

The Guide

Simplifying our business

This guide summarises the key elements of our proposals and provides further information about the changes and how they might affect your policy.

Where we have had to use technical terms in this guide we have highlighted the first use of the term in **bold**. These words are explained in the glossary in section 8.



Sun Life Financial
of Canada

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Section 1

Introduction

We are proposing to reorganise Sun Life Assurance Company of Canada (U.K.) Limited (SLOC) and SLFC Assurance (UK) Limited (SLFC) (previously known as Lincoln Assurance Limited) to create a more efficient operational and financial business structure. We intend to create a single life assurance and pensions business by transferring all of the **long-term policies** of SLFC into SLOC.

The transfer will be implemented through the **Scheme** subject to approval by the **High Court**. The High Court hearing is currently scheduled for 14 December 2011. If the transfer is approved by the High Court, it will take place on 30 December 2011.

How it affects you

The **Independent Expert** has concluded that **policyholders** will not be materially affected as a result of the proposed transfer. We can also confirm that:

- you will not notice a difference to your policy or the way it is administered;
- your policy number(s) will not change;
- the terms and conditions of your policy will not change;
- you will still be able to contact us at the same address and on the same telephone numbers;
- your regular payments to and from us will remain the same, although you may notice a change to the reference on your bank statements after the transfer; and
- you will not pay any of the costs of the transfer.

Who is the Independent Expert?

The Independent Expert is Mr Nick Dumbreck of Milliman Ltd, who is an actuary with more than 30 years' experience in the U.K. life and pensions industry and is experienced with transfers of life and pensions business.

Where can I find more information?

If you have any questions or concerns about the transfer, you can find more information, including the Scheme Summary, the Summary of the Independent Expert's Report and the full Independent Expert's Report free of charge on our website at www.sloc.co.uk/transfer

You can also request free copies of any of these documents or ask any further questions you may have by calling us on 0800 980 7995 from within the U.K. or +44 (0) 2890 166 980 from outside the U.K. Our phone lines are open from 9 am to 6 pm, Monday to Friday and we'll be pleased to help. This number is for enquiries about the transfer only, so if you have a general query about your policy, please use the numbers set out in your policy document or visit the 'contact us' section of our website.

You can write to us at Sun Life Financial of Canada, Insurance Business Transfer Dept, PO Box 3170, Gloucester GL1 9AU U.K.

In addition, if you are a resident in Gibraltar or have a policy which was issued in Gibraltar you may also inspect or obtain copies (free of charge) of the transfer proposals between the hours of 9.30 am and 5.30 pm at the offices of Hassans International Law Firm at 57/63 Line Wall Road, PO Box 199, Gibraltar.

If the transfer is approved by the High Court, it will take place on 30 December 2011, and we will update our website to confirm this.

Section 2

Do I need to do anything?

If you are happy with the proposed changes you do not need to do anything.

If you remain concerned that the changes could adversely affect you, you have the right to raise your concerns with the High Court, either in person, through representation or in writing.

The final court hearing for the approval of the U.K. scheme is expected to take place on 14 December 2011 at The Royal Courts of Justice, Strand, London WC2A 2LL. If the court hearing date changes we will update our website to confirm this so you may wish to check for updates.

If you believe you will be adversely affected by our proposals we ask that you give notice in writing as soon as possible, and preferably before 24 November 2011 to our lawyers Clifford Chance LLP. All correspondence should be addressed to Rebecca Goldie at Clifford Chance LLP, 10 Upper Bank Street, London, E14 5JJ U.K.

Information for SLFC policyholders

If you have a long-term policy with SLFC we propose to transfer it, subject to the High Court's approval, to SLOC. If the transfer is approved, all long-term policies with SLFC and the related assets, liabilities, rights and obligations will be transferred from SLFC to SLOC.

These policies may have been issued by SLFC or one of the predecessor companies listed in section 6 and are collectively referred to as the **Transferring Policies**.

SLFC's rights and obligations under the Transferring Policies will be transferred to SLOC. Your rights and obligations under your policy will not change but will, following the transfer, be exercisable against or owed to SLOC alone.

The Independent Expert has determined that the security of your policy and your reasonable benefit expectations will not be materially affected by the transfer.

Section 3

Information for SLOC policyholders

If you have a SLOC long-term policy the proposed transfer will not change your policy terms. Your policy will remain in SLOC and continue to be administered in the same way.

