

1. WHAT IS THE PURPOSE OF THIS Q&A AND WHAT DOES IT COVER?

What is the purpose of this Q&A?

This document aims to inform you, the policyholder, of the principles and practices of the company in the management and operation of its unit-linked investment funds. Further information on specific products can be found in your policy documentation. This Q&A does not cover the investment strategy or risk characteristics of the various funds. More information on the investment objectives of the funds can be found in the “About Our Funds” section of the Countrywide Assured plc website: www.countrywideassured.co.uk.

Which companies’ products does it cover?

This document covers all the unit linked policies of Countrywide Assured plc including those of companies acquired by or merged with Countrywide Assured plc.

Established in 1988, Countrywide Assured plc is a successful life company providing its customers with long term financial protection for their home and family. Countrywide Assured plc's ultimate parent company is Chesnara plc which is quoted on the London Stock Exchange.

The business of Premium Life Assurance Company Ltd was transferred in to Countrywide Assured plc on 31 December 1996 and a similar transfer was effected on 30 June 2006 in respect of the business of City of Westminster Assurance Company Ltd. These transfers were approved by Court schemes and the relevant businesses now form an integral part of the overall business of Countrywide Assured plc.

Which unit-linked funds does this Q&A cover?

This document covers the following series of unit-linked funds.

- **CA Series**
Funds that were created by Countrywide Assured plc.
- **CWA Series**
Funds that were transferred from City of Westminster Assurance Company Ltd.
- **Premium Series**
Funds that were transferred from Premium Life Assurance Company Ltd.

What is not covered in this Q&A?

The Premium Series and CWA Series Funds include some “personal” funds which are not open to the general public. The description of policy contained in this Q&A may not apply in all respects to such personal funds.

Investments in the Unitised With-Profits fund (CA Privilege) are also not covered here. Policyholders will have received a Guide which explains the operation of the Unitised With-Profits fund. Further information is available in the document “Principles and Practices of Financial Management” which is available on our website.

2. WHAT IS A UNIT-LINKED FUND?

A unit-linked fund is an investment fund that is divided into units, each representing an equal share of the fund. The value, or price, of the units depends on the value of the underlying assets of the investment fund. When policyholders put money into the investment, they buy units from the company. When policyholders withdraw money from the fund, they sell their units back to the company.

What are the underlying assets?

The underlying assets are the investments that determine the value of the units. They may include shares, bonds, property, futures and cash. The fund may also invest in collective investment schemes (such as unit trusts). Most investment in property is now by way of collective investment schemes, in order to obtain a broader spread of exposure than would be possible by direct investment. The underlying assets are managed by external investment managers; the mix of assets in any one fund will be based on investment guidelines for that fund.

3. HOW ARE UNIT PRICES CALCULATED?

The price of the units depends on the market value of the underlying assets of the fund. We undertake to price the units in a fair and transparent way, with no cross-subsidies between funds.

How can prices be obtained?

Unit funds with a total value in excess of £50m will have prices published on the Countrywide Assured plc website:

www.countrywideassured.co.uk/Secure/11079_fund_prices.asp

For all other funds, daily unit prices can be obtained by telephoning the customer helpline on 0800 262536 for CA Series and Premium Series funds and on 0800 085 2385 for CWA Series funds.

Are the buying and selling prices of the units the same?

Policyholders buy units (invest) at the *offer price* and sell them back to the company (encash them) at the *bid price*. It is normal for the offer price to be higher than the bid price. This difference is called the *bid-offer spread*, and is 5% for all funds apart from the CWA Series Westminster Property Fund Old Series and the CWA Series Guaranteed Growth Fund.

These two funds do not have a bid-offer spread in the unit prices (i.e. their buying and selling prices are the same), but the CWA Series Westminster Property Fund Old Series has an exit charge of 5% of the unit value taken when the policy is encashed.

What is the “pricing basis”?

The pricing basis depends on whether the unit-linked fund is *expanding* or *contracting*. Most of the funds are now contracting as we are no longer accepting new policies.

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Expanding fund

When the fund is expanding, more units are being bought by investors than sold and, consequently, the fund has to buy more underlying assets and create more units to sell to investors. Overall the investment fund is getting larger.

Contracting fund

A contracting fund is the opposite of an expanding fund i.e. more units are being sold by investors than bought and units have to be cancelled and some of the underlying assets sold. Overall the investment fund is getting smaller.

