

Ex Royal With-Profits Bonds

1 July 2009

Introduction

This leaflet is our regular update on investment performance, bonus rates, charges and guarantees. We have previously sent you a copy of our guide, 'How we manage the Phoenix Life Limited Phoenix With-Profits Fund' ('the guide'). The guide gives important information about how your with-profits policy works and is available on our website www.phoenixlifegroup.co.uk or on request. As we refer to the guide throughout this leaflet, you may wish to read it again before reading this leaflet.

Key facts about your guarantees

- Your policy may have a guarantee on a specified policy anniversary. (Please refer to your policy documents for more details or contact us if you need assistance).
- If one applies, on that date, you can surrender your bond for at least the amount of your original investment, less any amounts already withdrawn.
- If you need to surrender your bond at any other time, we may apply a market value reduction (MVR) to make sure that any amount paid out reflects the performance of the with-profits fund up to the time that the policy is surrendered.

If you are considering surrendering your policy, you should take into account the value of any guarantees that your policy has. You may wish to seek advice from a financial adviser before making a decision. If you do not have a financial adviser and would like help in finding one, then contact our Customer Care Team on 0845 788 3311.

Investment markets

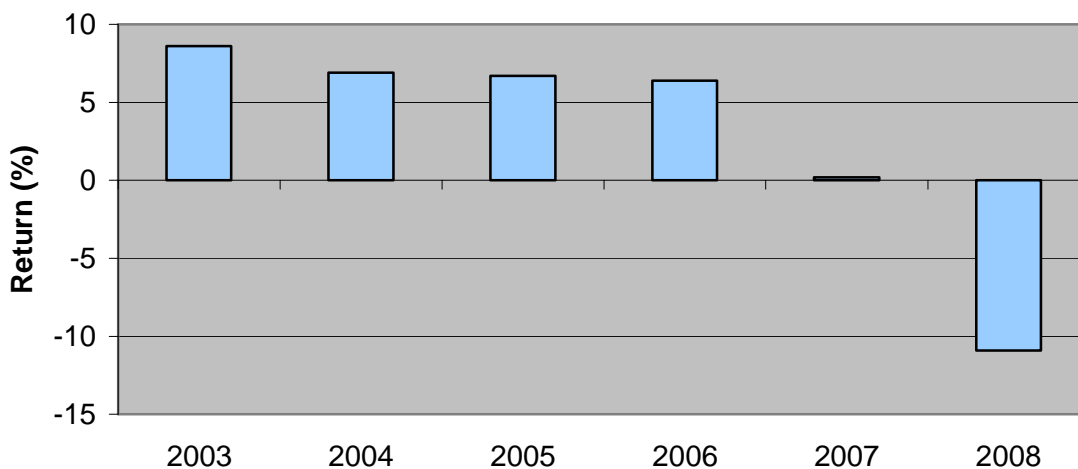
We invest in a mix of assets such as equities (company shares), property and bonds (types of loan issued by the government or companies). With the exception of bonds issued by the UK government, investment returns on most types of asset were very poor throughout 2008.

- The return on UK government bonds (gilts) was 15% for this type of policy in 2008.
- The investment return on other bonds was significantly lower than that on UK government bonds. The overall return on fixed interest assets for this type of policy was 10% in 2008.
- Equities performed poorly in 2008, with the value of UK equities falling 33% over the year and stock markets worldwide showing similar falls. Our equity investments returned -25% in 2008.
- Commercial property had another poor year, with our investments producing a return of -21% in 2008.

The figures above are before tax.

When we review bonus rates and market value reductions, we are currently not allowing in full for the poor performance of our commercial property investments over the past two years. This means that claims being paid out now are generally higher than they would otherwise be. This practice is not guaranteed to continue in future.

The chart below shows the investment returns (net of tax) earned in the last six years in respect of with-profits bonds issued between July and December 1996. Different values will apply for bonds issued at different times and for other types of policy.



Source: Phoenix Life Group. Past performance is not necessarily a guide to future performance.

Investment approach

The guide outlines our approach to investment. It is particularly important for you to be aware that the proportion of investments with higher risk, and therefore higher performance potential, is not the same for all policies.

Table 1 (at the end of this leaflet) shows the approximate equity and property proportions held at 30 June 2009 for specimen with-profits bonds commencing at different dates. The proportions for other policies are available on request. The remaining part of each policy is invested in fixed interest assets and cash. Of the fixed interest assets, about half of the investment is in UK government bonds and half is in other bonds.

Annual bonuses

Annual bonuses are added to your policy on each policy anniversary. The guide explains the conditions under which annual bonuses may be added.

Over the last few years, annual bonus rates have been at low levels. We expect that this will continue to be the case for some years to come. This is because the guaranteed benefits under many policies are high relative to the investment returns which we have earned or expect to be able to earn.

Customers making regular withdrawals from with-profits bonds

If you are currently taking regular withdrawals from your policy at a rate more than the annual bonus rate, the ongoing value of your policy will be reducing.

You can ask us to reduce the amount of regular withdrawals or stop them altogether at any time. This will reduce the rate at which the ongoing value of your policy decreases. You may wish to seek financial advice before requesting any change.

