

Unitised With-Profits Bonds taken out after 1996

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.

Key facts about your guarantees

- Your policy has a guarantee on its 10th anniversary. The guarantee for policies which commenced before 1 August 2000 is particularly valuable. For many such policies, the amount guaranteed on the 10th anniversary represents a guaranteed minimum annual return of around 6% based on the current surrender value after the market value reduction (MVR) is applied. We apply a market value reduction to make sure that any amount paid out when a policy is surrendered reflects the performance of the with-profits fund up to that point. Further details on market value reductions are provided in the guide and the guaranteed minimum annual return applicable to your policy is given in Table 1 at the end of this leaflet.
- Please note that we will;
 - write to you closer to the time of the 10th anniversary of your policy; and
 - give you three months from the 10th anniversary to benefit from the guarantee applying to the surrender value.
- If you need to surrender your policy before or after its 10th anniversary, we may apply a market value reduction. If you surrender your policy before its 10th anniversary we limit the market value reduction so that the surrender value approaches the minimum guaranteed amount as the anniversary approaches.
- Please check your policy documents for details of the guarantee that applies on your policy's 10th anniversary. Some policies have already passed their 10th anniversary. There are no further surrender value guarantees after the 10th anniversary has passed.

If you are considering surrendering your policy before the 10th anniversary, you should take into account the value of the 10th anniversary guarantee that you would be giving up. 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.

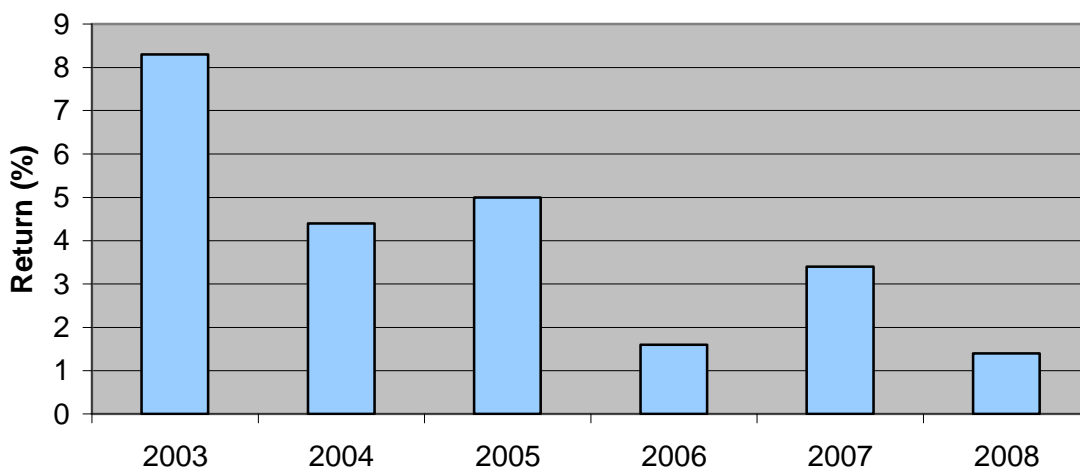
- UK government bonds (gilts) returned between 6% and 14% depending on term.

- 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 1% and 9%.
- 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 for policies that have been invested in property. 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 a unitised with-profits bond commencing in March 1999. Different values will apply for bonds commencing 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 by month of issue. 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. Annual bonus is added to your policy by increasing the price of your units each day.

- For policies issued before 1 August 2000 an annual bonus rate of 0.5% was applied throughout 2008.

- For policies issued on or after 1 August 2000, an annual bonus rate of 1% applied throughout 2008.

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 mainly because the ongoing value of many policies is high relative to the investment returns that we have earned or expect to be able to earn. The ongoing value of your policy can be obtained by multiplying the number of units you hold by the current unit price. Continuing to add annual bonuses at lower rates is anticipated to bring the ongoing value of policies more in line with the investment returns that we have earned.

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

The guide explains how we determine final bonus rates, and under what circumstances we may apply a market value reduction.

In most cases final bonus rates are nil and market value reductions are being applied if policies are surrendered now. Market value reductions and final bonuses that were applied to policies on 1 July 2009, and their effects on surrender values, are shown in Table 1 at the 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 many 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. Final bonuses and market value reductions are not guaranteed. We will normally review final bonus rates and 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 addition your policy has a guarantee which limits, to zero in some cases, the market value reduction that can be applied on your policy's 10th anniversary.