Creation price

The creation price is the price used by the company when creating new units in the fund. It is based on the lowest price at which the underlying assets can be bought, taking into account dealing costs and stamp duty, less any provision for capital gains or other taxes appropriate to the specific fund.

Cancellation price

The cancellation price is the price used by the company to cancel units in the fund. It is based on the highest price at which the underlying assets can be sold taking into account dealing costs, less any provision for capital gains or other taxes appropriate to the specific fund.

- When the fund is expanding, the bid price is determined from the creation price.
- When the fund is contracting, the bid price is determined from the cancellation price.
- The offer price is the bid price divided by 0.95.

Example

Suppose that on a particular day, units in a fund have a *creation* price of 101 and a *cancellation* price of 99.

If the fund is expanding:

- You can sell your units back to the company at the creation price of 101.
- You can buy units at the offer price of $101/0.95 = 106.3$

If the fund is contracting:

- You can sell your units back to the company at the cancellation price of 99.
- You can buy units at the offer price of $99/0.95 = 104.2$

When does the pricing basis change?

The relative number of units being bought and sold in each fund is checked monthly and compared against specific agreed criteria. This indicates whether the fund is expanding or contracting and, hence, whether a change of basis is necessary. Any change of basis requires prior approval of the Board (see section 6). The pricing basis may also change if a one-off transaction into or out of a fund is likely to exceed 5% of the value of the fund, although this is a rare occurrence.

How frequently are unit prices calculated?

Unit prices are calculated daily, excluding weekends and public holidays, using an automated unit pricing system. CWA Series funds are not priced from 27 to 31 December inclusive or on Republic of Ireland Bank Holidays. The price is based on the value of the underlying assets at the end of the previous day.

A rigorous process is in place to check each day's prices. These prices are signed off by an appropriately qualified individual.

Will I know the price of units before I invest or cash in my policy?

No, the price at which you buy or sell units will not be available to you when you place the deal. The company's preferred method is known as *forward pricing* which prevents trading at prices which are known.

What is forward pricing?

Under forward pricing, the price is calculated based on the closing asset valuation from the previous day. This is used for transaction requests received in writing by the time the prices are calculated. Telephone or fax instructions are not transacted until the following day.

The use of forward pricing is considered the fairest way to price the units. It avoids the possibility of informed investors, or the company, gaining at the expense of others by dealing at out-of-date asset prices.

How are unit prices rounded?

The unit prices for CA Series funds are rounded to the higher 0.1p for contracting funds and the lower 0.1p for expanding funds. Prices on CWA Series funds are rounded to the nearest 0.1p. Prices on Premium Series funds are rounded to the nearest 1p for the bid price and up to the higher 1p for the offer price. The CA Series policy documentation permits additional rounding adjustments, but such adjustments are no longer made.

How do buying and selling costs affect the prices?

The cost of purchasing the underlying assets is included in the creation price and the cost of selling the underlying assets is included in the cancellation price. The size of these costs is reviewed regularly in the light of recent actual experience.

Does Stamp Duty Reserve Tax apply?

Stamp duty is allowed for in the creation price of units at the current rate of 0.5%. This is subject to change in accordance with prevailing tax regulation.

How are the underlying assets valued?

Directly held property is valued annually by inspection using a qualified valuer. All other assets are valued daily using the previous day's market price from a recognised data source (e.g. Bloomberg, Financial Times).

Does the company have investments within the funds?

The company holds some units in the funds to manage the daily fluctuation in the number of units bought and sold by policyholders. This holding is purely for practical purposes and the company does not seek to make any profit from the arrangement. The company's dealings with the fund are also carried out using a forward pricing basis.

What happens under extreme market conditions?

The company may freeze the price of units or suspend buying and selling of units if the markets experience excessive levels of volatility. The last time this occurred was after the attacks on the World Trade Center in New York on 11th September 2001.

4. WHAT CHARGES ARE APPLIED TO THE FUNDS?

The following charges can be applied to the unit-linked funds:

1. Annual Management Charges (AMC)

A deduction is made from the funds daily to cover the annual management charge (see table below).

2. Investment Management Charges

The Premium Series funds are subject to daily investment management charges based on the actual fees incurred by the company, subject to a cap of 0.29375% p.a. There are no separate investment management charges on the CA Series or CWA Series funds.