These policies may have been issued by SLOC or one of the predecessor companies listed in section 6.

The Independent Expert has determined that the security of your policy and your reasonable benefit expectations will not be materially affected by the transfer.

Section 4

Jersey or Guernsey policies

Some policies were issued to residents of Jersey or Guernsey. Separate proposals will be submitted for the approval of the Royal Courts in each of those jurisdictions. If the transfer is approved it will take place on 30 December 2011.

The Scheme Summary applies equally to the Jersey and Guernsey schemes because they are being effected on substantially the same terms. The Summary of the Independent Expert's Report and full Independent Expert's Report apply equally to the Jersey and Guernsey schemes. The Independent Expert is referred to as "the Independent Actuary" in the Court documents for Jersey and Guernsey.

Where can I find more information?

If you have any questions or concerns about the transfer, you can find more information, including the Scheme Summary, the Summary of the Independent Expert's Report, the full Independent Expert's Report, the representation that will be submitted to the Royal Court in Jersey and the application to be submitted to the Royal Court in Guernsey free of charge on our website at www.sloc.co.uk/transfer

You can also request free copies of any of these documents or ask any further questions you may have by calling us on 0800 980 7995 from within the U.K. or +44 (0) 2890 166 980 from outside the U.K. Our phone lines are open from 9 am to 6 pm, Monday to Friday and we'll be pleased to help. This number is for enquiries about the transfer only, so if you have a general query about your policy, please use the numbers set out in your policy document or visit the contact us section of our website.

Alternatively, you can write to us at Sun Life Financial of Canada, Insurance Business Transfer Dept, PO Box 3170, Gloucester GL1 9AU U.K.

You may inspect or obtain copies of the documents referred to above (free of charge) between the hours of 9 am and 5 pm at the offices of our lawyers in Jersey and Guernsey up to and including the date of the relevant Royal Court hearing at the following addresses:

- Mourant Ozannes at 22 Grenville Street, St.Helier, Jersey JE4 8PX; or
- Mourant Ozannes at 1, Le Marchant Street, St Peter Port, Guernsey GY1 4HP.

Do I need to do anything?

If you are happy with the proposed changes, you do not need to do anything.

If you remain concerned that the changes could adversely affect you, you have the right to raise your concerns with the **Royal Court** in either Jersey or Guernsey, either in person, through representation or in writing.

The final court hearings for the approval of the Jersey and Guernsey schemes are expected to take place as follows:

- Jersey Scheme: 19 December 2011 at the Royal Court of Jersey, Royal Square, St Helier, Jersey JE1 1JG.
- Guernsey Scheme: 20 December 2011 at the Royal Court of Guernsey, The Royal Court House, St Peter Port, Guernsey GY1 2PB.

If the court hearing dates change we will update our website to confirm this so you may wish to check for updates.

If you believe you will be adversely affected by our proposals we ask that you give notice in writing as soon as possible, and preferably before 24 November 2011 to our lawyers in the Channel Islands Mourant Ozannes. All correspondence should be addressed to Elizabeth Simkin at Mourant Ozannes at 22 Grenville Street, St.Helier, Jersey JE4 8PX.

If the transfer is approved by the Royal Court, it will take place on 30 December 2011, and we will update our website to confirm this.

Section 5

Questions and answers

Why are you doing this transfer?

We are proposing to reorganise the businesses of SLOC and SLFC to create a more efficient operational and financial business structure.

Are there any other parties who could have an interest in my policy?

We are attempting, as far as records allow, to contact all policyholders and other interested parties 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 have a co-owner, we ask that you please check they have received their documentation and, where this has not happened, make sure they also have the opportunity to review this letter and guide.

Will my right to a share in any distribution of profits change?

No, policies that are currently entitled to a share in any distribution of profits will continue to be so.

Will I need to fill in a new Direct Debit Mandate or Standing Order?

No, you will not need to fill in a new Direct Debit mandate.

If you hold a Transferring Policy, you might notice a change in the reference that appears on your bank statement after the transfer.

If you make payments by Standing Order, you may need to change the payee name. We will contact you after 30 December 2011 if this is the case.

Why haven't you written to me about each of my policies?

To ensure all our policyholders receive a simple and consistent message we decided to send one letter to each policyholder rather than a letter for each policy, which could have resulted in multiple copies of the same letter being sent out. However, you may receive more than one letter if you have policies with both SLOC and SLFC or your details are recorded differently between policies.

