless this Scheme shall become effective and the Effective Date shall have occurred on or before 31 December 2004 or such later date, if any, as EIO and ALA may approve and the Court may allow, it shall lapse.
- 22.3 The Scheme shall not become effective on the Effective Date unless on or prior thereto EIO or ALA receives such tax clearances and confirmation (in terms acceptable to EIO and ALA) from the UK Inland Revenue as EIO and ALA consider appropriate or the requirement of any such confirmation is waived in whole or in part by EIO and ALA with the approval of the Independent Expert.

23. Scheme Costs

- 23.1 The costs of the Independent Expert will be borne equally by the Shareholder Funds of EIO and ALA.
- 23.2 All other costs expenses and liabilities arising directly or indirectly from or in consequence of or in connection with the Scheme, the transfer of the business by virtue of the Scheme and the Order and the implementation of the Scheme, and which are not expressly allocated to the With Profit Fund, shall be allocated to and paid by EIO and by ALA, in such proportions as the board of EIO may determine. Any such costs, expenses and liabilities to be borne by ALA and EIO shall be met out of their respective Shareholder Funds.

24. Modifications or additions

- 24.1 ALA and EIO may, at any time before the Effective Date, consent for and on behalf of the parties hereto 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.
- 24.2 If, at any time, the provisions of this Scheme prove impossible, impracticable or inequitable to implement, ALA shall be at liberty to apply to the Court for consent to amend its terms, provided that in any such case:
- 24.2.1 the Regulator shall be notified or and have the right to be heard at any hearing of the Court at which such application is considered; and
- 24.2.2 such application shall be accompanied by a certificate from an independent expert to the effect that in his opinion the proposed amendment will not adversely affect the reasonable expectations of, or reduce the protection conferred by this Scheme upon, the holders of Transferred Policies or Excluded Policies to a material extent.

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

24.3 This paragraph applies if the ALA Board consider that it is no longer appropriate for any of the rights, powers or discretions given to the ALA Appointed Actuary under, or in relation to, the Scheme or any functions, obligations or duties to be performed by the ALA Appointed Actuary under or in relation to the Scheme to continue to be vested in or exercised or performed by the ALA Appointed Actuary. The ALA Board may with the written consent of the Regulator amend the terms of the Scheme so that any of the rights, powers, discretions, functions, obligations or duties of the ALA Appointed Actuary may instead be exercised or performed by the ALA Board or any person carrying out the actuarial function of providing actuarial advice to the Board and this may be on such terms and conditions (including without limitation a requirement to obtain the advice of, or recommendation from, the ALA Appointed Actuary, or any person carrying out the actuarial function or any independent expert) as the ALA Board with the written consent of the Regulator may think fit.

25. Third Party Rights

25.1 A person who is not party to this Scheme may not enforce any term of this Scheme pursuant to the Contracts (Rights of Third Parties) Act 1999.

26. Termination of this Scheme

26.1 Each part of this Scheme which imposes restrictions or obligations on ALA shall cease to be binding when there are no Transferred Policies which remain in force.

26.2 At any time after 31 December 2033 all or any of the requirements of this Scheme in respect of separate treatment of, or otherwise applicable to, Transferred Policies and Excluded Policies may be modified or cease to apply (and this Scheme shall be deemed to have been amended accordingly) on such terms as the ALA Appointed Actuary may recommend in writing, provided that no such modification or cessation shall be permitted which would adversely affect the reasonable expectations of the holders of Transferred Policies or Excluded Policies then remaining in force. Any proposed recommendation shall be notified in writing to the Regulator at least one month before it is proposed to take effect and the final form of such recommendation shall take account of the comments thereon by the Regulator made within one month after such notification.

26.3 If at any time the number of With Profit Policies allocated to the With Profit Fund, together with With Profit Policies not allocated to the With Profit Fund where the investment element of the Policy is reassured to the With Profit Fund, is less than 1000, ALA may cease to maintain the With Profit Fund as a separate sub-fund in accordance with this Scheme. The assets and liabilities of the With Profit Fund shall be transferred to the other sub-fund or sub-funds within the Long Term Fund, and future bonuses in relation to With Profit Policies allocated to the With Profit Fund and With Profit Policies which are Excluded Policies will be guaranteed at levels determined by ALA's Appointed Actuary.