Final bonuses and market value reductions

There are no final bonuses on your policy.

The guide explains how and when we apply market value reductions.

Market value reductions are being applied in all cases if policies are surrendered now (July 2009). Market value reductions that were applied to policies on 1 July 2009, and their effects on surrender values, are shown in Table 1 at end of this leaflet.

If the profits that we earn on our investments in future are higher than the annual bonuses that we add, we will be able to reduce the market value reductions that apply to some of our policies. However if profits are lower than the annual bonuses that we add, then market value reductions will increase. The poor investment conditions throughout 2008 meant that we had to increase market value reductions. We will normally review market value reductions every month but we may change them at any time.

We will not apply a market value reduction on death or to amounts taken as regular withdrawals (up to certain limits).

In the guide, we mentioned that we work out bonuses by considering the underlying value of policies. We also mentioned that we expected to include a fair share of any distribution of the estate in the underlying value of with-profits policies once the estate is large enough to cover the risks in the fund.

We are currently including a distribution of the estate when we set annual bonuses and market value reductions. Based on the estate at the end of December 2008, we are currently (as at 1 July 2009) including a small estate distribution of 1.5% of the value of underlying policies when we set the July 2009 market value reductions. This means that market value reductions are currently not as high as they would otherwise be.

We do not guarantee that we will be able to continue this level of estate distribution in future and we will normally review the level twice a year. In particular poor investment conditions are likely to mean that we will reduce or remove the current estate distribution.

Guarantees and charges

We regularly review the expected future cost of the guarantees that we have given to policyholders. When we work out bonuses we make deductions from the underlying value of policies to pay for this cost of guarantees. The level of charges is not guaranteed and could change if our expected cost of guarantees were to change in future.

Compliance with Principles and Practices of Financial Management

In common with other insurance companies which have issued with-profits policies, we maintain a document which sets out the principles which we apply to the management of our with-profits policies and the current methods we adopt to put those principles into practice. This is called our Principles and Practices of Financial Management (PPFM). You can find this document on our website.

During 2009, we reported on our compliance with our PPFM in 2008. This report is also available on our website. In summary, we considered that we complied with our PPFM, in all material respects, throughout 2008 and noted that our With-Profits Committee and our With-Profits Actuary both agreed with this conclusion.

This information is correct at 1 July 2009 and is based on Phoenix Life's understanding of current legislation at 1 July 2009.

If you have any questions or would like more information about your plan, please contact us using the details shown in the letter we sent with this information.

TABLE 1

This table shows the effect of market value reductions on the ongoing value of policies as at 1 July 2009.

| Original dates of investment | Assumed investment date | Current ongoing value per £100 invested | Market value reduction | Current surrender value per £100 invested | Equity / property proportions held for specimen policy |
|---------------------------------|-------------------------|---|------------------------|---|--|
| | (1) | (2) | (3) | | |
| 1 Jan 92 - 31 Mar 92 | January 1992 | 289 | -20.0% | 231 | 43% / 25% |
| 11 May 92 - 30 Aug 92 (5 year) | July 1992 | 278 | -18.0% | 228 | 43% / 25% |
| 11 May 92 - 30 Aug 92 (10 year) | July 1992 | 273 | -18.0% | 224 | 43% / 25% |
| 31 Aug 92 - 31 Nov 92 (5 year) | September 1992 | 262 | -15.0% | 223 | 43% / 25% |
| 31 Aug 92 - 31 Nov 92 (10 year) | September 1992 | 264 | -14.0% | 227 | 43% / 25% |
| 15 Jan 93 - 30 Apr 93 | March 1993 | 222 | -21.0% | 175 | 43% / 25% |
| 17 May 93 - 31 Aug 93 | July 1993 | 210 | -20.0% | 168 | 43% / 25% |
| 13 Sep 93 - 30 Nov 93 | September 1993 | 212 | -19.0% | 172 | 43% / 25% |
| 01 Dec 93 - 30 Mar 94 | January 1994 | 210 | -21.0% | 166 | 43% / 25% |
| 05 Apr 94 - 30 Jun 94 | May 1994 | 230 | -18.0% | 189 | 43% / 25% |
| 04 Jul 94 - 29 Dec 94 | September 1994 | 231 | -16.0% | 194 | 43% / 25% |
| 01 Jan 95 - 29 Sep 95 | June 1995 | 213 | -18.0% | 175 | 43% / 25% |
| 04 Oct 95 - 14 Jan 96 | October 1995 | 187 | -17.0% | 155 | 43% / 25% |
| 23 Jan 96 - 30 Jun 96 | March 1996 | 175 | -21.0% | 139 | 43% / 25% |
| 01 Jun 96 - 31 Dec 96 | September 1996 | 165 | -22.0% | 129 | 43% / 25% |

Notes

1. As annual bonus is added on the policy anniversary, the ongoing value depends on the date of investment. The value may differ for different investment dates.
2. Based on an original investment of £10,000 and assuming no bonus has been taken as income and no withdrawals have been taken. Values may differ for different investment amounts and where income or withdrawals have been taken.
3. Market value reductions are represented by negative values. We will normally review market value reductions every month but we may change them at any time.