

Summary of Independent Expert's Report

In compliance with FSMA section 109, a report dated 7 September 2008 on the terms of the Scheme has been prepared by Mr Dewi James, a Fellow of the Institute of Actuaries and chief actuary at James, Brennan & Associates ("**the Report**").

The Financial Services Authority has approved Mr James' appointment as the Independent Expert for the purposes of the application by PMI and NPAI for the sanction by the Court of the transfer of the insurance business of PMI to NPAI and has also approved the form of the Report. Mr James' duty as Independent Expert is to inform the Court of the impact of the proposed Scheme on the policyholders of PMI and NPAI. The impact assessment relates to the effect of the Scheme on both policy administration and on policyholder security.

In paragraph 1.2 of the Report Mr James states that the business to be transferred consists of the entirety of PMI's policyholder liabilities. Mr James notes in paragraph 6.3 the business strategy adopted by the directors of PMI pursuant to the transfer scheme, namely:

- A sale of the rights to renew business and related intellectual property to NPAI, followed by
- An initial distribution of surplus and
- A final distribution following the implementation of the Scheme

The intention is to wind-up PMI as soon as is feasible following the implementation of the PMI Scheme.

Mr James notes the commercial reasons identified in favour of the transfer as

- PMI is a relatively small insurance company with no in-depth infrastructure of its own.
- The sale of the renewal rights and certain intellectual property of PMI to NPAI was felt by the directors to offer the most attractive commercial fit for both organisations and maximises the value of PMI to its members.
- NPAI is closely associated with PMI, occupying the same premises, obtaining corporate services from the same provider (NPA) and having substantially the same policyholders as PMI.
- NPAI is likely to be better positioned for the future to offer a broader range of products and services to UK pharmacists.
- Merging the portfolios generates operational improvements and cost savings through the removal of duplication of corporate functions and wider economies of scale.

In the Report, Mr James sets out the analytical approach taken in considering the impact of the transfer on the existing NPAI policyholders and on transferring PMI policyholders. A summary of each company's balance sheet at December 2007, before and after the transfer and allowing for the distribution by PMI to its members in April 2008 has been prepared. Mr James comments upon the valuation basis of the transfer and the implications to the transferor and transferee policyholders in relation to the future administration of the business and the security afforded to the policyholders.

Mr James' observations on the transferring liabilities relate to those policyholders where PMI was fully reinsured, which represent all current transferring policyholder liabilities. In addition, Mr James notes an extremely remote possibility of claims arising from contracts issued by PMI prior to the period where business was fully reinsured.

With respect to the comparative balance sheet positions of the PMI and NPAI before and after the transfer:

- The PMI balance sheet is capitalised to a high level in relation to the policyholder liabilities; NPAI is less well capitalised in relation to policyholder liabilities
- For NPAI the impact on the ratio of surplus to net policyholder liabilities following the transfer is, at worst, nil. Profit commissions which may arise from the reinsurance arrangements associated with the transferring business will enhance the surplus ratio.

Mr James considers the impact of the Scheme on existing NPAI policyholders and notes that the majority of NPAI policyholders are also PMI policyholders or have renewed coverage with NPAI. He considers separately the impact of the Scheme on transferring PMI policyholders.

Mr James' formal opinion is expressed in paragraph 10 and is reproduced below:

- “...10.1 Based on:
- The fact that the 100% quota share reinsurance will remain in place for the transferring policyholders with known claims and unearned premium reserves
 - The extremely remote possibility of latent claims emanating from contracts prior to the 100% quota share reinsurance treaties
 - The fact that there is no material operational impact to the administration of the transferring or receiving policyholders,
 - The level of capital adequacy demonstrated in the balance sheets together with the likelihood of profit generation from the renewal business in NPAI's books over the relatively short duration of the liabilities emanating from the transferred business
- 10.2 I have reached the opinion that the transferring PMI policyholders and the receiving NPAI policyholders are not materially adversely affected by the Transfer. Following the transfer there will be no policyholder liabilities remaining with PMI. ...”