SCHEDULE 1

Calculation of Value of In Force Without Profit Business

(Paragraph 16.1)

Introduction

1. The purpose of this Schedule is to set out the principles and assumptions for the calculation of the Value of In Force Without Profit Business at the Effective Date of the Transferred Policies and Excluded Policies other than a Policy which prior to the Effective Date is allocated to the Endowment Certain Fund.
2. In this Schedule a reference to an in force Policy means a Transferred Policy or an Excluded Policy other than a Policy which prior to the Effective Date is allocated to the Endowment Certain Fund.

PART A

1. Value of In Force Without Profit Business

- 1.1 The value of in force Policies allocated or reassured under the Excluded Policies Reassurance Agreement to the Without Profit Fund shall be determined as the present value, at the net annual discount rate specified in paragraph 3.2, of future profits (after policyholder tax) expected to arise in the Without Profit Fund, under the terms of this Scheme, from Policies in force at the Effective Date. Such profits shall be assessed against the Relevant Policy Liability. For the purposes of this Schedule *Relevant Policy Liability* means the mathematical reserves relating to Policies allocated to the Without Profit Fund as at the Effective Date calculated using methodologies and bases consistent with those used for EIO's returns to the Regulator at 31 December 2002 except to the extent that changes are necessary to reflect regulatory changes in the intervening period.

2. Principles applying to all business

In determining the Value of In Force Without Profit Business:

- 2.1 a deduction shall be made for the cost of maintaining 125% of the required Minimum Solvency Margin. The cost is calculated by discounting the change in solvency margin, interest earned on assets backing the solvency margin, less taxation on interest earned and less the initial solvency margin. The gross return on assets backing this margin is assumed equal to the FTSE Actuaries Government Securities Yield Index for 15 Year British Government Securities, converted to an annual yield.
- 2.2 it shall be assumed that any reinsurance agreements pertaining to the business shall continue in force on their existing terms until they terminate in accordance with their terms; and
- 2.3 there shall be no allowance for future increases to premiums.

3. Assumptions applying to all business

In determining the Value of In Force Without Profit Business the following shall apply:

Discount rate

- 3.1 The gross annual discount rate shall be five and a half per cent greater than the total gross of tax investment return on fixed interest securities.
- 3.2 The net annual discount rate shall be the gross annual discount rate reduced for policyholder tax.

Economic and investment assumptions

- 3.3 The assumed rate of future price inflation shall be the difference at Effective Date between:
 - 3.3.1 The FTSE Actuaries Government Securities Yield Index for 15 year British Government Securities, converted to an annual yield; and
 - 3.3.2 The FTSE Actuaries Real Yield Index for over 5 to 15 years British Government index-linked Securities, converted to an annual yield, using published indices to solve for a consistent inflation rate.
- 3.4 The assumed future rate of annual increase of expenses and reviewable policy fees, where such increases are discretionary and the practice has been to make regular increases, shall be equal to the rate of future price inflation plus 1.5 per cent per annum;
- 3.5 The assumed gross of tax return on fixed interest investments shall be equal to the FTSE Actuaries Government Securities Yield Index for 15 Year British Government Securities, converted to an annual yield;
- 3.6 The assumed gross of tax return on equities shall be 2.5 per cent greater than the assumed gross of tax return on fixed interest investments;
- 3.7 In determining future investment returns, the mix of assets at the Effective Date shall be assumed to be 100 per cent fixed interest investments.

Demographic assumptions

- 3.8 Assumptions as to future mortality, morbidity and withdrawal shall be as set out in Appendix 1 of this Schedule.

Expense assumptions

- 3.9 The expense assumptions shall be as set out in Appendix 2 of this Schedule.

Taxation

- 3.10 The assumed bases and rates of taxation will be those applicable on the Effective Date except that where future changes are known at the Effective Date they shall be those known future changes.
- 3.11 In determining the Value of In Force Without Profit Business, allowance will be made for Policyholder Tax, where “**Policyholder Tax**” means:

3.11.1 in respect of all business, the future tax charges assumed in respect of investment income and chargeable realised capital gains less relievable expenses (including deferred expenses allocated by the Scheme to the relevant fund becoming eligible for tax relief after the Effective Date); and

3.11.2 in respect of pensions business any future unrecoverable amounts in respect of dividend credits,

in each case, calculated on the basis set out in paragraph 3.10 of this Schedule 1.

