

Name Surname
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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, please consult your financial adviser, solicitor, accountant or other professional adviser.

[Date]

Dear Sir or Madam

Changes to the insurance business of Ecclesiastical Life Limited (ELL)

[Scheme Name] (the Pension Scheme)

We are writing to you as a member of the Pension Scheme. The Pension Scheme is supported by a policy issued by ELL to the Trustees of the Pension Scheme and is administered by Barnett Waddingham LLP.

ELL has decided to transfer most of its life business, including the policy supporting the Pension Scheme, to Engage Mutual Assurance (**Engage Mutual**), which will insure and manage the transferred business after the transfer.

We are making this change to our life business because we believe that in the future, holders of transferred policies are likely to be better served by an organisation with greater scale than our life business. Engage Mutual is a well regarded UK mutual friendly society which, after the transfer, will have some 450,000 customers. In choosing Engage Mutual we believe holders of transferred policies will continue to receive service of the highest quality.

The Trustees are responsible for overseeing the administration of the Pension Scheme and have been notified of the proposed transfer. We are notifying you separately in view of your interest in the Pension Scheme.

How will the changes affect you?

There will be no changes to the terms of the Pension Scheme or your entitlement thereunder. The Trustees of the Pension Scheme will remain the same and the Pension Scheme will continue to be administered by Barnett Waddingham LLP.

The proposed transfer of our life business has been reviewed by the Independent Expert appointed to consider the effect of the transfer, Mr John McKenzie, FFA.

In the opinion of the Independent Expert, the implementation of the proposed transfer:

- will not affect the security of the benefits for the non-transferring ELL policyholders;
- will not materially affect the security of the benefits of the transferred policyholders or of Engage Mutual's policyholders; and
- will not materially affect the benefit expectations of transferred policyholders or of Engage Mutual's policyholders.

The FSA is also considering the effect of the Scheme on policyholders and will prepare a final report for the High Court before the hearing to approve the Scheme.

With-Profit Fund

Since 2003 in practice our With-Profit Fund has been managed with the intention that it is self-sufficient and not reliant upon support from the ELL shareholder fund other than in extreme circumstances. We have recently initiated a review of the way in which that fund is managed to ensure self-sufficiency. This review is ongoing and is expected to conclude by the end of October. Further information on the review is provided in Part 1 of Appendix 4.

As a result of the review to date, we have implemented certain changes to our practices for managing the With-Profit Fund, which are contained in our Principles and Practices of Financial Management (**PPFM**), the document which sets out how we manage our With-Profit business. These changes are described in Part 2 of Appendix 4.

In addition, further changes to the principles and practices in our PPFM will be made if the Scheme takes effect. These additional changes principally relate to the support that may be available to the With-Profit Fund, and to the closure of the fund to new business. This is explained in more detail in the answer to question 2, part 4 on page 7, and the proposed changes to the Principles themselves are also described and set out in Part 3 of Appendix 4.

Holders of With-Profit Policies are given notice that the PPFM has been amended as described in Part 2 of Appendix 4 and that it will be amended as described in Part 3 of Appendix 4 if the Scheme takes effect.

What happens next?

The transfer is carried out by a formal business transfer scheme which must be approved by the High Court. We anticipate that the hearing to approve the transfer will be heard by the High Court in London on 26 November 2010 and, if approved, the transfer is expected to take effect at 11.59 pm on 30 November 2010.

The approval of the Trustees or members of the Pension Scheme to the proposals is not required. However, if you believe you would be adversely affected by the transfer, then you

have the right to object in writing or be heard in person or via a representative at the Court hearing. You will find an explanation of the procedure you should then follow in the answer to Question 9 of the explanatory booklet attached as appendix 1.

If you have any questions

We enclose in appendix 1 an explanatory booklet which contains answers to questions that policyholders may have and summaries of the proposed transfer and the Court procedure (which is referred to in the booklet as 'the Scheme'). We also include a summary of the report of the Independent Expert in appendix 2 and a copy of the formal notice of application to the High Court for approval of the Scheme in appendix 3.

If you have any questions please contact us on 0800 032 1929 (open 9.00 am to 5.00 pm, Monday to Friday, excluding bank and public holidays), email us at financial.services@ecclesiastical.com or write to us at Ecclesiastical Life Limited, Beaufort House, Brunswick Road, Gloucester GL1 1JZ. **Helpline operators are prohibited legally from providing financial advice, but will answer general questions on the effects of the proposal.**

If you would like to learn more about Engage Mutual, you can visit their website at www.engagemutual.com.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Michael H. Tripp". The signature is written in a cursive style with some loops and flourishes.

Michael Tripp
Chairman

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APPENDIX 1

Explanatory booklet

Questions and answers, and summaries, of

proposed transfer of part of the long term insurance business of

ECCLESIASTICAL LIFE LIMITED (ELL)

to

HOMEOWNERS FRIENDLY SOCIETY LIMITED

trading as Engage Mutual Assurance (Engage Mutual)

**by means of an insurance business transfer scheme
under Part VII of the Financial Services and Markets Act 2000**

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Your questions answered

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Summary of the terms of the transfer

Summary of the terms of the Scheme

Glossary

TIMETABLE OF EVENTS

26 November 2010	Date for Court Hearing to approve the transfer
30 November 2010	Expected Effective Date of Transfer

YOUR QUESTIONS ANSWERED

These are the questions which we feel policyholders are most likely to have about the Transfer. The answers are intended only as a guide and should be read together with the rest of this booklet, including the summary of the Transfer and the summary of the Scheme. A glossary of the key expressions used below appears at the end of this booklet.

Q1 What process will we follow?

To implement the Scheme, we must obtain approval from the Court. The Court will only give its approval if it is satisfied that all necessary legal requirements have been satisfied and that it is appropriate to approve the Scheme.

The Court Hearing will be on 26 November 2010.

An Independent Expert, whose appointment has been approved by the FSA, has prepared a report on the overall effect of the Scheme on our policyholders. A summary of his report is included as appendix 2 and you can obtain a copy of his full report free of charge on request. A copy is also available on our website.

If the Court gives its approval we expect the transfer to take place on 30 November 2010.

Q2 What are the Key Features of the proposal?

1. ELL will transfer the Transferred Business to Engage Mutual on the Effective Date (expected to be 30 November 2010). This will be done following the procedure prescribed by the Act for an insurance business transfer by way of a scheme which must be approved by the High Court.
2. ELL policies will transfer to Engage Mutual who will become the insurer in place of ELL.

3. ELL policyholders will become members of Engage Mutual, subject to the Engage Mutual Rules, with a right to attend and vote at general meetings of Engage Mutual. Engage Mutual is regulated under the Friendly Societies Act 1992 and under the Financial Services and Markets Act 2000. A copy of the Engage Mutual Rules, which describe membership entitlement and rights, can be obtained on request from Engage Mutual by phoning 0800 298 3542, or emailing mail@engagemutual.com or by writing to Customer Services, Engage Mutual, Hornbeam Park Avenue, Harrogate HG2 8XE.

4. ELL With-Profit Fund policies.

These will be maintained in a separate sub-fund within the Engage Mutual long-term fund.

The sub-fund will continue to be managed in accordance with the Scheme and the terms of the 2003 Scheme.

From the Effective Date the sub-fund will be closed to new business but will remain open to increments and top-ups to policies, eg. Deposit Administration and Group Pension, and to new policies issued pursuant to contractual policy options.