Will there be a payment made to policyholders?

No, payments to policyholders will not arise under this transfer. This is not a demutualisation where payments to policyholders can arise.

How has the FSA been involved?

The FSA has been closely involved with our proposals and has approved the appointment of the Independent Expert.

Will the tax status of my policy change?

No, the tax status of your policy will not change. If you are not sure of your tax position please seek independent advice.

Will you be making any changes to the Principles and Practices of Financial Management (PPFM)?

No, the proposed transfer will not change the Principles and Practices of Financial Management (PPFM(s)) or the Consumer Friendly Principles and Practices of Financial Management (CFPPFM(s)). As a result of the transfer we may make some changes to the wordings of these documents to reflect the Scheme, i.e. changes to company, and fund titles as follows:

Fund	Current name	Proposed name
SLOC UK With Profit	With Profits fund	SLOC With-Profits Fund
Confederation Life	Confederation Life fund	Confederation Life With-Profits Fund
SLFC UK With Profits fund	SLFC Assurance Company (UK) Limited With-profits fund	SLFC Assurance UK With-Profits Fund
Deposit Administration	Pension Fund Deposit Account	Cannon Pension Fund Deposit Account

As part of normal business and where allowed by the policy terms and conditions we may review and, where appropriate, change the PPFM and CFPPFMs in the future.

You may also see shortened versions of these names on letters or statements we send you in the future.

Our current PPFMs and CFPPFMs are available on our website; www.sloc.co.uk.

Section 6

Predecessor companies

If you did not buy your policy from SLOC or SLFC you may have bought your policy from one of the predecessor companies listed here:

Companies now part of SLOC

If your policy was originally issued by . . .	Your policy is now with...
Confederation Life Insurance Company	SLOC
Sun Life Assurance Company of Canada	SLOC

Companies now part of SLFC

If your policy was originally issued by . . .	Your policy is now with...
British National Insurance Company Limited	SLFC
British National Life Assurance Company Limited	SLFC
Cannon Assurance Limited (also known as Cannon Lincoln, Lincoln National and Lincoln Financial Group)	SLFC
Citibank Assurance Company Limited	SLFC
Imperial Life (U.K.) Limited	SLFC
The Imperial Life Assurance Company of Canada	SLFC
Laurentian Life plc	SLFC
Liberty Life Assurance Company Limited	SLFC
Life & Equity Assurance Company Limited	SLFC
Lincoln Assurance Limited	SLFC
Trinity Insurance Company Limited	SLFC
Trident Investors Life Assurance Company Limited	SLFC

Section 7

The following is a Summary of the Scheme Report prepared by the Independent Expert, Nick Dumbreck, FIA.

Introduction

1. I have been appointed by SLOC and SLFC to report as the Independent Expert on the terms of the insurance business transfer scheme for the proposed reorganisation of their long term businesses. The Scheme seeks to bring operational, capital and financial efficiencies by transferring all of the long term insurance business of SLFC into SLOC. The companies are subsidiaries of Sun Life Financial Inc., a Canadian corporation.
2. My appointment has been approved by the FSA which has also approved the form of my report (the "Scheme Report"). The Scheme Report will be presented to the High Court.
3. In order to comply with local requirements, similar schemes of transfer will also be presented to the courts in Jersey and Guernsey. The Scheme Report applies equally to these schemes.
4. My Scheme Report has been prepared in compliance with the relevant rules and guidance. It contains a description of SLOC and SLFC, an outline of the terms and conditions of the Scheme and an assessment of the likely impact of the Scheme on both SLOC and SLFC.
5. My assessment has considered the terms of the Scheme generally, but has focused on:
 - The security of policyholder benefits; and
 - The need to treat customers fairly and ensure policyholders' reasonable benefit expectations are met, and, in particular, the effects on with profits policyholders' reasonable benefit expectations.

6. My terms of reference are set out in the Scheme Report. 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. This Summary is subject to the reliances and limitations set out in the Scheme Report.

Summary of Conclusions

7. In my opinion, the implementation of the proposed Scheme will not materially affect:
 - the security of the benefits of the holders of SLOC policies and Transferring Policies;
 - the reasonable benefit expectations of the holders of SLOC policies or Transferring Policies;
 - the fair treatment of the holders of SLOC policies or Transferring Policies;
 - the security of the general insurance business remaining in SLFC; and
 - the service standards experienced by the policyholders of SLOC and SLFC.

