HOW WE MANAGE THE PHOENIX LIFE LIMITED ALBA WITH-PROFITS FUND

A guide for trustees with Long Term Accumulation System pension scheme deposit administration policies invested in this fund

The aims of this guide

The guide explains how we manage this with-profits fund and what it means for your policy.

Why this guide is important

It gives important information about how these with-profits policies work and what you can expect back from them.

Please keep this guide in a safe place with your other policy documents.

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Introduction

This guide covers with-profits policies which invest in the Phoenix Life Limited Alba With-Profits Fund ('this fund'), through one of our Long Term Accumulation System pension scheme deposit administration policies.

These policies were transferred into Phoenix Life Limited from Alba Life on 31 December 2006 as the result of a scheme approved by the High Court.

There are separate guides for other types of with-profits policies investing in this fund.

Phoenix Life Limited has a number of other with-profits funds and separate guides are available for with-profits policies which invest in these funds.

We aim to answer some of the questions you might ask about what happens to the money you have paid into policies invested in this fund, and what affects the amount you may get back from your policy. The questions we aim to answer are:

- **How does this fund work?**
- **What are my benefits?**
- **How do you decide what interest rate to add?**
- **What if I decide to cancel my policy early?**
- **How is this fund invested?**
- **What about the shareholders?**
- **Who looks after my interests?**
- **Where can I find out more?**

This guide is correct at 1 January 2009 . The way we manage this fund may change from time to time. We will write to you if we make changes that may have a major effect on your policy.

In particular, under the terms of the transfer into Phoenix Life Limited, when the value of the liabilities in this fund falls below £50 million, we will convert the remaining with-profits policies into non-profit policies with guaranteed future bonuses. This is not expected to occur before 2045.

If you would like more details about any of the information in this guide, please refer to the section **Where can I find out more?**.

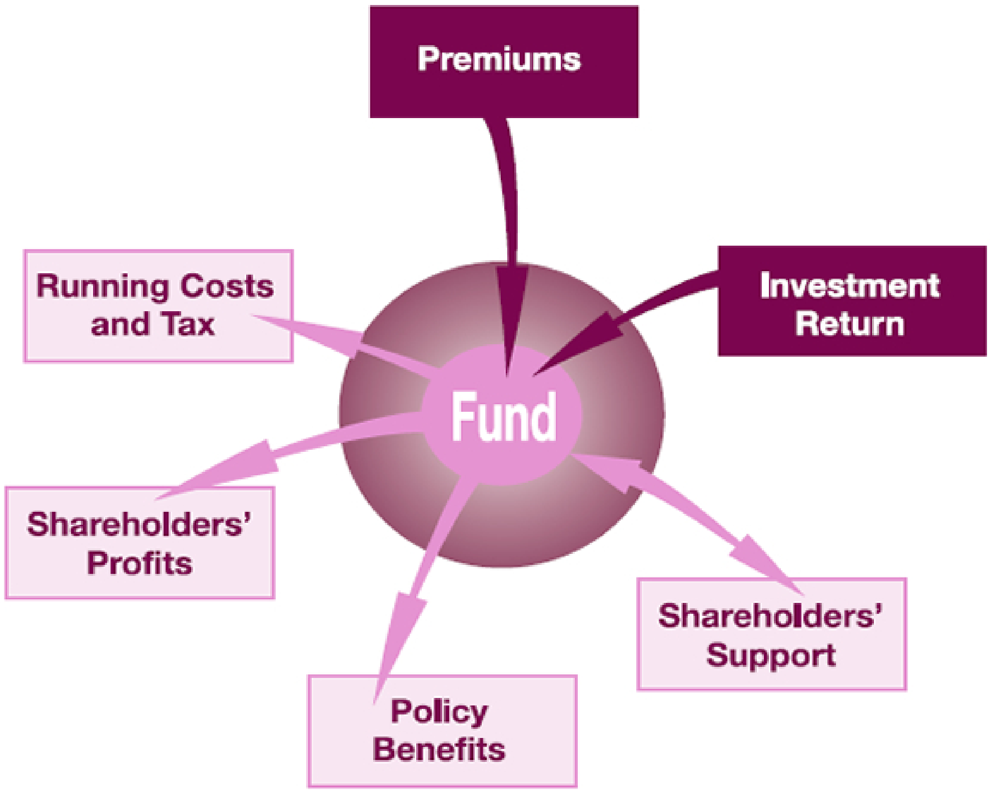
This guide does not form part of, or change, the terms or conditions of your policy.

