

**Unitised With-Profits Policies invested in
the Profit Plus Fund**

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 this guide throughout this leaflet, you may wish to read it again before reading this leaflet.

Investment markets

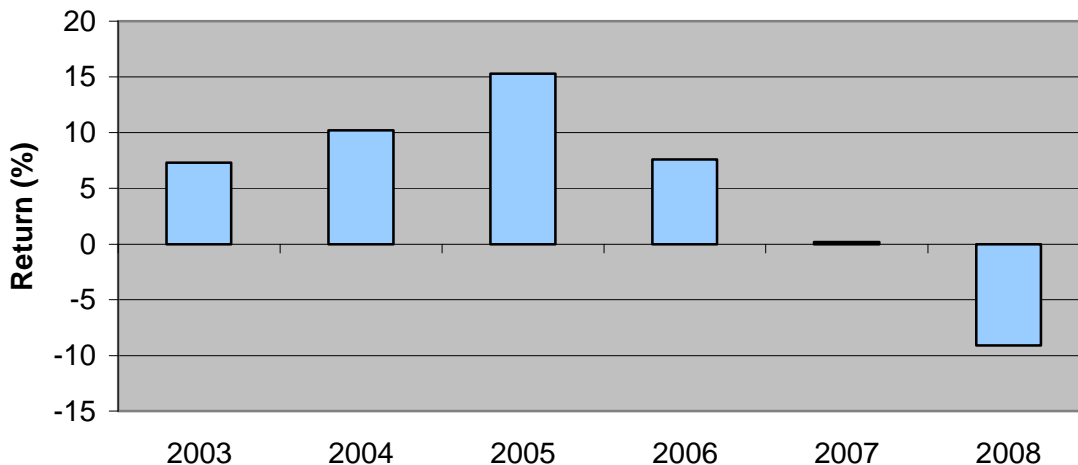
We invest in a mix of assets such as equities (company shares), property and bonds (types of loan issued by the government or companies). With the exception of bonds issued by the UK government, investment returns on most types of asset were very poor throughout 2008.

- UK government bonds (gilts) returned between 5% and 17% depending on term.
- The investment return on other bonds was significantly lower than that on UK government bonds. The poor performance of these bonds reduced fixed interest returns by 5% so that the overall fixed interest return was between 0% and 12%.
- 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 surrender values, 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 25-year term regular premium personal pensions with retirement dates in 2015 invested in the Profit Plus Fund. Different values will apply for different years of retirement and terms, 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. In particular where the value of guaranteed benefits is high relative to the value of investments underlying policies, there will be a smaller proportion of investments with higher risk (equities and property). The poor investment performance during 2008 and into early 2009 has meant that more policies now have a smaller proportion invested in equities and property. For policies with exposure to higher risk investments, we will reduce this exposure as the policies get nearer to retirement.

Table 1 (at the end of this leaflet) shows the approximate equity and property proportions we held at 30 June 2009 for specimen policies of different periods remaining to selected retirement date invested in the Profit Plus Fund. 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

The guide explains the conditions under which annual bonuses may be added. The current annual bonus rate for policies invested in the Profit Plus Fund is 0.1% and this rate has been applied since 1 January 2004.

Annual bonus is added to your policy by the periodic allocation of bonus units. These bonus units reflect the excess profits after meeting the cost of providing the guaranteed return. The guaranteed return is based on the increase in unit price from their purchase price to their eventual value of £1 at the specified retirement date. For early surrender on policies invested in the Profit Plus Fund, the unit price may be lower than £1.

Final bonuses

The guide explains how we determine final bonus rates.

The final bonus rate that applies from 1 July 2009 for retirements on the selected retirement date is 0% of the attaching annual bonus units at that date. We will normally review final bonus rates twice a year, from 1 January and 1 July. Final bonuses are not guaranteed and we may change final bonus rates at any time.

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 final bonuses. Based on the estate at the end of December 2008, we have included a small estate distribution of 1.5% of the value of underlying policies when we set the July 2009 final bonuses. This means that final bonuses are currently higher than 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. We mention in the guide that when we work out bonuses we deduct a charge from the underlying value of policies to pay for this cost of guarantees, and that we will keep you informed of any changes to the level of this charge.

We do not currently take account of the cost of guarantees when calculating the bonuses applying to your policy. However this is not guaranteed and could change if our expected cost of guarantees were to change in future.

In particular, although the expected cost of guarantees has increased over the last couple of years, we have been able to cover the increase from the financial strength of the fund. As a result we have not introduced an explicit guarantee charge. We do not guarantee that we will be able to continue this practice in future.

If you are considering surrendering your policy early, you should take into account the value of the guaranteed benefits which you will be giving up.

Compliance with the 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

For investments in the Profit Plus Fund this table shows the approximate equity / property proportions held on 30 June 2009 for specimen policies with different maturity years.

Year of retirement	Term						
	10	15	20	25	30	35	40
2009	0% / 0%	0% / 0%	0% / 0%	0% / 0%	0% / 0%	0% / 0%	0% / 0%
2010	7% / 3%	7% / 3%	7% / 3%	7% / 3%	7% / 3%	7% / 3%	7% / 3%
2011	16% / 8%	12% / 6%	16% / 8%	16% / 8%	16% / 8%	16% / 8%	16% / 8%
2012	17% / 9%	17% / 9%	17% / 9%	17% / 9%	17% / 9%	17% / 9%	17% / 9%
2013		19% / 10%	19% / 10%	19% / 10%	19% / 10%	19% / 10%	19% / 10%
2014		21% / 11%	21% / 11%	21% / 11%	21% / 11%	21% / 11%	21% / 11%
2015		23% / 12%	23% / 12%	23% / 12%	23% / 12%	23% / 12%	23% / 12%
2016		24% / 14%	24% / 14%	24% / 14%	24% / 14%	24% / 14%	24% / 14%
2017		27% / 15%	27% / 15%	27% / 15%	27% / 15%	27% / 15%	27% / 15%
2018			29% / 16%	29% / 16%	29% / 16%	29% / 16%	29% / 16%
2019			29% / 17%	29% / 17%	29% / 17%	29% / 17%	29% / 17%
2020			29% / 17%	29% / 17%	29% / 17%	29% / 17%	29% / 17%

Phoenix Life Limited is authorised and regulated by the Financial Services Authority.

Phoenix Life Limited is registered in England (no. 1016269).

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