Background

SLOC

8. SLOC is a subsidiary of SLFC and is authorised by the FSA to undertake long term insurance business in the UK, as well as in all other EEA countries, Jersey and Gibraltar.
9. SLOC maintains a shareholder fund and a long term business fund, which represents the assets and liabilities of its insurance business and which is split into three sub-funds:
 - the With-Profits Fund (“SLOC WPF”);
 - the Confederation Life Fund (“CL WPF”); and
 - the Non-Profit Fund (“SLOC NPF”).
10. The SLOC WPF consists of the with-profits business written by SLOC or transferred to it by a Court approved scheme (the “SLOC 1999 UK Scheme”). The CL WPF consists of with-profits and non-profit business transferred to SLOC under the SLOC 1999 UK Scheme. The SLOC 1999 UK Scheme also requires SLOC to maintain the SLOC Segregated Sub Fund (“SLOC SSF”) within the SLOC NPF to provide capital support to the SLOC WPF in adverse economic circumstances. Shareholders do not share in the profits of the SLOC WPF or the CL WPF.
11. The SLOC NPF contains both non-linked and linked non-profit business. The majority of the non-linked contracts are written on terms which do not present material discretionary powers to SLOC. SLOC is able to review the charges that are applied to the majority of its linked business. Profits arising in the SLOC NPF accrue to SLOC’s shareholder.

12. SLOC is closed to new business apart from increments to, or the exercise of options on, existing plans, or new members of existing group schemes.
13. Policy administration, investment administration and management services are outsourced to a number of related companies and third party suppliers.

Governance

14. SLOC’s Board of Directors takes overall responsibility for managing SLOC and for providing oversight of its outsourced arrangements.
15. The SLOC WPF and CL WPF are subject to the terms of the relevant PPFM which set out how SLOC manages these funds. These funds are also subject to independent scrutiny by the With-Profits Committee to ensure the PPFM are applied appropriately.
16. A Customer Advocate is employed to ensure that SLOC treats its customers fairly in managing its business. The Customer Advocate acts for with-profits and non-profit business.

Financial Condition

17. I considered SLOC’s statutory solvency position as at 31 December 2010 (after allowing for a dividend to be paid during 2011), and I concluded that SLOC was well capitalised on that date, comfortably covering its regulatory capital requirements.
18. I have also considered the risks to which SLOC is exposed (and which therefore influence the security of its policyholders’ benefits). The SLOC WPF and CL WPF are predominantly comprised of savings type products and so the material risks to which they are exposed arise from market risks (associated with changes in the value or return on assets) and credit risks (which

relate to the failure of a counterparty to honour its commitments). The major risks to which the business in the SLOC NPF is exposed are market, credit and expense risks.

SLFC

19. SLFC is authorised by the FSA to undertake both long term insurance and general insurance business in the UK, as well as in all other EEA countries, Jersey and Gibraltar. SLFC has been subject to a number of consolidations and transfers of business.
20. SLFC maintains a long term business fund and a shareholder fund, where the long term business fund has three sub-funds:
 - the With-Profits Fund (“SLFC WPF”);
 - the Cannon Pension Fund Deposit Account (“SLFC DAF”); and
 - the Non-Profit Fund (“SLFC NPF”).
21. The SLFC WPF consists of with-profits and a small amount of non-profit business. This business was either transferred to the SLFC WPF under previous transfer schemes or written directly in it. The fund is now closed to new business. The management of the fund is subject to the conditions in the scheme of transfer by which it was created. SLFC’s shareholders are entitled to participate in profits distributed in the SLFC WPF.
22. The SLFC DAF contains pension plans managed on a deposit administration basis. The profits are wholly attributable to the policyholders of this fund.
23. The SLFC NPF contains non-linked and linked non-profit products. The majority of the business is written on terms which do not present material discretionary powers to SLFC. The fund contains three further linked sub-funds (the “Sundry SLFC Funds”) which have specific features which require these funds to be identified separately under the terms of

the Scheme. The profits arising in the SLFC NPF, apart from those arising in the Sundry SLFC Funds, accrue to SLFC’s shareholder.

24. SLFC has also transacted a relatively small amount of non-life business which is reinsured.
25. Policy administration, investment management and administration services are outsourced to a number of related entities and third party suppliers although a small amount of retirement business is administered by SLFC directly.