At present, in certain circumstances, the sub-fund has access to ELL shareholder capital to support its regulatory capital and investment strategy although in practice the sub-fund is managed with the intention of avoiding the need to rely upon such support. Following the Effective Date, this support will no longer be available from ELL, although the surplus of the Engage Mutual non-profit fund may be available after the Effective Date in certain circumstances, for example if necessary to satisfy regulatory requirements. However, it is the intention that the sub-fund will be managed having regard only to its own resources. This will

be set out in a change to the Principles and Practices of Financial Management or "PPFM" for the sub-fund, which is described in more detail in Part 3 of Appendix 4.

The equity backing ratio (the proportion of total assets by market value in the sub-fund invested in equity and property type assets) of the sub-fund, will continue to depend upon prevailing financial conditions, views on the attractiveness and volatility of investment markets and other considerations within the terms of the PPFM as described in Appendix 4.

The sub-fund will be managed in line with the PPFM as amended as described in Appendix 4.

Part 2 of Appendix 4 sets out changes which ELL has made to the PPFM, which are unrelated to the Scheme and are part of the continuation of current management practices for the with-profits fund, and are the result of the current review to provide greater clarity around the nature, type and severity of management actions that ELL would be prepared to take in the management of the fund under a variety of different circumstances.

Part 3 of Appendix 4 describes further changes to the PPFM which will be made if the Scheme takes effect.

5. The day to day service you receive will not be impacted. The day to day operational activities of ELL will be transferred to Engage Mutual but will remain in Gloucester.

Q3 Who is Engage Mutual?

Engage Mutual was established in 1980 and is a registered incorporated friendly society based in Harrogate, North Yorkshire. It is a mutual, providing health, insurance and long term investment and savings products. The group currently has assets under management

of circa £600 million, with over 430,000 customers, approximately half of whom are members.

Q4 What does it mean to me that Engage Mutual is a mutual?

A mutual entity is owned by its members; it is not a company owned by shareholders. As all transferring ELL policyholders will become members of Engage Mutual, it means your Pension Scheme Trustees, with existing and future Engage Mutual members, will become co-owners of Engage Mutual. This will afford you the rights described above in question 2, paragraph 3 and the benefits outlined in question 6 below.

Q5 When will the proposal become effective?

This is expected to be on 30 November 2010, provided that the Court approves the Scheme at the proposed Court Hearing on 26 November 2010.

Q6 What are the benefits to transferring policyholders?

The ELL Board believes that the transfer will give transferring policyholders the strength of an organisation with greater scale in its life business than ELL and the potential advantages of economies of scale. Transferring policyholders will also become members of Engage Mutual, with rights to vote at its general meetings, therefore having a say in the running and direction of a customer owned business.

Q7 How will my interests be protected?

The transfer must be reviewed by the FSA and approved by the Court. The Court will not approve the transfer unless it is appropriate to do so. In making this decision the Court will take into account the impact of the Scheme on all policyholders whether or not their policies are being transferred under the Scheme.

Q8 What is the view of the Independent Expert on the proposal?

John McKenzie, a fellow of the Institute and Faculty of Actuaries, is the Independent Expert appointed to consider the effect of the Scheme. He has reviewed the proposal and prepared a report on the terms of the Scheme. In the opinion of the Independent Expert, the implementation of the proposed Scheme:

- will not affect the security of the benefits for the non-transferring ELL policyholders;
- will not materially affect the security of the benefits of the transferred policyholders or of Engage Mutual's policyholders; and
- will not materially affect the benefit expectations of transferred policyholders or of Engage Mutual's policyholders.

There is a summary of his report at appendix 2 and you can obtain a copy of his full report free of charge on request. A copy is also available on our website at www.ecclesiastical.com/ELL..

He will be preparing a supplemental report before the final Court Hearing which will also be available on our website at www.ecclesiastical.com/ELL, and a copy of which will be sent to you on request, free of charge.

Q9 What if I don't like the proposal?

If you believe that you have the right to be heard by the Court. If you have an objection, you can write to us by post to Ecclesiastical Life Limited, Beaufort House, Brunswick Road Gloucester GL1 1JZ (Attn: Company Secretary) or by email to rachael.hall@ecclesiastical.com (in each case quoting reference RH/ELL) or to our solicitors Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX (ref NJ) preferably at least 2 clear working days before the final hearing.

You can also call the Scheme helpline on 0800 032 1929 (open 9.00 am to 5.00 pm, Monday to Friday, excluding bank and public holidays). Your objection and our reply will be sent to the Court, the Independent Expert and the FSA ahead of the hearing. You may appear in person or via a representative and present your argument at the Court Hearing which will be on 26 November 2010 and if you wish to do so, you are asked to give at least 2 clear working days written notice to our solicitors Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX (ref NJ).

Q10 What about other persons interested in my policy?

We are attempting, as far as records allow, to contact all policyholders and other interested persons to make them aware of the Scheme, as part of the legal process we have to follow. This will not be possible in all instances and we need your assistance to ensure all parties associated with your policy are notified of the Scheme.

If there is any other person with an interest in your policy, for example, if you are a co-owner, could you please make sure they are given the opportunity to review this booklet.

SUMMARY OF TERMS OF THE TRANSFER

Introduction

This part of the document summarises the key features of the proposed transaction to transfer the Transferred Business to Engage Mutual.

There is a Glossary on page 13 which you may find useful.

It is proposed that the Transferred Business, the Transferred Assets, the Transferred Liabilities and the Transferred Policies, shall be transferred to Engage Mutual in accordance with the Scheme following the making of the Order. The next part of this document gives you a summary of the provisions of the Scheme which the Court will be asked to approve.

Transfer to Engage Mutual

On the Effective Date (expected to be 30 November 2010 or any later date, which Engage Mutual and ELL agree) all ELL assets and liabilities, which relate to the Transferred Business and which do not relate to ELL's Funeral Plan Business, will be transferred to Engage Mutual.

The Transferred Policies will be transferred to, and subsequently administered by, Engage Mutual, which will become the insurer in place of ELL.

Rights of Policyholders

Holders of the Transferred Policies will have the same rights under their policies as they had prior to the Transfer.

Membership Rights

All holders of Transferred Policies will become members of Engage Mutual. On all issues affecting the members' voting rights, the Transferred Policies will be treated in exactly the same way as all other policies of Engage Mutual.

Conditions

The Transfer remains conditional, among other things, on Court approval of the Part VII transfer.

The Transfer may not proceed if it is not demonstrated that, except in exceptional circumstances, the With-Profits Fund can operate on a self sufficient basis.

Undertaking by Engage Mutual

ELL has been clear that it wishes to be satisfied that Engage Mutual is an appropriate operator of the business transferred with a compatible culture to that of ELL. Accordingly, Engage Mutual has acknowledged that it is acquiring the business as part of its strategy of expanding its life business and that its intention is to retain the Transferred Business on a long term basis.

SUMMARY OF TERMS OF THE SCHEME

Introduction

This part of the document summarises the main provisions of the proposed Scheme to transfer the Transferred Business to Engage Mutual.

FUND STRUCTURE

Establishment of Sub-Fund

With effect from the Effective Date Engage Mutual will establish and maintain, for management and accounting purposes, the Engage (ELL) With Profit Sub-Fund as a separate sub-fund.