3.12 In determining the Value of In Force Without Profit Business, no allowance will be made for Shareholder Tax, where "**Shareholder Tax**" means any liability to tax in excess of Policyholder Tax such as would arise on the remission of profits to the shareholders of a proprietary company, calculated on the basis set out in paragraph 3.10 of this Schedule 1.

3.13 The definitions of "Tax" and "Taxation" in paragraph 1.1 of this Scheme shall not apply to this Schedule.

4. Indices

4.1 If any of the indices referred to it in this Schedule cease to be maintained or published, the ALA Appointed Actuary shall use such alternative index as he shall deem appropriate given the nature and purpose of the calculation.

Part B – Calculation

5. Calculation of Contribution

5.1 As soon as practicable following the Effective Date, and in any event within 180 days, ALA shall procure that there is prepared a calculation and statement of the Value in Force Without Profit Business prepared in accordance with Part A of this Schedule 1.

5.2 The 180 day period referred to in paragraph 5.1 may be extended by the ALA Board by up to 90 days.

5.3 The calculation shall become fixed and binding when approved by the ALA Appointed Actuary and ALA Board. If the calculation has not become fixed and binding within 270 days from after the Effective Date, the ALA Board shall instruct an independent firm of consulting actuaries (the "**Expert**") to calculate the Value of In Force Without Profit Business prepared in accordance with Part A of this Schedule 1, acting as expert. They shall deliver the draft calculation to the ALA Board which shall have 30 days to raise any questions. The Expert shall consider any questions or matters raised by the Board and shall then issue a final statement of the Value in Force Without Profit Business which shall become final and binding upon delivery to the Board.

Appendix 1

Assumptions – mortality, morbidity and withdrawal

Individual discontinuance rates

Duration	Endowment and whole life	Deferred annuity	Term assurance
0-1 year	0.3%	0.3%	3.5%
1-2 year	0.7%	0.7%	3.0%
2-3 year	1.0%	1.0%	3.0%
3-4 year	1.0%	1.0%	2.0%
4-5 year	1.0%	1.0%	2.0%
5-6 year	1.0%	1.0%	1.5%
6 + years	1.0%	1.0%	1.0%

Notes:

1. Group term assurance are modelled using rates independent from duration and are assumed to discontinue at a rate of 10% per annum.
2. The above discontinuance rates allow for policyholders making policies paid up with no explicit assumption of modelling of paid up being used.

Mortality experience assumptions

Product type	Male mortality table	Male proportion of standard rates	Female mortality table	Female proportion of standard rates
Life endowment and whole life	AM80ult	60%	AM80Ult	60%
Life term Assurance	TM80ult	55%	TM80Ult	55%

Product type	Male mortality table	Male proportion of standard rates	Female mortality table	Female proportion of standard rates
GAF immediate annuity	IM92 (C=2030)	110%	IF92 (C=2030)	110%
GAF deferred annuity	IM92 (C=2030)	110%	IF92 (C=2030)	110%
Pension endowment	A6770ult-6	65%	A6770Ult-6	65%
Pension term assurance	TM80ult	55%	TM80Ult	55%
Pension immediate Annuity	PMA92 (C=2030)	110%	PFA92 (C=2030)	110%
Pension non-profit Deferred annuity	PMA92 (C=2030)	110%	PFA92 (C=2030)	110%

Appendix 2

Assumptions - expenses

The expense assumptions set out below shall be used in the calculation of the ALA contribution to the With Profit Fund in accordance with paragraph 3.9 of Schedule 1:

Policy type	Renewal expense (per policy per annum)	Investment management expense (percentage of statutory reserve and Required Minimum Solvency Margin per annum)
Annuities	£25.63	0.10%
Annuities vesting from with-profit policies	£25.63	0.10%
Life policies	£15.38	0.10%
Pension policies	£30.76	0.10%
Group schemes	£1025.32	0.10%

Notes:

1. The expense levels set out above are those that apply from the Effective Date.
2. The level of expenses for each calendar year shall be those set out above, adjusted (in the case of per policy amounts) on 1 January 2004 and annually thereafter by the percentage increase in the published RPI over the 12 month period ending on 30 June in the preceding calendar year plus 1.5%. The amounts shall be payable monthly in arrears.