How does this fund work?

The payments you make into your policy ('the premiums') go into this fund. Your money is pooled together with the premiums of the other policyholders who invest in this fund.

We use this fund to pay the policy benefits to policyholders who have paid premiums into this fund. We also pay our running costs and tax from this fund and an amount each year to our shareholders. Shareholders also provide support to this fund which we describe in the section **What about the shareholders?**.

We invest this fund in a variety of different types of investments which we describe in the section **How is this fund invested?**. The investment return consists of income from investments and profits and losses which increase or reduce the value of this fund.



What are my benefits?

Your policy aims to build up a fund for your scheme to buy retirement benefits for each scheme member at retirement. The amount invested in this fund is the total premiums payable less the cost of any death in service benefits and charges payable. Interest is credited to your policy every year. When scheme members retire the amount paid into your policy plus accumulated interest is available to buy their retirement benefits. The cost of providing the retirement benefits, along with any tax free cash sums, will be taken from your policy.

The following sections give more information on guarantees and interest rates.

If you decide to stop paying premiums to your policy, this will affect the level of benefit that you receive. There are more details in the section **What if I decide to cancel my policy early?**.

If you decide to surrender ('transfer') your policy, this will also affect the level of benefit that you receive. It is not possible to cash in your policy. You can normally only transfer it to another pension provider. There are more details in the section **What if I decide to cancel my policy early?**.

Your policy document will tell you more about your policy benefits.

Guarantees

The policy does not guarantee to provide the defined incomes promised by a scheme to its members. It does however, guarantee the fund, including interest, to buy income for members at their retirement date. This guarantee only applies when scheme members retire at the scheme's selected retirement date. The policy also guarantees the fund available to buy benefits if members die before their retirement date.

If you decide to cancel your policy early, we do not guarantee the amount that you will get back from your policy. There are more details in the section **What if I decide to cancel my policy early?**.

Interest rates

Your policy receives its fair share of the profits from this fund in the form of 'accumulation' interest and 'bonus' interest. The accumulation interest is added at each scheme anniversary taking into account the daily balance in the policy during the previous scheme year. This rate is guaranteed to remain unchanged during the next scheme year. This rate is reviewed from time to time.

The bonus interest rate is reviewed every year.

Any yearly statement that we send to you will include information about the interest added to your policy.

How we decide the interest rates is described in the section **How do you decide what interest rate to add?**.

How do you decide what interest rate to add?

We aim to pay all policyholders their fair share of the ‘profits’ this fund has earned over the time they have held their policy. When deciding what is a fair share, we consider the underlying value of specimen policies (sometimes called the ‘asset share’), which takes into account the premiums paid and a number of factors including the policies' share of:

- this fund’s investment performance (see the section **How is this fund invested?** for more details);
- our running costs, which include our administration costs, investment costs and commission;
- the tax we have to pay;
- the shareholders' share of profits (see the section **What about the shareholders?** for more details);
- charges for benefits;
- charges for guarantees; and
- other profits and losses in this fund (these are explained later).

We work out the underlying value of policies to help us decide what interest rates to declare.

Interest rates

The policies share the profits (or losses) arising from this fund's investment performance and in the other profits and losses arising in this fund. These are reflected in the interest rates.

We work out the interest rates by smoothing both this fund’s actual investment performance, having allowed for tax, and the other profits and losses.

Smoothing works by holding back a proportion of the profits and losses in good years and then using this to increase the value of the profits and losses in relatively poor years. It means the up and down nature of the profits and losses has less effect on the value of your policy. As a result of smoothing, we may pay more or less than the underlying value of policies.

When deciding the accumulation interest rate, we look at the current financial position of the Long Term Accumulation business and estimate how we expect this to change in the future. We set the accumulation interest rate so that we expect it to be sustainable under reasonable future investment conditions.

We work out the bonus interest rate to reflect the total smoothed performance, allowing for the accumulation interest rate.

Charges for guarantees

We currently make a charge for the cost of guarantees. However we can change the charges for guarantees at any time. We review them regularly to ensure that they are no higher than the level needed for this fund to meet the cost of its guarantees.