This fund will be 'ringfenced', meaning that its assets can only be used for the purposes of making payments in respect of policies comprised in that fund and so cannot be used to provide financial support for any other Engage Mutual fund, except for support which has been approved by the Engage Mutual Board on the advice of the With-Profits Actuary, who must be satisfied that such support will not impair the reasonable expectations for the holders of policies in that fund, and that such support complies with all regulatory requirements as applicable at that time. However, none of the provisions for ringfencing the sub-fund limit the availability of Engage Mutual's assets to meet all liabilities which it is obliged by law or regulation to meet.

Allocation of Transferred Policies

With effect from the Effective Date, Engage Mutual shall allocate:

- to the Engage (ELL) With Profit Sub-Fund the Transferred Policies which are With Profit Policies;
- to the Engage Non-Profit Fund all Transferred Policies other than the With Profit Policies referred to above.

Operation of the Engage (ELL) With Profit Sub-Fund

As from the Effective Date, Engage Mutual will operate and administer the Engage (ELL) With Profit Sub-Fund in accordance with the Scheme.

Appropriate accounting records will 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 the Engage (ELL) With Profit Sub-Fund.

Service levels

The Engage Mutual Board will use its best endeavours to ensure that the overall standard of service provided to holders of the Transferred Policies will be maintained at the level provided by ELL immediately prior to the Effective Date or, if better, the level provided to holders of Policies written by Engage Mutual, and will be provided with the same level of skill and diligence.

TRANSFER OF BUSINESS AND POLICIES

With effect from the Effective Date, the Transferred Business and the Transferred Policies shall be transferred to and be vested in Engage Mutual.

Certain assets and liabilities may not be capable of being transferred to Engage Mutual on the Effective Date for procedural reasons. In such cases, ELL will hold the relevant assets on trust for Engage Mutual until the assets are transferred and Engage Mutual will indemnify ELL in respect of such liabilities until they are transferred.

Transfer of assets and liabilities

On the Effective Date, the Transferred Assets of ELL, shall, by the Order, be transferred to Engage Mutual.

On the Effective Date, the obligation to repay the principal of the Contingent Loan and the Transferred Liabilities shall, by the Order, be transferred to and become liabilities of Engage Mutual and shall cease to be liabilities of ELL.

Premiums and other payments

All premiums and other payments attributable or referable to the Transferred Policies (including, without limitation, pension tax relief recoveries) shall on and after the Effective Date be payable to Engage Mutual and shall be allocated by Engage Mutual to the fund to which the Policy to which they relate is allocated pursuant to the Scheme.

Any mandate or other instruction in force on the Effective Date (including direct debit or standing order instructions) for the payment of premiums in respect of any Transferred Policy will take effect as if the instructions authorised this payment to Engage Mutual. Holders of Transferred Policies therefore need not take any action in relation to any such mandate or instruction.

MISCELLANEOUS PROVISIONS

Costs and expenses

ELL and Engage Mutual shall bear equally the costs of the Independent Expert, the FSA fee for the consideration of the transfer and the fees of Counsel jointly instructed by them in relation to the Scheme.

All ELL's other costs and expenses incurred in relation to the Scheme shall be paid by ELL.

All Engage Mutual's other costs and expenses incurred in relation to the Scheme shall be paid by Engage Mutual.

None of the above costs will be borne by ELL policyholders.

Effective Date

In order for the transfer to take effect, the Scheme has to be approved by the Court. In deciding whether to approve the Scheme, the Court will consider the interests of all parties, including those of the policyholders of ELL and the policyholders of Engage Mutual.

Application for sanction of the Scheme will be made to the Court under Section 111 of the

Act. The Court hearing to sanction the Scheme will be held on 26 November 2010. The Effective Date is currently expected to occur at 23.59 GMT on 30 November 2010.

The Court may, in the order sanctioning the Scheme or in any subsequent order, make such provision as it thinks fit for such incidental, consequential and supplementary matters as are, in its opinion, necessary to secure that the Scheme is fully and effectively carried out.

Scheme Report

Preparation of a report on the Scheme is a requirement of the Act in relation to insurance business transfers. The Independent Expert, Mr John McKenzie FFA, whose appointment has been approved by the FSA for these purposes, has prepared such a report, a summary of which is included as appendix 2.

Glossary

The purpose of this section is to introduce and explain or define some of the key expressions which are used in this booklet.

2003 Scheme	the insurance business transfer scheme approved by the Court on 28 July 2003 under which the Long-Term Insurance business of EIO was transferred to ELL
Act	the Financial Services and Markets Act 2000;
AGM	the annual general meeting of Engage Mutual held on 18 August 2010;
Board	the Board of Directors from time to time of ELL or Engage Mutual, as the context so requires;
Contingent Loan	approximately £3.628 million (assuming the Effective Date is 30 November 2010) being part of the £8 million borrowed from ELL's parent company, EIO, by ELL by way of contingent loan;
Court	the High Court of Justice in England;
Court Hearing	the final hearing of the claim form at the Court;
Effective Date	the date on which the Scheme becomes operative in accordance with its terms;
EIO	Ecclesiastical Insurance Office plc
ELL Ex FPB Non-Profit Notional Sub Fund	the notional sub-fund maintained by ELL as part of the ELL Non-Profit Fund;
ELL Non-Profit Fund	the existing ELL non-profit fund (including the ELL Ex FPB Non-Profit Notional Sub-Fund);
ELL With-Profit Fund	the existing ELL with-profit fund;
Engage Mutual	Homeowners Friendly Society Limited;
Engage Non-Profit Fund	the existing Engage Mutual non-profit fund;
Engage (ELL) With Profit Sub-Fund	a separate sub-fund to be established by Engage Mutual within its long term fund for the purpose of maintaining the With Profit Policies under the Scheme. This sub-fund will be separate from the sub-fund already established by Engage Mutual within its long term fund. There are currently no plans to merge these two funds;
Engage Mutual Rules	the rules of Engage Mutual from time to time in force;
FSA	the Financial Services Authority of the United Kingdom;
FSA Handbook	the rules and guidance published by the FSA from time to time, referred to as the FSA Handbook ;
Funeral Plan Business	the whole of the funeral plan related long-term insurance

	business carried on by ELL at the Effective Date, forming part of the ELL Non-Profit Fund;
Independent Expert	the actuary appointed to act as expert to report on the terms of the Scheme, as required by the Act;
Long-Term Insurance	the business of effecting or carrying out long-term insurance contracts, being any contract of insurance within Part II of Schedule 1 to the Regulated Activities Order;
Order	an order made by the Court under section 111 of the Act sanctioning the Scheme and any order (including any subsequent order) in relation to the Scheme made by the Court under section 112 of the Act;
Policy	shall have the meaning given to that term in the FSA Handbook and for the avoidance of doubt shall include any contract of long-term insurance under which an existing liability has already been accrued, regardless of how that contract may be evidenced;
Regulated Activities Order	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001;
Scheme	the Scheme for the transfer of the Transferred Business to Engage Mutual, a summary of which is contained in this booklet, in its original form or with, or subject to, any modification, addition or condition which may be approved in accordance with its terms or imposed by the Court;
Special Resolution	a resolution passed by at least 75% of members of Engage Mutual entitled to vote and voting in person or by proxy;
Transfer	the transfer of the Transferred Business pursuant to the Scheme;
Transferred Assets	the assets of ELL which at the Effective Date relate to the Transferred Business;
Transferred Business	the Long-Term Insurance business carried on by ELL at the Effective Date comprised in the ELL With-Profit Fund and the ELL Ex FPB Non-Profit Notional Sub Fund both being part of the ELL long-term fund. The Funeral Plan Business will not be transferred;
Transferred Liabilities	all liabilities of ELL in respect of or attributable to the Transferred Business;
Transferred Policies	every policy written by ELL, in whole or in part, in relation to the Transferred Business under which any liability of ELL remains unsatisfied or outstanding in whole or in part at the Effective Date; and
With Profit Policy	any policy which confers on the holder a right to share in the profits of the ELL With-Profit Fund.