SCHEDULE 2

Expenses and charges debited to the With Profit Fund (Paragraph 19)

With Profit Policies

Policy type	Initial expense percentage of annual premium equivalent (APE)	Initial expense per policy	Renewal expense per policy	Investment management expense percentage of fund/annual management charge on asset shares
Life policies (excl bonds)	40%	£256.33	£20.51	0.25%
Term supplements	-	-	-	0.25%
Pension policies	40%	£410.13	£41.01	0.25%
With-profit bonds	70%	£205.06	£28.71	0.25%
Group deposit administration			actual expenses	0.25%
Free estate				0.25%

1. The actual group deposit administration expenses are those expenses charged by the third party administrator. In the event the administration arrangements are changed the Appointed Actuary will set appropriate rates subject to the confirmation from the Independent Expert.
2. The following provisions apply to determine the aggregate APE in any period for the purposes of calculating the amount of the initial expense percentage in that period (a 'Relevant Period').
 - 2.1 The APE in a Relevant Period shall be the aggregate of the following:
 - 2.1.1 the annualised regular premiums on any new Policy commenced in that period;
 - 2.1.2 where, in the Relevant Period, a single premium is paid on a new Policy or as an additional premium on an existing Policy, 10% of that single premium;
 - 2.1.3 where regular premiums are paid in relation to a Policy, and are increased during the Relevant Period (whether or not under a contractual obligation), the annualised amount of the increase in regular premium.
 - 2.2 If any person exercises a cancellation right in a cooling off period in respect of any increase in premium or new premium (whether or not that cancellation right is exercised within the Relevant Period), that premium shall not be taken into account determining the APE.

2.3 No account shall be taken of any reductions in premiums, surrenders or lapses on any Policy.

All Policies

Commission as paid.

SCHEDULE 3

Calculation of payment due under paragraph 16.5 - if single premium with profit bond Policies are sold from the Without Profit Fund

(Paragraph 16.5)

Introduction

1. The purpose of this Schedule is to set out the principles and assumptions for the calculation of the value of future new business for single premium with profit bond Policies if paragraph 16.5 applies.
2. No amount is payable under paragraph 16.5 if no With Profit Policies are sold from the Without Profit Fund for a period of 12 (twelve) months after the last With Profit Policy is sold from the With Profit Fund.
3. At each point in time until 7 (seven) years after the Effective Date ALA shall maintain within the Without Profit Fund Appropriate Assets with an Admissible Value ascertained ignoring the provisions of paragraph 14.14 of IPRU(INS) in excess of the liabilities of the Without Profit Fund of an amount estimated by the ALA Appointed Actuary to be greater than any payment which would be due at that time pursuant to paragraph 16.5 were the ALA Board to sell single premium with profit bond Policies from the Without Profit Fund at that point in time.

PART A

1. **Value of future single premium with profit bond new business being transferred**
 - 1.1 The total premium received in the 12 (twelve) months preceding the sale of the last single premium with profit bond policy of the types being transferred is defined to be "P"
 - 1.2 The corresponding number of new Policies exactly comprising "P" is defined to be "N"
 - 1.3 The average premium to be used in the calculation of the point of sale embedded value for future new business is defined to be "AVEP" and is calculated to be equal to P divided by N adjusted for policy size growth from the Effective Date to the date of the sale of the last single premium with profit bond policy from the With Profit Fund

Policy size growth is defined to be the increase in price inflation over the period defined in paragraph 1.3 plus 1.5% per annum.
 - 1.4 The average income withdrawal rate corresponding to the Policies defined in paragraph 1.1 (weighted by single premium) taken by clients for with profit bonds is defined to be "W"
 - 1.5 The average profitability factor defined as "POSEV" will be calculated by reference to the table in appendix 3 depending on the value of W and AVEP.

- 1.6 The number of years of future new business to be valued is 5 (five)
- 1.7 The value of the future new business is then calculated as POSEV multiplied by P multiplied by 5.