Other profits and losses in this fund

These arise from the other business risks that may affect the value of your policy.

Paying benefits to with-profits policyholders who leave their policy early can result in profits or losses, depending on whether the benefits are less or more than the underlying values of their policies (see the section **What if I decide to cancel my policy early?**).

Benefits paid on types of policy in this fund other than with-profits policies may also cost less or more than we originally expected, giving rise to profits or losses in this fund.

There may be other sources of profit or loss. These include the cost of providing guarantees (offset by any guarantee charges we make) and the cost of smoothing. The costs of paying compensation for inappropriate sales advice is not taken into account when calculating the underlying value of policies.

The underlying policy values may also be charged for interest payable on loans made by the shareholders to this fund (see the section **What about the shareholders?** for more details).

The Phoenix Life Limited with-profits funds are each managed separately, as is the company's non-profit fund. In the unlikely event that one of the funds cannot afford the guaranteed benefits payable to its policyholders and there is no further support available from the shareholders, it may be necessary for the Phoenix Life Limited Alba With-Profits Fund to provide financial support. However, support would not be provided if this would cause this fund to be unable to support its own guarantees.

In the similarly unlikely event that this fund was unable to pay the guaranteed benefits payable to its policyholders and there was no further support available from the shareholders, financial support would be provided from the other with-profits funds, provided that they were still able to meet their own guarantees.

What if I decide to cancel my policy early?

If you decide to stop paying premiums to your policy:

- a surrender value will be available; or
- the policy will be made 'paid-up' (see opposite for an explanation of this).

If you surrender ('transfer') your policy we work out how much to pay you with the aim of being fair to policyholders who are leaving this fund and those who are staying. If there is any difference between the interests of policyholders who are leaving and those who are staying, we normally give priority to those who are staying.

For pension policies, the surrender value can either be paid to another pension provider (called a ‘transfer value’) or it may be used to provide benefits allowed by the pension rules at that time.

The transfer value is the policy face value less a withdrawal charge.

If your policy is made paid-up, you will not need to pay any more premiums. Your policy will continue to provide retirement benefits, and we will continue to add interest.

How is this fund invested?

We invest this fund in a mix of assets such as property, bonds (types of loan usually issued by the Government or companies) and cash deposits.

How much we put into each type of investment will change over time. We aim to make sure that this fund can always meet its guarantees. Subject to this, we aim to get the highest possible investment return while balancing this with the degree of risk being taken. We currently hold some higher risk property investments, which we expect to provide a higher return. However, we do not invest in company shares and, because of the high risks associated with them, are unlikely to invest in them for the foreseeable future. The majority of assets held are lower risk investments such as bonds and cash.

As this fund gets smaller and policies on average get closer to maturity, we expect that we will invest less in higher risk investments and more in lower risk investments.

At the moment, there are different groups of with-profits policies in this fund with different mixes of assets. The mixes of assets and/or the groups may change in the future if we think it would be fairer to with-profits policyholders. We use the relevant investment performance when working out underlying policy values.

Any yearly statement that we send to you will include information about the mix of assets applying to with-profits policies in this fund.

Who looks after my interests?

The Phoenix Life Limited Board makes all the decisions related to this fund. It also regularly reviews the level of risks in this fund to ensure that it remains acceptable. Our with-profits committee provides an independent review to help them.

What about the shareholders?

Shareholders can provide financial support to this fund. This, together with any excess assets in the non-profit fund, provides support to all the Phoenix Life Limited with-profits funds. In extremely adverse conditions, we would use this support to provide for guaranteed policy benefits, if the Phoenix Life Limited Alba With-Profits Fund is not able to do so. In return for providing this support, the shareholders receive a share of the profits earned in this fund equal to one ninth of the value of any bonus interest we add to policies.

In certain circumstances, the shareholders will loan money to this fund and they will be entitled to receive interest on any loan that has been provided. Currently, the non-profit fund has made a loan to this fund to support its financial position.

Where can I find out more?

You can get a more detailed description of how we manage this fund in our Principles and Practices of Financial Management document (PPFM). You can read our PPFM on our website at www.phoenixlife.co.uk or you can ask us for a copy.

Your policy document will provide more information on the guarantees and options applying to your particular policy. Any yearly statement that we send to you will include information about changes to our practices and bonus rates.