APPENDIX 2

Summary of the Independent Expert's report: to be updated to reflect FSA comments

The following is a Summary of the Scheme Report prepared by the Independent Expert, John McKenzie, FFA, and dated October 2010.

Introduction

- 1.1 I have been appointed by Ecclesiastical Life Limited ("ELL") and Homeowners Friendly Society, trading as Engage Mutual ("Engage Mutual"), to report as the Independent Expert on the proposed transfer of part of the long term business of ELL to Engage Mutual.
- 1.2 My appointment as the Independent Expert was approved by the Financial Services Authority ("FSA") which has also approved the form of my report (the "Scheme Report"). The Scheme Report will be presented to the High Court of Justice.
- 1.3 My Scheme Report has been prepared in compliance with relevant rules and guidance. It contains a description of the past operations of ELL and Engage Mutual, an outline of the terms and conditions of the Scheme and an assessment of the likely impact of the Scheme on both ELL and Engage Mutual.
- 1.4 The terms of the Scheme are set out elsewhere in this Circular and are not repeated in this Summary. I confirm that the description set out therein is consistent with my understanding of the Scheme.
- 1.5 My assessment has considered the terms of the Scheme but has focused on:-
 - The security of policyholder benefits; and,
 - The need to treat customers fairly and to ensure policyholders' reasonable benefit expectations are met, and, in particular, the effects on with profits policyholders' reasonable benefit expectations.
- 1.6 My terms of reference are set out in the Scheme Report and my assessment has been undertaken in the context of those terms. The Scheme Report, and this Summary of it, should be read in the context of the Scheme and not used for any other purpose. The Scheme Report takes precedence over this Summary.
- 1.7 I have relied on information provided to me by ELL and Engage Mutual. This Summary is subject to the same reliances and limitations as set out in the Scheme Report. Nothing in this Summary should be taken as investment advice or an endorsement of the products of ELL or Engage Mutual.

Summary of Conclusions

- 1.8 In my opinion, the implementation of the proposed Scheme:

- will not affect the security of benefits for the non-transferring ELL policyholders;
- will not materially affect the security of the benefits of the Transferred Policyholders or of Engage Mutual's policyholders; and,
- will not materially affect the benefit expectations of Transferred Policyholders or of Engage Mutual's policyholders.

1.9 In my opinion, awarding membership rights to Transferred Policyholders will not materially affect the membership rights of Engage Mutual's members.

Motivation for the Scheme

1.10 Over recent years, ELL has sold a declining volume of new business and, in particular, new with profits business. The existing block of business is running off and there is therefore the risk of escalating unit costs within the business, which would be a source of loss to ELL, given the expense arrangements which apply to the WPF. The desire to mitigate this expense risk is one of ELL's key drivers for the transfer.

1.11 The Board of Ecclesiastical Insurance Office plc ("EIO") (ELL's shareholder) wishes to protect shareholders' long term interests in ELL, with regard to both the amount and the volatility of the Group's capital requirements, which are currently significantly influenced by ELL's business.

1.12 ELL has a strong desire to protect the benefits and service levels provided to the ELL policyholders, and it believes that the Scheme design maintains this.

1.13 As part of this process, EIO has decided to continue to operate ELL as a life company and will retain part of the current long term business, namely, the funeral plan business.

1.14 Engage Mutual shares ELL's desire to protect benefits and service levels and has a desire to develop new products and distribution capabilities, and to increase its membership. It also seeks to achieve economies of scale by acquiring suitable blocks of business.

Background

ELL

1.15 ELL is a subsidiary of EIO and authorised by the FSA to undertake long term insurance business in the UK (although ELL also markets itself into the Republic of Ireland). The ultimate parent is Allchurches Trust Limited.

1.16 Policyholders of ELL do not acquire membership rights in ELL.

Structure and Operation

- 1.17 As with all shareholder owned life insurance companies, ELL maintains a long term business fund, which represents the assets and liabilities of the insurance contracts it has issued, and a shareholder fund. The long term business fund has two sub-funds:
- the With Profit Fund (“WPF”); and
 - the Without Profit Fund (“NPF”).
- 1.18 The WPF consists of the with profits business written by ELL or transferred to it under the terms of a Court approved transfer scheme (the “2003 Scheme”). ELL’s shareholders are not entitled to receive any share in the profits of the WPF as these profits are available for distribution only to the policyholders of the WPF. The terms of the 2003 Scheme which may influence the operation of the WPF are described further below.
- 1.19 All other business transacted by ELL is allocated to the NPF. Profits arising in the NPF accrue to the shareholder. These profits may be retained in the NPF or transferred to the Shareholder Fund where they may be available as a dividend to ELL’s shareholder, subject to any legal or regulatory constraints which may apply.
- 1.20 The administration of ELL is undertaken centrally by EIO and costs are allocated to ELL on an appropriate basis relative to the services provided. A number of key administrative roles are also provided by third party suppliers.

Product Management

- 1.21 ELL has transacted various forms of life insurance business in the past under its different names. It has transacted non-profit business including both non-linked insurance and linked non-profit business, and with profits business including unitised with profits and conventional with-profits business.
- 1.22 New business has in the past been produced directly by the company in the UK, or through the services of intermediaries in Ireland. In recent years, the volume of new regular premium life business has shrunk to relatively small amounts and the company has depended upon the sale of single premium contracts, particularly funeral plan related business, which is introduced under the terms of master agreements with the National Association of Funeral Directors.
- 1.23 For with profits business, the main consideration influencing the benefit payments is the future experience of the WPF and the operation of discretion by ELL to distribute profits to policies. This in turn depends on the management procedures adopted for the WPF.

- 1.24 The non-profit contract terms are guaranteed and do not depend on the application of discretion by ELL or the future experience of the fund in the way that with profits contracts do.
- 1.25 For property linked insurances, the value of the benefits payable is established by reference to the value of the units in designated linked funds maintained by ELL. ELL may change the management charges imposed on linked contracts, subject to any contractual constraints. There have been no changes to the charges in recent years but ELL has retained the right to impose such increases in the future if conditions warrant it.

PPFM

- 1.26 A full and detailed description of the financial management of with profits business is now set out in the statement of “Principles and Practices of Financial Management” (“**PPFM**”) which with profits companies must maintain and make available to policyholders. One of the key elements of the PPFM is that the investment strategy of the WPF should be set having regard to its own resources only and not to rely on any other resources of ELL. The PPFM also provide that the shareholder may make available support for the WPF’s investment strategy.
- 1.27 The WPF has been managed for some time to be self sufficient and with the intention that such support would not be required from the Shareholder Fund. Recent investigations have been undertaken by ELL to test the self sufficiency of the WPF under the current PPFM. These investigations have indicated that a change to the stated practice relating to the proportion of the assets invested in stocks, shares and property is desirable and has been made. The changes lower the minimum percentage for the WPF by 10%, and increase the maximum by 5%. The revised limits have no immediate impact on the WPF. However, these investigations have indicated that analysis should be undertaken to clarify further the management actions that may appropriately be taken, and any implications for the management of the fund, including investment strategy. This investigation has not been finalised at the date of this report but one of the possible outcomes may be a reduction in the EBR for the WPF, but other options are also being investigated to mitigate this.