Part B – Calculation

2. Calculation of Contribution

- 2.1 As soon as practicable following the board decision to commence sale of single premium with profit bond Policies from the Without Profit Fund (with investment element reassured to the With Profit Fund), and in any event within 90 days, ALA shall procure that there is prepared a calculation and statement of the value of future new single premium with profit bond business prepared in accordance with Part A of this Schedule 3.
- 2.2 The 90 day period referred to in paragraph 2.1 may be extended by the ALA Board by up to 90 days.
- 2.3 The calculation shall become fixed and binding when approved by the ALA Appointed Actuary and ALA Board. If the calculation has not become fixed and binding within 180 days from after the board decision, the ALA Board shall instruct a firm of consulting actuaries (the “*Expert*”) to calculate the value of future new single premium with profit bond business prepared in accordance with Part A of this Schedule 3, acting as expert. They shall deliver the draft calculation to the ALA Board which shall have 30 days to raise any questions. The Expert shall consider any questions or matters raised by the Board and shall then issue a final statement of the value of future new single premium with profit bond business which shall become final and binding upon delivery to the Board.

Appendix 3

The table below gives the point of sale embedded value varying by premium size and amount of income withdrawal amount expressed as a percentage of the single premium. The profitability refers to 2003 premium levels and adjustment is made in the lookup value described in schedule 4 paragraph 1.2.

Average premium	Average levels of withdrawal income selected by policyholders					
	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
14,000	0.83%	0.70%	0.58%	0.45%	0.32%	0.19%
16,000	1.15%	1.02%	0.90%	0.77%	0.64%	0.51%
18,000	1.40%	1.27%	1.14%	1.02%	0.89%	0.76%
20,000	1.60%	1.47%	1.34%	1.21%	1.09%	0.96%
22,000	1.76%	1.63%	1.50%	1.38%	1.25%	1.12%
24,000	1.89%	1.77%	1.64%	1.51%	1.38%	1.26%
26,000	2.01%	1.88%	1.75%	1.63%	1.50%	1.37%

SCHEDULE 4

Calculation of payment for closure of ALA to new business

(Paragraph 16.6)

Introduction

1. The purpose of this Schedule is to set out the principles and methodology for the calculation of the payment due from the Without Profit Fund to the With Profit Fund if paragraph 16.6 applies. In this Schedule, a decision made by the Board of ALA as referred to in paragraph 16.6(a) and the determination of the Appointed Actuary as referred to in paragraph 16.6(b) are each referred to as a “Closure Decision”.
2. At each point in time until 6 (six) years after the Effective Date ALA shall maintain within the Without Profit Fund Appropriate Assets with an Admissible Value (ascertained ignoring the provisions of paragraph 14.14 of IPRU(INS)) in excess of the liabilities of the Without Profit Fund of an amount greater than any payment due at that time were the ALA Board to make a Closure Decision at that time.

PART A

1. Value of payment for closure of ALA to new business

- 1.1 The amount of the repayment is determined by reference to the time elapsed from the Effective Date to the date of the Closure Decision.
- 1.2 The table in appendix 4 shows the proportion of the amount paid pursuant to paragraph 16.4 to be repaid pursuant to paragraph 16.5 at discrete times after the Effective Date.
- 1.3 For non integer durations after the Effective Date the amount shall be calculated by straight line interpolation between the two closest durations from Effective Date to the actual duration from Effective Date.

Part B – Calculation

2. Calculation of Contribution

- 2.1 As soon as practicable following the date of the Closure Decision and in any event within 60 days, ALA shall procure that there is prepared a calculation and statement of the amount of the payment to be made under paragraph 16.6 prepared in accordance with Part A of this Schedule 4.
- 2.2 The 60 day period referred to in paragraph 2.1 may be extended by the ALA Board by up to 60 days.

2.3 The calculation shall become fixed and binding when approved by the ALA Appointed Actuary and ALA Board. If the calculation has not become fixed and binding within 180 days from after the Closure Decision, the ALA Board shall instruct a firm of consulting actuaries (the “*Expert*”) acting as expert, to calculate the amount of the payment due under paragraph 16.6, prepared in accordance with Part A of this Schedule 4. They shall deliver the draft calculation to the ALA Board which shall have 30 days to raise any questions. The Expert shall consider any questions or matters raised by the ALA Board and shall then issue a final statement of the payment to be made pursuant to paragraph 16.6 as a result of the closure to new business which shall become final and binding upon delivery to the Board.

Appendix 4

The table below gives the proportion of the payment made under paragraph 16.4 that has to be repaid pursuant to paragraph 16.6. The table shows only the proportions at exact durations after the Effective Date.

Duration	Proportion of payment made pursuant to paragraph 16.4
0 years	79%
1 years	66%
2 years	56%
3 years	44%
4 years	32%
5 years	18%
6 years	0%
7 years	0%