LONDON & COLONIAL ASSURANCE PCC PLC

FLEXIBLE ANNUITIES

DUE DILIGENCE AND INFORMATION PACK

LONDON & COLONIAL
INNOVATION IN PENSIONS

PART OF STM GROUP PLC

WHO WE ARE

LONDON & COLONIAL ASSURANCE PCC PLC ('LCA') IS A EUROPEAN BASED LIFE INSURANCE COMPANY OPERATING OUT OF GIBRALTAR'S HIGHLY REGULATED AND LONG ESTABLISHED FINANCIAL CENTRE. LCA WAS ESTABLISHED IN 2001 AS A PUBLIC LIMITED COMPANY AND A LIFE INSURANCE PROVIDER.

LCA is licensed to write Class I – Life and annuity and Class III – Linked long-term assurance business and was primarily established to provide an alternative to conventional annuities for high-net-worth individuals wishing to use their pension funds to purchase an annuity that provides greater flexibility for income and investment choice.

LCA is part of STM Group Plc, a company listed on the Alternative Investment Market of the London Stock Exchange. Established in 1989, STM Group Plc is a multijurisdictional financial services group employing over 200 people across five jurisdictions – UK, Gibraltar, Malta, Jersey, and Spain.

In their country risk analysis published in August 2018, AMB categorised Gibraltar's economic, political and financial risk as a CRT-1 country with a very low level of risks in all categories.

Specifically, a CRT-1 country is defined as having a *"predictable and transparent legal environment, legal system and business infrastructure; sophisticated financial system regulation with deep capital markets"* and a *"mature industry framework"*.

LCA *(As of end of 2018)*

RETAINS OVER

700

ANNUITANTS

HAS IN EXCESS OF

£300m

FUNDS UNDER ADMINISTRATION

HAS PAID OUT TO DATE

357

ANNUITIES

STM GROUP PLC *(As of end of 2017)*

ADMINISTERS APPROX.

14,000

RETIREMENT PLANS

+

2,500

LIFE ASSURANCE POLICIES

HAS IN EXCESS OF

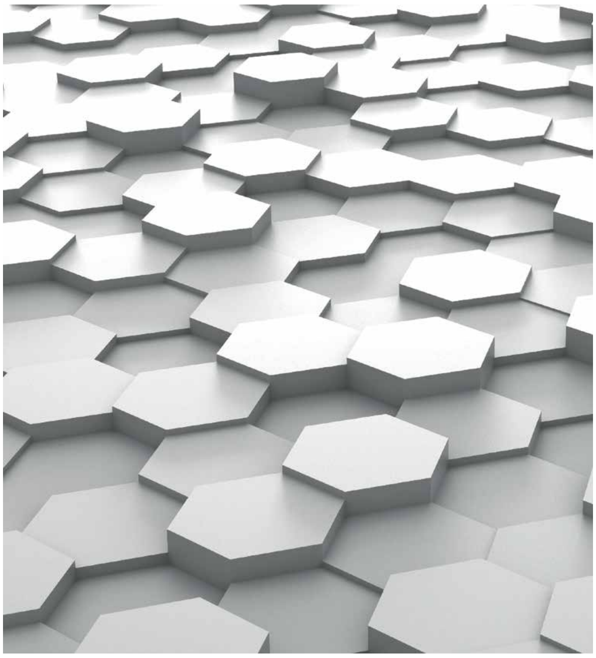
£8 billion

ASSETS UNDER ADMINISTRATION ACROSS PENSIONS, LIFE, AND TRUST & COMPANY BUSINESS UNITS

PROTECTED CELL COMPANY (PCC) LEGISLATION

Both annuity products currently marketed by LCA utilise the Protected Cell Companies (PCC) structure as it affords a high level of policyholder protection. A PCC structure is subject to the provisions of specific Gibraltar PCC Law which was implemented in 2001 (Protected Cell Companies Act 2001).

