Ecclesiastical Life Limited

HOW WE MANAGE OUR WITH-PROFITS BUSINESS

Ecclesiastical

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Aim of this guide

This guide tells you how we manage our with-profits fund.

Why this guide is important

Please read this guide. It gives important information about how plans work and what planholders can expect back from them. You may wish to read it following the:

- The key features document, which gives essential information such as the level of risk involved in taking out the plan.
- Your illustration, which shows what you might get back in the future.

If you have lost your copy of either of these documents, please get in touch with us on telephone 0845 777 3322 or by email at financial.services@ecclesiastical.com

If you decide not to read this guide now, please keep it in a safe place with your other plan documents.

1. Introduction

We manage one with-profits fund. 100% of its profits are available for distribution to planholders.

We manage the fund by following Principles and Practices of Financial Management (PPFM).

What is the PPFM?

The PPFM is a document describing how we run our with-profits business. It is split into Principles and Practices:

- Principles are high-level statements that describe our long-term approach to managing the fund.
- Practices are more specific statements, which flow from the Principles. These describe how we manage the fund.

We don’t expect to change the Principles often, but will do so if we think they could lead to planholders being treated unfairly, or if they could stop us managing the fund properly, or to provide greater clarity. We must tell you at least three months in advance if changes are to be made to the Principles.

Practices change more often because we need to respond to how the economy is doing, new rules and regulations, and new methods in the life insurance industry. We will publish any changes to our Practices on our website and tell you about them in your next bonus notice.

The PPFM is a long and detailed document. This guide sets out only its key points. If there is any conflict between this document and the PPFM then the PPFM takes precedence.

2. How we decide how much you will receive

Under with-profits plans, in return for your premiums, we pay a guaranteed amount which may be:

- One lump sum payment (called a sum assured).
- A series of payments (called an annuity or pension).

We aim to increase the guaranteed amount by adding bonuses.

Guaranteed amounts from your plan will be paid on the set event or date stated in your plan policy. The set event may be the end of the plan's term, as agreed when you took it out, called the maturity date. The set date may be when you retire. If you leave your plan early, we may reduce the amount we pay out.

Different amounts may be paid out on other events, and your plan document will tell you what these amounts are.

3. How we decide bonuses

We announce bonuses at least once a year for most with-profits plans.

When deciding whether or not we should pay bonuses, we look at the level of guaranteed benefits on plans compared to what we feel is a fair payout. As a guide to what is fair, we use what is known as the asset share of plans. Asset share is a calculation that determines how much each group of plans has contributed to the fund and how much profit or loss, on average, that group has made. We calculate asset share by:

- Looking at the premiums the group has paid to the fund.
- Making deductions to cover our expenses, tax and the costs of providing benefits to that group of plans.
- Adding the investment returns made by the group.

We also look at the current financial position of the fund and forecast how we expect this to change in the future. This may result in us adjusting the calculation of asset shares to allow for:

- A contribution to the estate. We explain more about this in section 9.
- A share in the overall profits and losses of the fund.

If the guaranteed benefits for the group are higher than their asset share, bonuses may be small or nothing.

We may pay different bonuses for different groups of plans to reflect the nature of the plans.

Regular bonuses

Regular bonuses are set by taking into account what the fund can afford to pay now and in the future. This approach enables us to make sure we can meet all guaranteed amounts when they have to be paid.

We aim to not vary too much the amount of regular bonuses from year to year.

Once a regular bonus has been added, it increases the guaranteed amount payable on a plan so that it can't be taken away.

Interim bonuses

Interim bonuses may be paid between regular bonuses.

If you make a claim between dates on which we've paid a regular bonus, we may add an interim bonus too. This makes up for some, or all, of the expected regular bonus earned since the last one.

Final bonuses

Final bonuses may be paid in addition to guaranteed amounts when the plan ends. They are paid where appropriate so that you get a fair total payout that allows for smoothing. We tell you more about smoothing in section 5.

In recent years, we have not paid a final bonus on many plans due to the large stock market falls in 2001-02 and the general fall in interest rates.

4. How we decide how much you get if you leave your plan early

If you leave your plan early (surrender your plan), we work out how much to pay you with the aim of being fair to both planholders leaving the fund as well as those staying.

We may reduce the value of some plans by applying a market value reduction.

What is a market value reduction?

We may apply a market value reduction to reduce the surrender value of your plan. Its purpose is to ensure that:

- The surrender value is not unfairly higher than the market value of the plan's assets.
- A fair share is left for the remaining planholders.

The size of a market value reduction will change from time to time. Market value reductions are not applied to payouts on maturity or death.

5. How we cushion your money from the ups and downs of the stockmarket

Historically, shares and property have produced higher returns than government bonds and cash over long periods such as 20 years. The returns have also been more volatile. One year an investment may do very well, the next it could fall in value. Our aim is to cushion investors against heavy falls. Instead of adding big bonuses in good years and small or no bonuses in bad years, we aim to smooth out the returns. To do this we hold back some of the profit earned during good years and then release it as bonuses when returns have been poorer or seem likely to get poorer. This 'smoothing' is one of the main ways in which the fund aims to be fair to all investors.

In adverse or unusual circumstances, we may apply a lesser degree of smoothing than normal to protect the fund's financial strength.

We may smooth regular-premium plans that continue until maturity more than we smooth surrendered plans and single premium plans.

6. How we invest the with-profits fund

We decide what to invest in and how much to invest by looking at:

- The fund's current and future financial position and the need to make sure there's enough money in it.
- The level of guarantees in the fund.
- Planholders' investment expectations.

The fund invests in a mix of assets which can include equities (shares), property, fixed-interest type assets (such as government bonds and corporate bonds), and cash. We may also sometimes use derivatives (rights to buy or sell assets at a particular price at a particular time).

We control the risks that come with investing by setting limits on the amounts we invest in any one asset and our exposure to any third party.

We review our investment strategy at least annually and more often if market conditions change quickly.

7. How we manage exposure to risk

The fund is exposed to a number of risks. We monitor the risks on a regular basis and assess them against the potential rewards for the fund. If a risk seems to be too great, then we aim to reduce its potential impact. For example, our biggest risks come from the need to pay all guarantees when they are due and the possibility of falls in share or property values. If these risks become too great, then we would change our investment strategy.

We normally allocate the cost of risks to the fund as a whole. However, if a risk arises which is related closely to a particular plan type, we may apply some or all of the cost of this risk to the plans in question.

8. How we decide charges and expenses

There is a predetermined expense arrangement relating to the fund.

The expenses paid by the fund are based on agreed formulae primarily involving the numbers of policies in the fund, the levels of new business in the fund and the value of the total assets of the fund and not the actual costs we incur in servicing the business in the fund.

9. What the estate is and how we use it

The estate is a pot of money that provides working capital for the fund and supports its operation. We build up the estate from profits that are not needed to ensure a fair payout on with-profits plans.

10. How to find out more

You can get a more detailed technical description of how we manage the with-profits fund in our PPFM. You or your adviser can ask us for a copy (our details are below), or you can read it on our website, www.ecclesiastical.com

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Monday to Friday 8am to 6pm. We may monitor or record calls to improve our service

You can email us at

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Or visit us at

www.ecclesiastical.com

If you would like this booklet in large print, braille, on audio tape or computer disc please call us on 0845 777 3322. You can also tell us if you would like to always receive literature in another format.

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