A GUIDE TO HOW WE MANAGE UNITISED WITH PROFITS POLICES IN THE ROYAL LIVER SUB-FUND

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1. About this guide

On 1 July 2011 The Royal London Mutual Insurance Society Limited ('Royal London') acquired the business of Royal Liver Assurance Limited ('Royal Liver') and placed almost all the assets and liabilities of Royal Liver into a separate sub-fund within Royal London called the Royal Liver Sub-Fund. In this guide we call the Royal Liver Sub-Fund, 'the fund'.

The guide tells you how we manage the fund for policyholders with unitised with profits policies in the fund. We explain unitised with profits policies under question 2.

An overriding principle is that we will manage the fund in accordance with the Instrument of Transfer. This is one of the legal documents that transferred the business of Royal Liver to Royal London. The Instrument of Transfer states that Royal London will manage the fund as if it was a stand-alone fund, operating within the constraints of its own capital.

This guide covers the key points of the detailed technical document called the Principles and Practices of Financial Management (PPFM), but is not a replacement for it. The PPFM gives a fuller description of how we manage the fund. You can read the PPFM on our website royallondon.com or you can ask us for a copy. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

If we make a significant change to our approach to managing the fund, we will write to tell you and send you an updated copy of this guide.

This guide should answer most of the questions you might have. If you have any further questions, please contact us. You will find our contact details under question 12.

2 What is a 'unitised with profits' policy?

A unitised with profits policy is one in which we:

- use your premiums or contributions to buy units in a with profits fund, and
- take units away to pay for our charges.

We aim to increase the return on your policy by adding bonuses. When your policy ends we will pay the value of the units you hold in the fund. However, if you cash in your policy early, we may reduce the amount we pay. We explain this under question 11.

This guide covers unitised with profits policies started with Royal Liver, including policies it sold under the Caledonian Life brand. The policies include:

- Personal Pension Plans
- the Personal Investment Plan, and
- the Caledonian With Profits Bond.

3 How do you decide the return on my policy?

We aim to make sure that every policyholder receives a fair return. We will calculate the return allowing for:

- the premiums paid into your policy
- the deductions we've needed to make to cover our expenses, the cost of providing benefits and tax, and
- the investment returns from the assets we hold to back your policy.

Normally investment returns have the most significant impact on the return on your policy.

We aim to increase the return on your policy by adding bonuses. We explain this under question 6. If we pay out when your policy reaches the end of its term (the period you agreed when you started the policy), we aim to pay an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. We outline this range in the PPFM. We explain smoothing under question 5.

4 What investments do you hold to back my policy?

We aim to achieve growth by investing in a wide range of assets, subject to the requirement that the fund should always be able to pay policyholders' guaranteed benefits when they are due. Holding a wide range of assets helps to reduce the risk to the fund that would arise if we invested all or most of the assets in a single category of assets. Investments include:

- shares in UK and overseas companies (also known as equities)
- property (which may include our business premises)
- government bonds (loans to the government)
- company bonds (loans to companies)
- subsidiary companies
- cash deposits, and
- more complex types of assets that we use to help reduce investment risk or increase the diversity of the asset mix.

In the 1980s and 1990s, when stock market investment returns were relatively high, a high proportion of the assets of the fund was invested in company shares and property, with the aim of achieving above average investment returns. Although investments in company shares and property are less stable than other types of investments such as government and company bonds and cash deposits, they tend to produce higher investment returns over the longer term, although this is not guaranteed.

As a result of generally much lower investment returns from world stock markets since 2000 and following a general reduction in interest rates, the fund has moved towards holding a lower proportion of its assets in company shares and property in recent years.

We may allocate the assets of the fund to different types of policies in different ways. We do this to take account of a number of factors, such as the value and nature of policy guarantees. As a result, different types of policies might be invested in a different mix of assets.

Each year we intend to publish on our website royallondon.com the investment mix at 31 December.

5 How do you cushion my policy from the ups and downs of the stock market?

As we've explained under question 4, the fund invests in a wide range of assets, including company shares, property and government and company bonds. Company shares are bought and sold on stock markets throughout the world. Although the investment returns from company shares and property are potentially higher than from government and company bonds, they are also less stable, with values fluctuating up or down over short periods. World events may cause the values of company shares to fall sharply.

We aim to cushion your policy as far as possible from day-to-day fluctuations in investments, by 'smoothing' out the effects of some of the ups and downs. We do this in two ways. Firstly, we invest in a wide range of assets and, within these, limit the amount we invest in any one specific investment. Secondly, instead of adding large bonuses to your policy in good years and no bonuses in bad years, we hold back some of the investment profit made in good years and add it in the bad years.

This means you receive a more 'smoothed' return on your policy. So if, for example, your policy ended on a day when the stock market fell substantially, the smoothing of returns might help to protect it from a sudden drop in value. Policyholders in funds that don't smooth investment returns could see the value of their policies rise or fall faster than those in a smoothed fund.

6 What affects my policy's bonuses?

The bonuses we may add to your policy are affected by:

- the investment returns achieved by the assets backing your policy
- the level of policy guarantees
- the charges that we make, and
- how we smooth the return on your policy (we explain smoothing under question 5).