In a PCC, legally recognised 'cells' are created within the company in order to segregate and protect each policyholder's assets from other policyholders and the company itself. This means that each individual policy is linked to a 'cell' and the assets backing the policy are owned by the 'cell' and hence completely legally ring-fenced from all other policyholders' and shareholders' assets. Put very simply, a PCC is a form of company comprised of individual parts, known as 'cells'.



WHAT THIS MEANS FOR LCA'S POLICYHOLDERS

For each client that purchases an LCA annuity, a unique 'cell' is opened within LCA.

Each 'cell' has its own designation (the policy number) and is completely independent of all other 'cells' and of the company's core. It is the Directors' duty to keep and account for the assets and liabilities of each 'cell' separately. The PCC legislation prohibits the assets of a 'cell' to be used to satisfy any liability not attributable to that 'cell'.

In the unlikely event that anything should happen to LCA, your policy (and the assets within the policy) would remain secure from and untouched by any potential creditor. In other words, each 'cell' is ring-fenced from all other 'cells', providing 100% policyholder protection.

Please note: *100% policyholder protection does not apply to the ongoing valuation of the investment as the value of investments can fall as well as rise. All the assets that LCA purchases within each policy are legally and beneficially owned by LCA. The policyholder has purchased the rights to the value of these assets but the policyholder does not own the assets. LCA does not make investment decisions. LCA will only purchase or sell assets within any policy if LCA receives a written request from the appointed investment adviser associated to the specific policy.*

FINANCIAL SERVICES COMPENSATION SCHEME

LCA markets two unit-linked annuities for UK tax residents, the Flexible Life Annuity and the Flexible Pension Annuity. Both annuities are covered by the Financial Services Compensation Scheme (FSCS). The FSCS was established to provide compensation to customers of authorised financial services firms which are unable to satisfy claims against them.

Insurers registered outside the UK wishing to sell their products to UK residents are able to do so by passporting their products and services into the UK. LCA however is Gibraltar (British Overseas Territory) based and while it has passported into the UK under the appropriate legislation, FSCS cover still applies for UK residents as Gibraltar does not have a similar compensation scheme.

In the unlikely event that LCA were to default on claims under its policies, sales of its products conducted in the UK, to UK residents at the time the contract commenced, are covered by the 'protected contracts of insurance' part of the FSCS. Please see the FSCS website for full details: www.fscs.org.uk

The Prudential Regulation Authority (PRA) covers the eligibility – see here for some useful information: https://www.bankofengland.co.uk/prudential-regulation/authorisations/financial-services-compensation-scheme

Detailed here is the PRA's latest list of eligible firms: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/which-firms-does-the-pra-regulate/2019/eea-authorised-insurers-january-2019-excel.xlsx?la=en&hash=7E6CF636E90364A1C4DE4302D27D6C6329A9215B

OUR PRODUCTS

FLEXIBLE LIFE ANNUITY (FLA)

The FLA is a purchased life annuity. The initial annuity income is calculated based on the policyholder's age, the amount of the initial investment, expected investment return and LCA's expense loadings. During the lifetime of the annuity, the policyholder can elect to change the amount of the annuity payments (either increase or decrease).

Annuity payments continue until the earlier of the lifetime of the policyholder or the funding being exhausted. There is no death benefit payable. If there are any monies in the fund on death then the assets remain in the 'cell'.

Income is paid gross of tax and LCA provides an annual statement showing how much of the annuity paid in that year is classed as a return of capital and how much is investment return. The policyholders only need to declare the investment return portion of the annuity payments in their annual tax return.

A wide range of assets are allowed although the assets must be chosen by an independent investment adviser and not directly by the policyholder to avoid being caught by the personalised bond rules. Consequently assets such as shares in the policyholder's company or the policyholder's residential property are not advisable as they would trigger the personalised bond tax regime.

All investment income and gains on the assets held in the 'cell' are received gross of tax.

FLEXIBLE PENSION ANNUITY (FPA)

The FPA is a pension annuity purchased on behalf of the policyholder by the trustees of the pension scheme holding the pension assets. As with the FLA, the initial annuity income is calculated based on the policyholder's age, the amount of the initial investment, expected investment return and LCA's expense loadings. The product allows full flexibility in terms of how much income the policyholder elects to take each year in line with pension freedoms.