Governance

26. SLFC’s governance arrangements mirror those described for SLOC in paragraphs 14 -16.

Financial Condition

27. I have considered SLFC’s solvency position as at 31 December 2010 (allowing for a planned dividend payment to its parent, and an arrangement to reduce materially certain risk exposures) and I concluded that overall, SLFC was well capitalised on that date, comfortably covering its regulatory capital requirements. I noted that SLFC relied on its shareholder fund to cover part of its capital requirements which is permissible under current UK regulatory requirements.
28. I have also considered the risks to which SLFC is exposed. The SLFC WPF holds assets appropriate for the nature and terms of the liabilities of the fund which limits the fund’s exposure to market and credit risks. However, these remain the most material risk exposures of the fund. The SLFC WPF is also exposed to the risk of higher than expected expenses and the potential costs arising from the guaranteed annuity options attached to some of the non-profit linked contracts written in the fund.

29. The SLFC NPF is subject to a range of risks arising from the nature of the products allocated to it. The principal risk exposures are to market, credit and expense risks but future mortality and persistency experience also represent material sources of risk to the fund.

Outline of the Scheme

30. The Effective Date is the date upon which the Scheme will be implemented and is expected to be 30 December 2011.

Structure of SLOC after the Effective Date

31. SLOC will create new with-profits funds in its long term business fund on the Effective Date:

- 2011 SLFC With-Profits Fund (“2011 SLFC WPF”); and
- 2011 Cannon Pension Fund Deposit Account (“2011 SLFC DAF”).

32. After the Effective Date, SLOC’s pre-existing sub-funds will be maintained and, consequently, its long term business fund will consist of five separate sub-funds.

33. SLOC will create a range of internal funds within the SLOC NPF to mirror the internal funds (including the Sundry SLFC Funds) maintained within SLFC NPF on the Effective Date.

Transfers under the Scheme

34. On the Effective Date, all of the long term insurance policies and liabilities of SLFC will be transferred to SLOC. At the same time, the assets allocated to the SLFC WPF, the SLFC DAF, the Sundry SLFC Funds and assets with a value equal to the mathematical reserves of the non-linked and linked non-profit business of the SLFC NPF (except for those allocated to the Sundry SLFC Funds) will be transferred from SLFC to SLOC.

35. The assets, liabilities and long term insurance policies transferring under the terms of the Scheme will be allocated to the sub-funds of SLOC as follows:

- If allocated to the SLFC WPF on the Effective Date: the 2011 SLFC WPF;
- If allocated to the SLFC DAF on the Effective Date: the 2011 SLFC DAF;
- All other Transferring Policies, Transferring Liabilities and Transferring Assets: SLOC NPF.

36. The assets transferring from the internal linked funds in the SLFC NPF will be allocated to the corresponding new internal linked funds created in the SLOC NPF. The transferring linked policies will be allocated units with the same total value as applied immediately prior to the Effective Date. The Sundry SLFC Funds will be allocated to the SLOC NPF.

Residual Items

37. If the transfer of any of the SLFC policies which are expected to transfer under the Scheme cannot be completed on the Effective Date, such “Residual Policies” will remain in SLFC following the Scheme. SLFC will reinsure its liability under Residual Policies to SLOC.

38. It is possible that other assets or liabilities may not be transferred from SLFC on the Effective Date but these will be held by SLFC until they may be transferred. The Scheme ensures that SLOC and SLFC are indemnified appropriately.

Management of SLOC after the Effective Date

39. SLOC will be required to administer the business transferred to it in line with the relevant requirements of any previous SLFC schemes.

40. SLOC will have the same rights in respect of the linked funds transferring from SLFC as SLFC did prior to the Scheme. In particular, SLOC is permitted to merge any linked fund with any other linked fund in SLOC or may amend the investment objectives of an individual fund, subject to affected policyholders being treated equitably and any constraints imposed by policy conditions or by any of the previous schemes.
41. The reinsurance treaties relating to the Transferring Policies will also be transferred to SLOC. The obligations conferred on SLOC and the reinsurer under a particular contract will be identical to those imposed on SLFC and the reinsurer prior to the Scheme.
42. The contracts in respect of investment management, third party administration arrangements and reinsurance maintained by SLFC will be transferred to SLOC by means of the Scheme.