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 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 final bonuses and 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. 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 currently apply a charge of 0.5% of the value of the investments underlying your policy each year for bonds issued before August 2000. No charge is made for bonds issued on or after 1 August 2000. These charges have been unchanged since 2002 and are based on our current estimates of the cost of meeting guarantees across all classes of policy.

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 increased the guarantee charges. We do not guarantee that we will be able to continue this practice in future. The level of charge may increase or reduce in future as our assessment of the expected cost of the guarantees alters. In particular poor investment conditions may mean that we will increase the current guarantee charges.

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.

Month of investment	Current ongoing value per £100 invested (1)	Final bonus / market value reduction (2)	Current surrender value per £100 invested	Equity / property proportions held for specimen policy	Minimum amount per £100 invested if surrendered on 10th anniversary (3)	Annual return on current surrender value if held until 10th anniversary (4)
January 1999	123	-9.7%	111	45% / 25%	123	
February 1999	122	-9.4%	111	45% / 25%	122	
March 1999	122	-11.7%	107	45% / 25%	122	
April 1999	121	0.0%	121	45% / 25%	121	
May 1999	121	0.0%	121	45% / 25%	121	
June 1999	120	0.0%	120	0% / 0%	120	
July 1999	120	0.0%	120	0% / 0%	120	
August 1999	119	-0.5%	118	0% / 0%	119	6.1%
September 1999	118	-1.0%	117	0% / 0%	118	6.1%
October 1999	118	-1.5%	116	0% / 0%	118	6.1%
November 1999	117	-2.0%	115	0% / 0%	117	6.1%
December 1999	117	-2.6%	114	0% / 0%	117	6.4%
January 2000	116	-3.1%	113	0% / 0%	116	6.4%
February 2000	116	-3.6%	112	0% / 0%	116	6.4%
March 2000	115	-4.1%	111	0% / 0%	115	6.4%
April 2000	115	-4.5%	110	0% / 0%	115	6.2%
May 2000	115	-5.0%	109	0% / 0%	114	6.2%
June 2000	114	-5.5%	108	0% / 0%	114	6.3%
July 2000	114	-6.0%	107	0% / 0%	114	6.3%
August 2000	118	-22.9%	91	45% / 25%	100	
September 2000	118	-23.6%	90	30% / 16%	100	
October 2000	117	-22.3%	91	45% / 25%	100	
November 2000	117	-22.4%	90	45% / 25%	100	
December 2000	116	-22.9%	90	45% / 25%	100	
January 2001	116	-21.4%	91	45% / 25%	100	
February 2001	117	-21.9%	91	45% / 25%	100	
March 2001	116	-18.7%	95	45% / 25%	100	
April 2001	116	-15.4%	98	45% / 25%	100	
May 2001	115	-17.0%	96	45% / 25%	100	
June 2001	115	-17.1%	95	45% / 25%	100	
July 2001	114	-14.4%	98	45% / 25%	100	
August 2001	114	-13.0%	99	45% / 25%	100	
September 2001	114	-13.3%	98	45% / 25%	100	
October 2001	113	-5.9%	106	45% / 25%	100	
November 2001	113	-9.3%	102	45% / 25%	100	
December 2001	112	-10.1%	101	45% / 25%	100	
January 2002	112	-8.6%	102	45% / 25%	100	
February 2002	111	-8.2%	102	45% / 25%	100	
March 2002	111	-7.9%	102	45% / 25%	100	

Notes

1. Based on an original investment of £20,000 (values will differ slightly for other amounts) and assumes no withdrawals have been taken.
2. Market value reductions are represented by negative values. Final bonuses and market value reductions are not guaranteed. We will normally review final bonus rates and market value reductions every month but we may change them at any time.
3. This assumes no withdrawals have been or will be taken, but allows for future policy charges to be deducted from 1 July 2009 up to and including the 10th anniversary.

4. For policies which began before August 2000, this is the minimum annual return, after basic rate tax, you would have to earn to do better if you surrendered your policy on 1 July 2009 and invested the surrender value elsewhere, compared with keeping your policy until its 10th anniversary and then surrendering it. Any future annual bonuses added will increase this return. Where no figure is shown in this column for policies that began before August 2000, the 10th anniversary had already passed by 1 July 2009.

Figures after January 2001 are based on the Lifestyle Bond. For With-Profits Bond increments commencing after January 2001, different figures will apply to those shown in Table 1. Different figures will also apply for any With-Profits Bond or Lifestyle Bond increments commencing after March 2002.