Annuity payments continue until the earlier of the lifetime of the policyholder or the funding being exhausted. There is no death benefit payable. If there are any monies in the fund on death then the assets remain in the 'cell'.

Income is paid net of tax. As this is a pension annuity, LCA must deduct tax at source via the PAYE system.

There is greater investment flexibility with the FPA as the policy is purchased by the trustees of the registered pension scheme. Hence an in-specie transfer of existing pension scheme assets is allowed as it is an investment in shares of the policyholder's own company. Residential property connected to the policyholder or the policyholder's family is not an allowable asset.

All investment income and gains are gross of tax.

PREFERENCE SHARE

With both the FLA and FPA it is possible for the policyholder to purchase a preference share in the 'cell' containing their policy at policy commencement. At this stage the value of the preference share is minimal (usually around £1,000 with the actual amount depending on policyholder's age at annuity commencement). The preference share gives the holder of the share at the time of policyholder's death access to the assets being held in the 'cell'.

The preference share is not to be treated as an investment. If the funds of the annuity have been exhausted, then the value of the preference share is zero. If, for example, the surplus on death was £200,000, then the value of the preference share would be £200,000. The preference share enables the funds from the 'cell' to pass to the beneficiaries. Whoever holds the preference share on death has the right to the residual value.

If the holder of the preference share at the time of his/her death is the policyholder then the assets in the 'cell' will fall into the estate. As long as the preference share has been held for a minimum of two years at the time of death then the proceeds of the 'cell' qualify for full Business Property Relief and hence fall outside of the estate for IHT purposes.

It is possible to pay the benefits into a trust on death via the Will such as a bypass trust. As the asset qualifies for 100% Business Property Relief the life time transfer limit does not apply.

COUNSEL'S OPINION

An opinion has been received from Queen's Counsel barrister in November 2018 which confirms the following:

- If the policyholder purchases the preference share, he/she can decide what to do with that preference share. It is fully assignable.
- Whoever owns the preference share at death will have access to any remaining funds in the 'cell'.
- The preference shares are eligible to IHT Business Relief. This is on the basis of:
    - The preference shares are not listed on a recognised stock exchange and thus 'unquoted';
    - LCA has all the characteristics of a 'company';
    - LCA carries on life assurance business on a commercial basis;
    - The preference shares have been held by the deceased for at least two years prior to death.

For legal reasons we cannot distribute or replicate the exact advice, however we hope this information will provide you with the comfort you seek with regard to the tax treatment of an LCA preference share.

CLAIMS RECORD

As noted earlier, LCA has 357 claims paid. All were paid as per the terms and conditions of the annuity. It is worth noting that when the majority of these annuities were taken out, normal UK annuitants did not receive any benefits on death.

RISK TO CLIENT

The investment risk is the same as any investment.

What happens if Business Property Relief is abolished? The surplus funds would be paid into the member's estate, free of any tax. The funds could be paid tax free to a surviving spouse using the inter-spousal exemption.

If the payment was from an FPA, the spouse would be able to take tax-free income and lump sums, not afforded under pension freedoms if the client died post 75.

If there were no spouse then the lump-sum benefit would be added to the estate, where unlike pension freedoms the nil rate band could be available and the rate of tax would be 40% and not 45%.

As the underlying investments with the Flexible Annuities are either on a managed portfolio, or with a discretionary fund manager, all assets are tradable, with instant valuations and are standard investments.

Both products are not only protected by the Protected Cell Company structure but are also covered by the FSCS.

ATTACHMENTS

Latest STM Group Plc Annual Report & Accounts

In addition to the Annual Report, the following technical marketing literature is enclosed:

- Why choose London & Colonial PCC Plc
- London & Colonial PCC Plc Corporate Brochure
- Purchase of Preference Shares
- Flexible Life Annuity Key Features
- Flexible Pension Annuity Key Features
- Terms of Business