Financial Condition

- 1.28 I have considered the published financial position of ELL set out in its annual FSA Returns as at 31 December 2009 but also considered the capital position on the unpublished Individual Capital Adequacy (“ICA”) basis, which examines the capital needed to meet the risks to which ELL is exposed.
- 1.29 I concluded that ELL was well capitalised on that date as it covered its statutory capital requirements by 374%.

- 1.30 I also considered the risks to which ELL is exposed (and which therefore influence the security of its policyholders' benefits). I identified that the major risk to which the firm was exposed from the non-profit business in force related to insurance risks such as changes to mortality and longevity. Financial (or market) risks are not material for the non-profit business. For the with-profits business, the policies are savings type contracts and so the risks to which it is exposed arise from market and credit risk rather than insurance risk. ELL's capital requirements under its ICA assessment reflect the nature and scale of these risks.
- 1.31 In 2008, ELL received support from EIO in the form of an £8 million loan, the repayment of which depended on the future capital position of ELL. The contingent nature of the loan improved ELL's statutory position which was affected by the uncertain nature of financial markets at that time, particularly the values of, and yields on, corporate bonds. Although the provision of capital in this way is not guaranteed, it is an advantage which may be gained from being part of a larger group of companies.
- 1.32 The contingent loan arrangement remained in place as at December 2009, although the financial position was much improved overall. The financial improvement came principally in the WPF.

Engage Mutual

- 1.33 Engage Mutual was established in 1980 as Homeowners Friendly Society. Engage Mutual is authorised by the FSA to undertake long term insurance business. Engage Mutual is required to satisfy the same prudential insurance requirements under the EU Life Directives as ELL.
- 1.34 The main activities of Engage Mutual were initially the transaction of unit linked business and non-profit life assurances. In October 2003, the long term business of the UK Civil Service Benefits Society ("UKCSBS"), which included with profits business, was transferred to Engage Mutual. The terms of the UKCSBS business are governed by the Instrument of Transfer.

Structure and operations

- 1.35 Engage Mutual maintains a single long term business fund, but manages its business by splitting it into two sub-funds, the with profits sub-fund ("WPSF") and the non-profit sub-fund ("NPSF"). The assets and transferred policies of the UKCSBS were transferred into the WPSF. The intention is that each sub-fund is self-supporting without calls being needed on the capital of the other fund other than in extreme circumstances. Both funds are open to new business.
- 1.36 Engage Mutual also operates a number of subsidiary companies. The most important subsidiaries are:
- Engage Mutual Funds Limited ("EMFL"), which offers Child Trust Funds (Government-sponsored, tax exempt savings arrangements for children);and

- Engage Mutual Insurance Limited (“EMIL”), which is a Gibraltar based company offering health cash plans in the UK.

Product Management

- 1.37 Engage Mutual has transacted various forms of life insurance business in the past. It has transacted non-profit business including both non-linked insurance and linked non-profit business, and with profits business including unitised with profits and conventional with-profits business.
- 1.38 The current new business written by Engage Mutual consists of property linked and unitised with profits savings contracts, and non-profit whole life assurance and term assurance. The unitised with profits business is written in the WPSF, and the non-profit business is written in the NPSF.
- 1.39 The conventional with profits business consists of whole life assurances and endowment assurances. The business of this type is largely that transferred from UKCSBS.
- 1.40 The unitised with profits business also consists of whole life assurance contracts, which may be either single premium or regular premium.
- 1.41 The conventional non-profit business contracts have guaranteed terms and do not depend on the application of discretion by Engage Mutual or the experience of the fund in the same way that with profits contracts do.
- 1.42 For property linked insurances, the value of the benefits payable is established by reference to the value of the units in internal linked funds maintained by Engage Mutual and direct assets held to back these contracts. There have been decreases to some charges on property linked contracts in the past, and no increases have ever been imposed, although Engage Mutual reserves the right to do so.
- 1.43 Under Engage Mutual’s Rules, surplus arising in the non-profit fund is potentially available for distribution to non-profit policyholders as well as with profits policyholders. There is no pre-determined formula for determining the rules for any such distribution.

Membership

- 1.44 All policyholders of Engage Mutual automatically become members of Engage Mutual on effecting a policy. Membership brings the right to vote at the Annual General Meeting (“AGM”) of Engage Mutual and so participate in its management. There is no immediate financial benefit from being a member but in the event of the dissolution of Engage Mutual, members would be entitled to share in the surplus assets (if any) at that time. There is no pre-determined formula for such an allocation.

- 1.45 At the 2009 AGM, members voted for a change to the membership rules. The substance of the rule change was to allow Engage Mutual to develop a membership structure such that all customers of the subsidiary companies could also become members of Engage Mutual. This requires the creation of a Discretionary Fund upon which members may make “hardship claims”.
- 1.46 As the appropriate rules for the Discretionary Fund or for qualification for benefits have not been developed, membership has not yet been extended to all customers. Similarly, no detailed rules have been drafted on the operation of the new membership structure and in particular the precise interests and powers of members in influencing the affairs of Engage Mutual. I noted in the Scheme Report that care would be needed in drafting these rules to prevent undesirable constraints being created on the proper management of the long term business.
- 1.47 Engage Mutual has currently approximately 210,000 members, who are all long term insurance policyholders, and approximately 440,000 customers in total.

Financial Condition

- 1.48 I considered the published statutory financial position of Engage Mutual set out in its annual FSA Returns but also considered its capital requirement from its ICA assessment.
- 1.49 I concluded that Engage Mutual was well capitalised. The cover provided for the statutory capital requirement was 283%.
- 1.50 Engage Mutual is subject to a diverse range of risks. The WPSF and NPSF are subject to risks arising from the assets which they hold as well as insurance risks but these risks are largely contained within the relevant fund due to the way the funds are managed. The NPSF is exposed to risks through the operation of Engage Mutual’s subsidiaries as well as its own operation. Engage Mutual’s capital requirements under the ICA assessment reflect the nature and scale of these risks.
- 1.51 During 2008, the WPSF made a contingent loan to the NPSF of £3 million to be repaid over 5 years although it was expected to be repaid in a shorter period. The contingent loan has the effect of reducing the available capital in the WPSF by the amount which is outstanding. Conversely, the available capital of the NPSF is enhanced by this amount. Overall the position is neutral. At 31 December 2009, £2.0 million of this loan was outstanding.
- 1.52 The loan is secured against a particular block of business in the NPSF. The NPSF may not enter into any financing arrangement which directly or indirectly involves the surplus of the NPSF until this contingent loan has been repaid.
- 1.53 The contingent loan arrangement was set up to meet an expected capital call from a combination of the effect of market conditions on the NPSF directly and the capital needs of the subsidiary companies. In the event, the capital was not required and

the loan was not strictly necessary. The current business plans do not indicate that there is likely to be a need for further capital in the near future.

