

With-profits changes explained

We have sent you this leaflet because you have a with-profits policy with Century Life plc (Century).

In this leaflet we explain how our proposals will affect your policy in particular.

We recommend that you read the other information we have sent you before reading this leaflet.

Introduction

As part of our proposals, all with-profits policies within the Century With-Profit Fund will be transferred to the Britannic With-Profits Fund of Phoenix Life Limited.

In addition, all policies within the Britannic Assurance Ordinary Branch Fund will be transferred to the Britannic With-Profits Fund.

Non-profit policies that are currently within the Century With-Profit Fund will be transferred to the Non-Profit Fund within Phoenix Life Limited.

Your policy benefits

Our proposals contain a number of features which should mean that annual bonuses will have a lower risk of being cut in the future and that different generations of policyholders are more likely to be treated fairly.

Key features of our proposals

With-profits policies in Century currently share in any profits earned on non-profit policies in the Century With-Profit Fund. However, much of this profit is only

expected to emerge after most of the with-profits policies in Century have been paid out.

Under the Scheme, with-profits policies in the Century With-Profit Fund will transfer to the Britannic With-Profits Fund and, as a result, they will no longer share in any profits earned on those non-profit policies.

So, in order to ensure that the Century with-profits policies share fairly in these future profits, Century will 'sell' the future profits, at a fair value, to the Non-Profit Fund.

The Independent Expert considers that the terms of this sale are fair to the with-profits policyholders of Century, whilst appropriately remunerating the Non-Profit Fund for the risk it is taking on.

- There are no plans to change the investment strategy for the assets backing the with-profits policies of Century. The current level of exposure to equity investments is expected to continue, with the majority of the assets remaining in lower risk, fixed interest investments.
- Transferring the Century with-profits policies into the larger Britannic With-Profits Fund means that there is more chance that they will remain with-profits for longer (see the **Future conversion to non-profit policies** section overleaf for more details).

▶ The way policy bonuses are calculated will be changed from a bonus reserve valuation basis to an asset share methodology. This means that bonuses will be based on an amount of money to which policyholder premiums and investment returns are added, and expenses, tax and other charges are deducted. Opening asset shares will be calculated using the bonus reserve valuation of Century as at 31 December 2006.

Principles and Practices of Financial Management

Full details of how we currently manage the Century With-Profit Fund have been published in our Principles and Practices of Financial Management (PPFM). We are in the process of mailing to all our with-profits customers a shorter guide explaining how we currently manage the with-profits fund their policy sits in. This is a customer friendly explanation of our PPFM.

A draft PPFM, to apply from 1 January 2007, is being prepared for the Britannic With-Profits Fund. This is based on parts of the existing Britannic Assurance PPFM, but includes separate references, where appropriate, to the practices that will apply to the management of the Century with-profits business once it has been transferred to the Britannic With-Profits Fund. We have also prepared a draft version of our customer friendly guide for the Britannic With-Profits Fund.

Copies of these drafts can be downloaded from our website after 30 September or you can request copies by calling our helpline after that date. You will find the website address and helpline number on the letter accompanying this leaflet. The draft copies will be subject to change.

Security of your benefits

The business being transferred from the Britannic Assurance Ordinary Branch Fund will make up more than 95% of the assets of the Britannic With-Profits Fund, with the business being transferred from Century making up less than 5% of the assets of the fund.

Both funds transferring business into the Britannic With-Profits Fund are in a healthy financial state and so the transfer should have no materially adverse impact on the security of benefits of your policy.

In extreme circumstances, the Britannic With-Profits Fund may have to provide financial assistance to another fund within Phoenix Life Limited. However, when your policy transfers to Phoenix Life Limited, arrangements will be in place to ensure it holds assets in excess of the requirements of the FSA.

Because of this, it will be extremely unlikely that a with-profits policy in the Britannic With-Profits Fund will be affected by losses from another fund.

The Independent Expert has concluded that the security of policyholders' benefits and reasonable benefit expectations will not be materially adversely affected by the proposals.

Future conversion to non-profit policies

If the size of the Britannic With-Profits Fund falls below a certain level in the future, our proposals require us to convert all the with-profits policies that then exist in the fund to non-profit policies.

When the conversion happens, the remaining with-profits policyholders will be given guaranteed bonuses which will be calculated in a way that is fair to them.

The Century With-Profit Fund is already subject to a similar option, which is expected to be triggered around 2013. However, the option for the Britannic With-Profits Fund is not expected to be triggered until around 2035, at the earliest, so Century with-profits policies are now expected to remain with-profits for much longer.

Further information

If you have any questions or require further information please call our helpline. You will find the number on the letter accompanying this leaflet.