Expense Allocation

43. The Scheme does not propose to change the method of allocation for expenses for either investment management or policy administration, whether outsourced or performed in-house. In addition, the allocation of overhead costs or other costs incurred directly in administering any fund (including the shareholder fund) will remain unchanged. Costs which are not charged to the SLOC shareholder fund will be allocated initially between the SLOC policies and the policies transferred from SLFC before being further allocated by line of business.

Costs

44. The costs of the Scheme, including my fees for preparing the Scheme Report, will be met wholly by shareholders. Costs will not be charged to the with-profits funds or to policyholders.

Governance

45. SLOC will adopt the PPFM for each of the SLFC WPF and the SLFC DAF in force on the Effective Date (apart from changes to amend SLFC to SLOC and include appropriate references to the Scheme) to be the initial PPFM of the 2011 SLFC WPF and the 2011 SLFC DAF, respectively. Changes to the PPFM may occur after the Effective Date subject to the regulatory requirements.
46. The SLOC With-Profits Committee will undertake the independent oversight of the management of the 2011 SLFC WPF and 2011 SLFC DAF after the Effective Date. The PPFM for each of these funds will be updated to reflect this change.

Assessment of the Scheme

Security of Benefits

47. I have considered the effects on the security of benefits for policyholders of both SLOC and SLFC, assuming that the transfer had been implemented at 31 December 2010 and allowing for the dividend payment expected to be made in 2011. I also considered the nature of the risks to which each of the funds was exposed as well as the risk based capital required by each company which I considered to be appropriate.

Financial Position of SLOC

48. If the Scheme had been implemented as at 31 December 2010, SLOC would have covered its revised capital requirements by 144%. This represents a reduction from 162% for the policies held in SLOC prior to the Scheme but a similar level of coverage to that which was enjoyed by the policies transferring from SLFC. However, SLOC would have continued to cover its regulatory capital requirement by an appropriate margin.

Non-Profit Business in the SLOC NPF

49. The capital requirements of the SLOC NPF after the Effective Date will be based on the liabilities of the original business in the fund plus those transferred in under the terms of the Scheme. The assets transferring from the SLFC NPF have been set at a level sufficient to meet the liabilities of the fund but do not provide for the related capital requirements. Consequently, the capital available in the SLOC NPF will be unchanged but, the capital requirements of the fund will increase, resulting in a lower level of cover.
50. Although the enlarged SLOC NPF would have satisfied its capital requirements, the capital in the SLOC NPF must also provide for the SLOC SSF, which it has been agreed should remain unencumbered. As a result, the SLOC NPF would have had to rely on the capital available within SLOC's shareholder fund to cover a small part of its capital requirements. This is acceptable and reflects the position which applied in the SLFC NPF prior to the Scheme.
51. A significant proportion of the business transferring from the SLFC NPF consists of policies very similar to those already written in the SLOC NPF and therefore the implementation of the Scheme will not expose either block to materially different risks.
52. The transfer of the two with-profits funds from SLFC to SLOC will not materially affect the business in the SLOC NPF, since the assets of the with-profits funds comfortably exceeded their liabilities and the funds are managed to remain within their own resources.
53. Similarly, once the SLFC NPF has been transferred into the SLOC NPF, it will be exposed to the risk that the assets in either of the SLOC WPF or CL WPF become

insufficient to meet the liabilities of these two funds. However, these funds are well capitalised and I do not consider that the risk profile of the business transferring from the SLFC NPF will be materially affected on implementing the Scheme.

With-Profits Funds

54. The assets currently allocated to each of the with-profits funds of SLOC and SLFC will remain allocated to these funds following the transfer and each fund will remain fully ring-fenced. Additionally, the SLOC SSF which is currently held in the SLOC NPF to support the SLOC WPF will be maintained after the implementation of the Scheme. As such, when considered in isolation, the solvency position of the with-profits funds, whether currently held in SLOC or transferring into it, will be unaffected by the proposed Scheme.
55. In extreme circumstances, the ring fenced nature of the with-profits funds could break down and their assets may be required to support other liabilities. Each of the with-profits funds covers its risk based capital requirement adequately suggesting they can be managed within their own resources. Further, the risk from the SLOC NPF is low. The SLOC shareholder fund will remain available to provide a similar level of capital support to both the transferring and retained with-profits funds as applied prior to the Scheme. Consequently, I consider the risk of the ring fencing breaking down to be low.
56. In my opinion, neither the change in the overall capital requirements nor the change in the risk exposures of the individual sub-funds will adversely affect the security of the benefits of policyholders remaining in, or being transferred to, SLOC under the terms of the Scheme.