Interim Reinsurance Agreement

- 1.54 As part of the commercial arrangements between ELL and Engage Mutual, a reinsurance arrangement was put in place between them. The reinsured business is all of the business of ELL's NPF, excluding funeral plan related business. The purpose of the reinsurance arrangement is to transfer to Engage Mutual with immediate effect the economic interest in the non-profit business being disposed of by ELL.
- 1.55 The reinsurance agreement terminates following the implementation of this Scheme but will also terminate in the event that the Scheme does not proceed. In the latter case, the termination will be such that it will be as if the reinsurance arrangements had never existed.
- 1.56 Clearly the existence of the reinsurance arrangement has a material effect on the financial position of both ELL and Engage Mutual so that the figures in ELL's and Engage Mutual's FSA return at 31 December 2009 do not reflect the current position. However, the reinsurance arrangement is a stepping stone in achieving the economic transfer of business but is a non-essential step in the actual transfer of business and will terminate if the Scheme is not implemented. It is recognised that during the interim period, Engage Mutual is exposed to the risks inherent in the reinsured business but I believe that it is appropriate for the purpose of the Scheme Report to ignore the interim step and to consider the position prior to the commercial arrangements being entered into.

Assessment of the Scheme

Security of Benefits

- 1.57 I considered the security of the benefits under Engage Mutual's policies and ELL's transferring and non-transferring policies, assuming that the transfer had been implemented at 31 December 2009.
- 1.58 This revealed that on the implementation of the Scheme on that date, Engage Mutual would have covered its revised capital requirement by 306%. In the following sections, I consider the effect of this on each group of affected policyholders.
- 1.59 The transferring non-profit policyholders move from a sub-fund in ELL with a cover ratio of 36% (although this understates the position as ELL's Shareholder Fund covers the balance of the capital requirement, i.e. the cover ratio is at least 100% in effect) to a sub-fund with a cover ratio of 307% in Engage Mutual. However, support from the ELL Shareholder Fund, and potentially support from EIO, is no longer available after the transfer.

- 1.60 These transferring non-profit policyholders are exposed to the risks associated with the existing NPSF, including the risk of capital calls from Engage Mutual's subsidiaries. There is some uncertainty on the future of EMFL given the significant changes to Child Trust Funds recently announced by the Government, but Engage Mutual's management believe that EMFL will be profitable in the absence of new business and so capital calls in the short term do not appear to be a material concern. EMIL may require further capital if its business grows but this is not an issue as long as the business is written on a profitable basis.
- 1.61 There is no change expected in the solvency for the sub-fund of the with-profits Transferred Policyholders. However, support from the ELL Shareholder Fund, and potentially support from EIO, is no longer available after the transfer.
- 1.62 The Engage Mutual (ELL) WPF will be managed having regard to its own resources only in the same way that the WPF was in ELL and is expected to be self supporting in a range of adverse scenarios without the need for potential external capital calls. The circumstances when the Engage Mutual (ELL) WPF would need to access external capital for reasons of security are reasonably remote but the surplus of the NPSF would be available if necessary in the same way as the Shareholder Fund of ELL may have been available to the ELL WPF in similar circumstances.
- 1.63 I do not consider that there is a material risk of either the Engage Mutual (ELL) WPF or the WPSF having to provide capital to other funds, as the capital in the other funds would need to be exhausted before these circumstances become reality.
- 1.64 The contingent loan from the WPSF to the NPSF will be repaid if the Scheme becomes effective which improves the solvency cover of the Engage Mutual WPSF from 339% before the transfer to 386% after the transfer.
- 1.65 For existing Engage Mutual non-profit policyholders, the solvency cover moves from 242% before the transfer to 307% after the transfer. The development of the solvency position of the NPSF on the Effective Date is complex as it reflects the repayment of the contingent loan to the WPSF and a payment of £3.5 million plus interest to EIO but also allows for changes to the technical management of the liabilities under the FSA rules. I considered these changes in detail and am satisfied that they are appropriate.
- 1.66 I considered the capital position under the ICA requirements and concluded that Engage Mutual would continue to satisfy those capital requirements.
- 1.67 The solvency cover for the non-transferring ELL policyholders moves from 374% before the transfer to 933% after the transfer although this cover will reduce if ELL repays the outstanding amount on the loan from EIO as is currently planned. I have also considered the ELL ICA capital requirement and concluded that ELL would continue to satisfy those capital requirements.

- 1.68 I also considered the risks to which the Scheme would expose the policyholders of each of the companies on transfer and whether these materially changed the position for each group of policyholder. I concluded that the additional risks to which policyholders will be exposed after the transfer was not material due to the similarity of the risks currently and the provisions made for them.
- 1.69 I concluded that the security of the benefits under Engage Mutual's policies, the Transferred Policies and the non-transferring funeral plan business will not be materially affected by the implementation of the Scheme.

Benefit Expectations

- 1.70 The WPSF and the Engage Mutual (ELL) WPF will be maintained as ring fenced funds in Engage Mutual. Engage Mutual will also maintain the NPSF. Engage Mutual will adopt the current PPFM of the ELL WPF for the Engage Mutual (ELL) WPF in all material respects. Nothing will change in the way they are operated as a direct result of the Scheme. The ELL WPF may receive support from the Shareholder Fund of ELL prior to the Effective Date as set out in the PPFM but this will be altered on the Effective Date as there will be no Shareholder Fund. After the Effective Date, Engage Mutual may provide capital support to the Engage Mutual (ELL) WPF from the capital of the NPSF in a similar fashion to the support previously provided. Although the capital of the NPSF is less than the capital of ELL, the Engage Mutual (ELL) WPF will be managed to a standard requiring financial self sufficiency so that the amount of capital which may be required to provide such discretionary support would be relatively small.
- 1.71 An investigation is being undertaken currently to clarify what management actions are appropriate in the context of the current PPFM and it is possible that investment strategy may change as a consequence but a number of options are being investigated. Whilst it is possible that some management actions identified by the current investigations may be taken by ELL prior to the Effective Date, it is likely that these will be applied by Engage Mutual under the terms of the adopted PPFM after the Effective Date. As the investigation had not been completed at the time of the Scheme Report, I shall prepare a supplemental report considering the results of the investigation, the proposed actions to be taken and whether my conclusions on the likely effects of the Scheme are altered.
- 1.72 Trivial amounts of new with profits business have been written in the ELL WPF in recent years and it would appear to be effectively closed under the FSA's rules. There are unlikely to be any material advantages to the policyholders of the Engage Mutual (ELL) WPF from continuing to transact new business in such trivial volumes, but, equally, remaining open with the current low volumes of new business would not be materially disadvantageous. However, the Engage Mutual (ELL) WPF will be closed to new business on the Effective Date and this will allow the estate to be distributed. The pace of distribution of the estate will clearly depend on a number of factors including the application of the PPFM. Engage Mutual will prepare a run off plan for submission to the FSA after the Effective Date.

- 1.73 I concluded that the benefit expectations of with profits policyholders would not be materially affected by the Scheme.
- 1.74 I considered the impact of the Scheme on all non-profit and linked policyholders. Since the bases of these contracts are largely fixed, I concluded that the matter of concern for them was one of security. Some contracts have reviewable rates or charges but as it is not proposed that the methods used to review these charges will change, and there are not expected to be administrative changes due to the Scheme, I do not expect there to be a change to benefit expectations.
- 1.75 The transferring policyholders will become members of Engage Mutual after the transfer. In my opinion, awarding membership rights to the transferring policyholders will not materially affect the membership rights of Engage Mutual's members.
- 1.76 I also considered the governance arrangements for the management of with profits business and considered that these would give appropriate protection to policyholders particularly whilst the run off plan for the Engage Mutual (ELL) WPF was being developed.