3. Applicable tax charges

Investments which are not held for pensions business are subject to tax. Tax is discussed in further detail below.

4. Buying/selling costs of investment trading

The costs of buying and selling assets within the funds are brought into the daily calculation of unit prices. They are based on a consideration of the level of the actual cost of investment trading over the previous 6 months and take account of known changes which would impact the level of these.

What is the annual management charge (AMC)?

The AMC covers the costs of managing the unit-linked funds and varies between the funds.

ANNUAL MANAGEMENT CHARGE – CURRENT LEVELS		
Fund	AMC (per annum)	Exceptions
CA Series	0.75%	
CWA Series	0.75%	In a small number of funds, the AMC is less than 0.75%
Premium Series – Pensions	1%	1.25% for Timed Funds
Premium Series – Assurance	1% (older series)	1.5% (later series) 1.75% for Timed Funds

Capital and single premium funds (discussed in section 5) have higher levels of AMC (up to 8.25% pa). Details of the charges are contained in your policy documentation.

Does the fund invest in other funds?

The funds can invest in other internal funds but the pricing process is designed to prevent any double charging in such cases. The funds can also invest in collective investment schemes (unit trusts or OEICs). Policyholders will, generally, receive rebates on the charges applied to the underlying schemes.

- All funds investing in the Norwich Union Property unit trust receive a partial rebate of 0.5% pa.
- The CA and Premium Series funds receive a full rebate when investing in schemes operated by Schroders and Invesco Perpetual who are the fund managers.

Policyholders receive the full benefit of all rebates and discounts received by the internal linked funds.

How does tax affect the investment?

Investment funds that are not held for pensions business are subject to income tax and capital gains tax. Tax is deducted from the funds generally at the end of each year to reflect income tax and capital gains tax on assets. Tax is accrued on each fund on a stand alone basis with no allowance for expenses; where investment management expenses are deducted from the fund, separate allowance is made for tax relief. The daily prices of units include an estimate of the tax that will apply to the funds.

How is income on the fund taxed?

Where applicable, investment income (including changes in the capital values of fixed interest assets) is taxed at the policyholder tax rate (currently 20%).

How are capital gains taxed?

A capital gain occurs when an investment in equities or property is sold at a higher price than it was bought (after indexing the purchase price in line with inflation). Tax is due on the capital gain at the policyholder tax rate (currently 20%).

Similarly, a capital loss occurs when an investment is sold at a lower price than it was bought but in this case there is no indexation of the purchase price beyond that needed to produce neither gain nor loss. In certain circumstances, capital losses can be used to offset capital gains and hence reduce the amount of capital gains tax payable.

Collective investment schemes investing in equities and property are subject to “deemed disposal” rules whereby the holding is notionally sold at the end of each year, with any resultant capital gain arising in the year taxed in instalments over a seven year period. The unit price allows for this spreading forward of the payment of tax, either directly or by amending the rate applied to allow for the charge being payable over future years.

The unit pricing process incorporates a fair allowance for capital gains tax on unrealised gains by considering the tax that could be payable at the point when the underlying asset is expected to be sold.

What other charges are (or can be) applied to the fund?

There are no other charges applied to the fund or to the buying and selling of units by investors. However, your policy may include an element of insurance cover (e.g. life insurance, critical illness insurance) which is usually charged for by cancelling units from your investment and administration charges are also usually met in this way. Details of how this is done are contained in your policy documentation.

5. CAPITAL UNITS

What are capital units?

These are units generally allocated to some policies in their early years which are subject to a higher level of Annual Management Charge (AMC). If a policy is encashed the nominal value of the units will be reduced by a “cash in” factor. This cash in factor generally reflects the capital unit AMC amount which is still outstanding. This deduction generally does not apply in the event of death.

Do any of the funds have capital units?

Some Premium Series and CWA Series funds have two types of unit, called accumulation units and capital units (in the case of CWA there may also be single premium units which in practice operate like capital units). Accumulation units are priced and charged as described in sections 3 and 4. The features that differentiate capital units are:

- capital units are subject to a higher AMC for a set period, which often runs to the selected maturity date;
- in the event of capital units being cashed for any reason, other than on death, the units' nominal value is reduced. The reduction generally reflects the unpaid AMC which would have been charged.

How are capital units priced?