General Insurance Business

57. After the Effective Date, SLFC will remain as an authorised insurance company since it will retain a small general insurance liability, which is fully reinsured. The capital in SLFC will provide more than adequate cover for the general insurance business capital requirements.

Solvency II

58. A new system of regulation for insurance companies ("Solvency II") is planned to come into effect in 2012, although this is very likely to be delayed since its final specification is not complete. I have considered whether the Scheme would change the way in which SLOC and SLFC would be managed under the new regime. In my opinion, the Scheme is unlikely to change materially the circumstances of SLOC or SLFC that will apply on the implementation of Solvency II.

Benefit Expectations

59. Benefits arising from non-profit, non-linked policies are largely fixed when the contract is made and, as a result, the principal expectation relates to security, which, as noted above, I do not consider to be materially affected. The expense allocation procedures will not result in the charges affecting policy values being materially different from those that would apply in the absence of the Scheme.
60. Where policyholder benefits are determined by linked funds (either internal or external), there will be no change to the value or number of units allocated to individual policyholders as a result of the Scheme, so there will be no loss of value to linked policyholders as a result of implementing the Scheme. SLOC will be able to alter the linked funds available, subject to policy conditions being satisfied. This power is currently available in SLOC and SLFC and there are appropriate controls on its use. Being able to manage funds in this way should be beneficial for policyholders.
61. There will be no change to the management or operation of any of the with-profits sub-funds as a result of the Scheme. There will be no change to any of the PPFM as a consequence of the Scheme (although references to SLFC will be changed to SLOC and the PPFM will be updated to refer to the Scheme where appropriate) and any relevant terms of previous schemes will still apply. In particular, the SLOC WPF will still be able to rely on the SLOC SSF in stressed conditions. Since the with-profits funds will be unaffected by the implementation of the Scheme, the reasonable benefit expectations of their policyholders will also be unaffected.

Miscellaneous Matters

Service Standards and Administration

62. Policy administration and investment arrangements currently in place will be maintained after the Effective Date and policyholders should therefore experience no deterioration in the quality of policy servicing and communications simply as a result of the implementation of the Scheme.

Treating Customers Fairly

63. I have considered whether the approach adopted in developing the Scheme has been in line with the requirement to “treat customers fairly”. In particular, I have separately considered how the firm has addressed the security and reasonable expectations with respect to policyholder benefits, policyholders’ information needs and the service and administration standards. In my opinion, due regard has been given in developing the Scheme to ensure that policyholders are treated fairly.

Section 8

Glossary of terms

The glossary below covers terms used within this guide and the letter accompanying this guide.

CFPPFM	Consumer Friendly Principles and Practice of Financial Management. A document which, amongst other things, sets out in layman's terms how a life insurance company intends to exercise its discretion in respect of with-profits policies . Please see the definition of PPFM below.
FSA	The Financial Services Authority, the regulator of U.K. insurance companies.
FSMA	The Financial Services and Markets Act 2000.
High Court	The High Court of Justice of England and Wales.
Independent Expert	Mr. Nick Dumbreck of Milliman Ltd.
Long-term policy/policies	A life assurance or pension policy, including with-profits policies and non-profit policies .
Non-profit policy/policies	A policy which is not entitled to share in the profits of the fund or company - for example, the policy can be: <ul style="list-style-type: none">(i) a unit-linked policy, where benefits are determined by the value of a pool of investments;(ii) a policy such as term assurance or income protection where specified benefits are payable on death or incapacity; or(iii) an annuity, where a specified regular benefit is payable during the lifetime of the policyholder or other dependants such as a spouse.
Policyholder(s)	A person who is the legal holder of the policy including any person to whom an amount is payable or any other benefit is provided. We may sometimes refer to the policyholder as the plan-holder in other communications with you.

PPFM	The Principles and Practices of Financial Management. A document which, amongst other things, sets out how a life assurance company intends to exercise its discretion in respect of with-profits policies. It describes, amongst other things, how bonuses are set, how surrender values are calculated and the type of investments that will be held by the company.
Royal Court	The Royal Court of Jersey or The Royal Court of Guernsey.
Scheme	The transfer of policies in accordance with an insurance business transfer under Part VII of FSMA.
Transferring Policy/Policies	All long-term policies within SLFC at the date of transfer.
With-profits policy/policies	A policy which is entitled to share in profits from a pool of policies or assets.

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