APPENDIX 3

IN THE HIGH COURT OF JUSTICE

(CHANCERY DIVISION) No 7684 of 2010

COMPANIES COURT

In the Matter of Ecclesiastical Life Limited (“ELL”)

and

In the Matter of Homeowners Friendly Society Limited (trading as engage Mutual Assurance) (“Engage Mutual”)

and

In the Matter of the Financial Services and Markets Act 2000

Notice is hereby given that an application (the **Application**) for an order sanctioning a long term insurance business transfer scheme (the **Scheme**) under Part VII of the Financial Services and Markets Act 2000 was made to the High Court by ELL and Engage Mutual on 21 September 2010. The Scheme provides for the transfer by ELL to Engage Mutual of all of ELL’s long term insurance business, other than its funeral plan related business.

A copy of a report on the terms of the Scheme prepared by an independent expert and a statement setting out the terms of the Scheme and containing a summary of such report can be obtained free of charge:

- (i) from ELL from the website of Ecclesiastical Insurance Office plc (**EIO**) at www.ecclesiastical.com/ELL or from ELL’s helpdesk on 0800 032 1929 (open 9.00 am to 5.00 pm, Monday to Friday, excluding bank and public holidays) or by email to ELL at financial.services@ecclesiastical.com or by post from Customer Services at ELL Customer Services at Ecclesiastical Insurance Group, Beaufort House, Brunswick Road, Gloucester GL1 1JZ;
- (ii) from Engage Mutual from the website of Engage Mutual at www.engagemutual.com or from Engage Mutual’s helpdesk on 0800 298 3452 (open 9.00 am to 5.00 pm Monday to Friday, excluding bank and public holidays) or by email to Engage Mutual at mail@engagemutual.com or by post from Customer Services at Engage Mutual, Hornbeam Park Avenue, Harrogate HG2 8XE.

The Application is directed to be heard at the Royal Courts of Justice, Strand, London WC2A 2LL on 26 November 2010. Any person (including an employee of ELL, EIO or Engage Mutual) who believes that they would be adversely affected by the carrying out of the Scheme is entitled to be heard by the Court. Any such person who intends to attend the

hearing (in person or by legal representative) or who intends to make written representations without attending the hearing is asked to give written notice of their objections including a copy of any written representations preferably on not less than two clear working days' notice, to the relevant firm of solicitors named below, or to call one of the Scheme helpdesk lines: 0800 032 1929 (for ELL) or 0800 298 3452 (for Engage Mutual), quoting their policy number if they are policyholders with ELL or Engage Mutual.

Speechly Bircham LLP (for ELL and EIO)
6 New Street Square
London
EC4A 3LX
Ref: NJ
Solicitors for ELL

Addleshaw Goddard LLP (for Engage Mutual)
Sovereign House
PO Box 8
Sovereign Street
Leeds LS1 1HQ
Ref: BRYAR
Solicitors for Engage Mutual

APPENDIX 4

Part 1: Review of the management of the With-Profit Fund

In practice our With-Profit Fund has been managed since 2003 with the intention that it is self-sufficient and not reliant upon support from the ELL shareholder fund except in extreme circumstances.

We have been reviewing the way in which the With-Profit Fund is managed to achieve self-sufficiency and to provide greater clarity around the nature, type and severity of management actions that ELL would be prepared to take in the management of the fund under a variety of different circumstances. This review is ongoing and is expected to conclude at the end of October.

Following the outcome of the review to date, we have recently made some changes on 16 September 2010 to the way in which the With-Profit Fund is managed and these can be accessed on line at www.ecclesiastical.com/ELL. Some of the changes relate to the practices in the PPFM. Once a material change to a practice is made, we are required to notify holders of the With Profit Policies within a reasonable time, which is why we are taking this opportunity to do so now. Part 2 of this Appendix sets these out in more detail.

In addition, further changes to a number of principles and practices set out in the PPFM will be made if the Scheme takes effect. These additional changes are described in Part 3 of this Appendix.

The ongoing review of the management of the With-Profit Fund includes consideration of potential changes to the equity backing ratio, the use of derivatives, the policy in relation to future annual and final bonuses, the introduction of guarantee charges on asset shares, a different investment strategy for assets backing the inherited estate, and a reduced, and therefore lower risk, exposure to unrated or lower rated corporate bonds.

Any changes to the management of the With-Profit Fund that may result from this review will be determined by the Board, subject to the approval of the With-Profit Actuary, the Actuarial Function Holder and the Independent Person for the PPFM. Any changes will also be considered by the Independent Expert for the Scheme and whether or not this affects the opinions he has expressed in his report. The Independent Expert will issue a supplemental report which will be placed on our website, and available to policyholders on request.

Once the review and the process referred to above is complete, further changes to practices or principles in the PPFM may be considered desirable and may be made, regardless of the Scheme. If so, With-Profit policyholders will be notified of these changes separately.

In addition, the With-Profit Fund will be closed to new business from the Effective Date (but will remain open to increments and top-ups to policies, eg. Deposit Administration and Group Pension, and to new policies issued pursuant to contractual policy options). The With-Profit Fund will be run off by Engage Mutual. Engage Mutual will be writing to the policyholders in the With-Profit Fund in this regard.

Part 2: Changes to the PPFM for the With-Profit Fund which have already been made

Holders of with-profit policies are given notice that the PPFM have been changed. The changes noted below are unrelated to the transfer of most of our life business to Engage Mutual.

Practice 7.10

The review of our With-Profit Fund provided greater clarity about an appropriate range for the equity backing ratio (EBR) and demonstrated a need to change the benchmark asset allocations.

The only changes are to the tables showing the benchmark asset allocations. The wording of the practice does not change.

The changes reduce the minimum EBR and increase the maximum EBR for both the With-Profit Fund in total and for the product classes.

The new benchmark asset allocations are shown below and the previous values are noted in brackets.

The revised practice is as follow:

“7.10 As a result of the investment strategy process, benchmark asset allocations are produced. The aim is to ensure that the actual asset allocations remain within the benchmark asset allocation limits. However in certain circumstances, such as movements in investment markets, the actual asset allocations may in the short term move outside the benchmark limits. Taking into account the current financial position of the fund the current ranges for benchmark allocations of the with-profits fund are as follows:

Asset type	Lower limit	Upper limit
Equities (including property)	20% (30%)	75% (70%)
Fixed interest, variable interest, deposits, cash	25% (30%)	80% (70%)

The asset limits shown above take account of any derivative instruments held by the with-profits fund.

The asset allocations currently differ by product class. The benchmark asset allocations by product class are:

	Equities (including property)		Other investments (including fixed interest, variable interest, deposits & cash)	
	Minimum	Maximum	Minimum	Maximum
With Profit Bonds	23% (35%)	90% (80%)	10% (20%)	77% (65%)

Deposit Administration	10% (20%)	55% (50%)	45% (50%)	90% (80%)
Former ALA with-profits policies	15% (25%)	70% (65%)	30% (35%)	85% (75%)
Other product classes	20% (30%)	80% (70%)	20% (30%)	80% (70%)

The current fixed interest portfolio consists of a range of fixed interest instruments which includes Government Securities, Local Authority Issues, Preference Shares, Other Loans, Permanent Interest Bearing Shares, Overseas Bonds and Corporate Loans and Bonds.

Limits are imposed on the credit ratings of the corporate bond portfolio. ELL currently limits exposure to corporate bonds and loans that have ratings lower than investment grade or have neither implied nor formal ratings to 15% in aggregate of the with-profits fund. ELL has processes in place to identify, and report to the Board, any breaches of ELL's credit rating limits. "

* Former ALA with-profits policies are with-profits policies sold in Allchurches Life Assurance Limited (now Ecclesiastical Life Limited) prior to the effective date of the 2003 Scheme.