The bonuses we may add to your policy represent your share of the profits and losses of the fund. The main factor that affects the level of bonuses that we may add to different groups of with profits policies is the investment profits or losses of the assets backing those policies.

Other important factors are the effect of policy guarantees and the charges we make. The charges include:

- the costs of acquiring and administering your policy
- the costs of helping to meet policy guarantees
- the cost of life cover
- tax, and
- any specific terms included as part of the transfers from Caledonian Insurance, Friends Provident Life Office or Irish Life Assurance plc.

Other factors may also give rise to profits or losses within the fund that we may share with you if we consider that the size of the fund is larger or smaller than necessary to meet its aims. Such factors might include:

- the profits or losses from other types of policy in the fund, and
- any differences between the amounts paid to policyholders leaving the fund and the fair share of the total fund value for their policies at the time.

7 What types of bonus might you add to my policy?

There are three types of bonuses.

- Annual bonus, which we may add to your policy each year and which increase the guaranteed minimum amount that we will pay out.
- Interim bonus, which we may add when your policy ends to cover the period since we added an annual bonus.
- Final bonus, which we may add when your policy ends.

Unless your policy documents include any special conditions that apply to your policy or you cash in your policy early or stop paying the premium early, the benefits payable when the policy ends are:

- the basic sum assured, plus
- any annual bonuses already added to the policy, plus
- any interim and final bonuses that we may add.

8 How do you decide bonuses?

We set bonuses so that payouts represent a fair share of the fund, allowing for smoothing. We explain smoothing under question 5.

Annual bonuses pay out part of the profits of the fund, increasing your policy's guaranteed benefits. We set annual bonus rates each year with the aim of holding back part of your policy's share of the profits to pay as final bonus.

When we set annual bonuses, we take account of factors such as our long-term view of future investment returns, the level of policy guarantees and the level of working capital in the fund for its long-term objectives. We explain working capital under question 10.

Annual bonuses increase your policy's guaranteed benefits. In order to ensure that the fund can pay such guaranteed benefits, we may limit future annual bonuses or set annual bonuses to zero.

We usually set interim bonuses at the same time and at the same rates as annual bonuses. However, we might change them more often than annual bonus rates, or set them at different rates to annual bonus rates.

Any final bonus that we add is intended to represent your policy's fair share of the profits and losses of the fund over the policy's term (the period that you held the policy for) that we haven't already added as annual or interim bonuses.

In setting final bonuses, we also aim to ensure that the fund is always large enough to pay policyholders' guaranteed benefits when they are due and has enough working capital. We normally review bonuses each month but we may change them anytime.

We aim to set final bonuses so that, in total, maturity payouts are equal to their fair share of the fund. Some final bonuses might be zero, for example when the guaranteed benefits are greater than the fair share.

9 What risks are there in investing in the fund?

The fund is exposed to a number of risks, for example:

- risks relating to how well our investments do
- risks relating to how much the expenses of the fund might be (although these are largely fixed for 10 years following the transfer to Royal London)
- risks that the costs of meeting policy guarantees are greater than we expect
- the risk that we might have to pay compensation to certain policyholders, and
- risks associated with operating subsidiary companies owned by the fund.

We monitor the risks as part of our standard risk management procedures, and act to reduce risk exposure where we think it is necessary.

10 What is the working capital of the fund and what do you use it for?

The working capital of the fund is the amount by which the assets of the fund are greater than the amounts already promised to policyholders by way of guaranteed benefits.

We use the working capital for a variety of purposes, primarily to ensure that the fund is large enough to pay policyholders' guaranteed benefits at any time.

The fund is closed to new long-term business so we aim to retain enough working capital within the fund to manage the existing with profits and non-profit policies in a proper manner. Subject to this, we aim to distribute any remaining value in the fund to eligible policyholders in a fair and equitable way.

11 How do you decide how much I get if I cash in or transfer my policy early?

If your policy has a fixed term, it means that it lasts for the period specified in your policy schedule. However, you may be able to cash in such a policy early or, if it is a pension policy, transfer it to another pension provider.

If you do this, we aim to pay an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. We outline this range in the PPFM. We explain smoothing under question 5.

If you cash in or transfer your policy early, we may reduce the value of your units by applying a market value reduction (MVR). We may do this if, for example, the value of the investments in the fund has fallen since you started your policy.

We apply this reduction to ensure a fair level of payouts to everyone invested in the fund. If we did not do this, the investors remaining in the fund would not receive their fair share.

We won't apply an MVR when we cash in the units in your policy after the life assured has died.

12 How can I find out more?

Policies taken out with Caledonian Insurance company

Existing Business
Royal London
47-49 St Stephen's Green
DUBLIN 2

Telephone: 01 429 3333
Email: service@royallondon.ie

All other policies

Customer Services
Royal London
Royal London House
Alderley Road
WILMSLOW
SK9 1PF

Telephone:
UK 0345 601 0685
Ireland 1850 246 111
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If you would like a copy of this guide in large print, please call us on 0345 601 0685 (UK) or 1850 246 111 (Ireland)

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