Capital units are priced in a similar way to accumulation units but reflect the additional management charge payable. Hence the price of a capital unit will always be less than that of a corresponding accumulation unit.

6. WHAT DISCRETION DOES THE COMPANY HAVE AND HOW IS THIS MANAGED?

What discretion?

The company can exercise discretion in the management of the unit funds in the following areas:

- Changes to fund charges in unit pricing, except where policy conditions prohibit this.
- Change of pricing basis between expanding and contracting approaches.
- Changes to the policy of the company holding investments in the funds.
- Closure or merger of unit-linked funds.
- Substantial changes to the investment policy of any fund.

How is discretion managed?

The Board of Directors carries ultimate responsibility for oversight and management of the company's unit linked funds. The Board adopts policies to ensure policyholders are treated fairly and units are priced accurately. The Investment Committee has been nominated by the Board as the body responsible for ensuring policy is applied and monitored appropriately on an ongoing basis.

Prior approval from the Board is required in the exercise of discretion in the above areas. Changes to fund management charges would only be made to reflect external events or increases in the level of investment management fees where these are not charged directly to the fund.

What happens when funds are merged?

When the businesses of Premium Life Assurance and City of Westminster were merged into Countrywide Assured, the Court schemes which authorised the transfer of business gave Countrywide Assured the powers to merge CWA Series and Premium Series unit-linked funds. Such mergers are subject to specified conditions and procedures. Before approving a merger, the Board is required to consult the Actuarial Function Holder and to give advance notice to the Financial Services Authority.

A fund would not be merged into a fund with a higher AMC without compensating adjustments being made to policy terms. The underlying investment policy followed by the fund following merger will be changed as little as possible, although some change is inevitable. Policyholders will be notified of any merger that affects them.

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The Investment Committee is appointed by the Board as the body responsible for ensuring the policy is applied and monitored appropriately on an ongoing basis.

Actuarial Function Holder (not with-profits) (AFH)

The actuarial function holder (not with-profits) fulfils a range of regulatory responsibilities and advises the Board on the management of the unit funds.

Financial Services Authority (FSA)

The FSA is the independent regulator of financial services in the UK. Further information can be found on their website www.fsa.gov.uk

7. WHAT HAPPENS IF THE COMPANY MAKES A MISTAKE WITH PRICES?

Rigorous checks are in place to identify errors before they can have an impact on investors. However, very occasionally, an error may still occur. Where material pricing errors are identified they will be corrected. Their impact on policyholders will be eliminated, either through price or unit adjustments, or by payment of compensation using the following guidelines.

- Where a unit pricing error in excess of 0.1% is found to have occurred, compensation is paid to any policyholder who suffered a loss of (currently) £10 or more.
- Any compensation will be paid as soon as possible but, generally, within three months of the error being identified.
- The company will generally make good any loss to the fund suffered as a result of this practice, where the loss exceeds 0.1% of the fund value.

8. COMPLAINTS

How do I make a complaint?

In the first instance, you should write to:

The Customer Liaison Office,
Countrywide Assured,
Harbour House,
Portway,
Preston. PR2 2PR

If we fail to resolve the issue to your satisfaction you can appeal to the Financial Ombudsman Service (FOS).

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Financial Ombudsman Service

The Financial Ombudsman Service is an independent body that settles disputes between financial service providers and customers. Further information can be found on their website www.financial-ombudsman.org.uk

9. ADDITIONAL INFORMATION

This document is an abbreviated version of Countrywide Assured's statement of policies and procedures relating to the operation of its unit-linked funds and so does not cover every aspect in detail.

The practical application of the guidance in this document is subject to the discretion of the Chief Executive and Actuarial Function Holder (not with-profits) and guidelines may be overridden in specific instances, with the approval of these individuals, provided that such actions are reasonable (and do not have material impact on any fund) or result from force majeure. The Board will be notified at the earliest opportunity of any cases where the guidelines are overridden.

Where can I obtain further information?

Further information about the company is available on our website:
www.countrywideassured.co.uk

How do I obtain financial advice?

You can call our Customer Helpline on 0800 262536 for information on CA Series and Premium Series funds or on 0800 085 2385 for CWA Series funds. Further information about the company is available on our website: www.countrywideassured.co.uk

Please note that we can only advise you on a limited number of Countrywide Assured products. If you would like independent advice please contact an independent financial adviser (IFA). You can find an IFA at www.unbiased.co.uk.