Practice 8.8

Delete Practice 8.8 which read:

"If single premium With Profit Bond policies are sold from the without profit fund within seven years from the Effective Date of the Scheme, the with-profits fund will receive compensation for loss of future earnings as set out in the Scheme."

This ceased to have any effect from 31 July 2010, seven years after the effective date of the 2003 Scheme (which is the Scheme referred to in the deleted Practice).

Practice 8.9

Delete Practice 8.9 which read:

"If ELL were to close to new business (other than supplemental to policies in issue) within six years of the Effective Date of the Scheme there will be a refund to the with-profits fund of such part of the compensation in respect of the removal of expense risk as is set out in the Scheme. For this purpose, ELL is deemed to have ceased to write business either if the Board so decides or if the annual amount of new business for ELL is below the annual premium equivalent of £50,000."

This ceased to have any effect from 31 July 2009, six years after the effective date of the 2003 Scheme (which is the Scheme referred to in the deleted Practice).

Practice 10.9

Change Practice 10.9 to insert the wording in italics below.

"The Board currently aims for the **inherited estate**, *less an adjustment in respect of the expected cost of guarantees*, to be up to 15% of the total asset value of the **with-profits** fund."

This better reflects the way that the fund is managed.

The rationale for this practice is to avoid the fund building up excess surplus amounts without distributing to policyholders. The proposed change will clarify that the cost of guarantees should not be included in the amounts deemed to represent this excess surplus in the fund.

Glossary

Change the Glossary to insert the following wording:

Cost of guarantees:

“The amounts by which **payouts of guaranteed benefits** exceed the **asset shares**.”

Expected cost of guarantees:

"An assessment of the current value of the projected *future cost of guarantees*".

Part 3: Changes to the PPFM for the With-Profit Fund which will be made if the Scheme becomes effective

Engage Mutual has identified a number of changes to the PPFM that will need to be made consequent upon the Scheme and which are set out below. These are intended to take effect at the same time as the Scheme comes into effect, and notice is accordingly given of these changes to the holders of With-Profit Policies.

The proposed changes are set out as described below. A full copy of the proposed changes will be available on our website at www.ecclesiastical.com and from the effective date of the Scheme on the Engage Mutual website at www.engagemutual.com, or may be obtained free of charge from Ecclesiastical by calling 0800 032 1929 or writing to Ecclesiastical Life Limited, Beaufort House, Brunswick Road, Gloucester GL1 1JZ (Attn: Company Secretary) or by email to rachael.hall@ecclesiastical.com.

Investment strategy

Principle 7.2

Once the Scheme takes effect, the assets of the ELL shareholder fund will not be available to support the With-Profit Fund although the surplus of the Engage Mutual non-profit fund may be available after the Effective Date, if necessary to support its capital requirements in certain circumstances. However, it is the intention that the fund will be managed with regard to its own resources. In practice the fund has been managed for some time with the objective of avoiding the need to rely on such support.

The revised text of Principle 7.2 will read:

“Engage Mutual does not normally rely on assets outside the **Engage Mutual (ELL) with-profits fund** to maintain Engage Mutual’s investment strategy for the **Engage Mutual (ELL) with-profits fund**. A proportion of capital in the Engage Mutual non profit fund may be available to support the capital requirements of the **Engage Mutual (ELL) with-profits fund**; for example, the Engage Mutual non profit fund may provide temporary capital support as outlined in practice 7.7 or in extreme situations the Engage Mutual non profit fund may transfer assets to the **Engage Mutual (ELL) with-profits fund**.”

Practice 7.7

As a result of the change to Principle 7.2, Practice 7.7 will read:

“Engage Mutual may provide temporary capital support to meet the capital requirements of the **Engage Mutual (ELL) with-profits fund**, for example, between valuations and during the time between the identification and implementation of approved management actions.”

Business risk

Principles 8.5 and 8.6

In order to reflect the provisions of the Scheme, Principle 8.6, which relates to what mis-selling risks are borne by the With-Profit Fund, will read:

“All risks, including any cost of investigation, relating to any mis-selling or potential mis-selling in respect of policies sold prior to the 1 August 2009 or post the Effective Date of the **Scheme** will be met from the assets in the **Engage Mutual (ELL) with-profits fund** except for any financial penalties which may be imposed (which will only be allocated to the **Engage Mutual (ELL) with-profits fund** after agreement with the **Regulator**). Risks, including any cost of investigation, relating to any mis-selling or potential mis-selling in respect of policies sold between 1 August 2009 and the **Effective Date** of the **Scheme** will be met by the shareholder or without-profit fund of ELL.”

Principle 8.5 will read:

“The risk from all new business sold within the **Engage Mutual (ELL) with-profits fund**, transacted subsequent to the **Effective Date** of the **2003 Scheme** (other than expense risk) is borne by the **Engage Mutual (ELL) with-profits fund** (with the exception of any mis-selling risks or potential mis-selling risks which are dealt with by paragraph 8.6).”

New business arrangements

The changes to the PPFM in paragraphs 11 and 10.5 arise because from the Effective Date the **Engage Mutual (ELL) with-profits fund** will be closed to new business, with limited exceptions.

Principle 11.1

Principle 11.1 relates to the volume of new business which may be sold within the With-Profits Fund. As the With-Profits Fund will be closed to new business from the date of the Scheme, with limited exceptions, Principle 11.1 will read:

“The **Engage Mutual (ELL) with-profits fund** is closed to new business from the **Effective Date** of the **Scheme**, excepting contractual policy options, increments and top ups.”

Principle 11.2 is deleted.

Principle 11.3 (now re-numbered as Principle 11.2) will read:

“The **Board** is in the process of developing an appropriate run-off plan to ensure an equitable allocation of the **Engage Mutual (ELL) with-profits fund's** assets. The run-off plan will determine the method by which the **inherited estate** will be distributed.”

Practice 11.4

A runoff plan will be developed and this is reflected in a new Practice 11.4 as follows:

“A run off plan, as required by regulation, is being developed to facilitate an orderly and equitable run off of the assets and liabilities of the **Engage Mutual (ELL) with-profits fund.**”

Practices 11.5, 11.6 and 11.7 are deleted.

Principle 10.5

This Principle will read:

“There is no division of the **inherited estate** between with-profits funds. No group or groups of **with-profits policyholders** have an entitlement to the **inherited estate** (save for any entitlement conferred as a result of the implementation of a run off plan developed as a consequence of the closure to new business).”

Glossary

Change the Glossary to insert the following wording:

Engage Mutual (ELL) with-profits fund

A sub-fund of the Engage Mutual Long Term Fund, comprising the policies formerly included in the Ecclesiastical Life Limited with-profits fund, where policyholders are entitled to a share of the profits of the sub-fund.

Scheme

The scheme sanctioned by the High Court of Justice in England on 26 November 2010 pursuant to section 111 of the Financial Services and Markets Act 2000, under which part of the long term insurance business of ELL was transferred to Homeowners Friendly Society Limited,

2003 Scheme

The scheme sanctioned by the High Court of Justice in England by Order on 28 July 2003 pursuant to section 111 of the Financial Services and Markets Act 2000, under which the long term insurance business of Ecclesiastical Insurance Office plc was transferred to Allchurches Life Assurance Limited (renamed Ecclesiastical Life Limited).