



This guide is for you, if you have a with-profits life assurance policy with either

Guardian Assurance plc or
Countrywide Assured

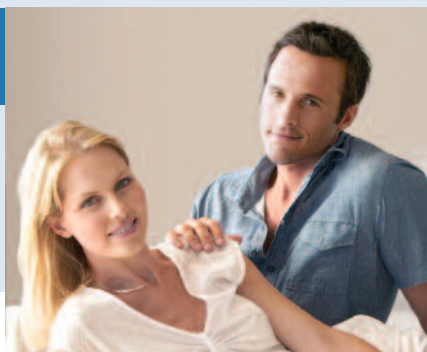


In November 2011 the Guardian companies were acquired by leading European buyout firm Cinven, so are no longer part of the AEGON Group as is stated in this guide. At the same time, Guardian Assurance plc became Guardian Assurance Ltd. We will be updating the guide to show this and details of the new shareholder and governance arrangements in the near future.

CONTENTS

- 1 What is this guide for?
- 2 Background to Guardian Assurance and the with-profits fund
- 3 What does my policy pay out?
- 4 Where do profits and losses come from?
- 5 What bonuses might I get?
- 6 How are annual bonuses set?
- 7 What affects final bonus?
- 8 How are final bonus rates set?
- 9 What if I cash-in my policy?
- 10 What is your investment strategy for the with-profits fund?
- 11 What is the estate and how do you manage it?
- 12 What are the ongoing risks to my investment in this fund?
- 13 What discretion does the company have?
- 14 Other relevant issues

Glossary



1 What is this guide for?

In this guide we explain how we manage the money invested in the with-profits fund and what it means for you. We'll explain any investment terms as we go through this guide, but there's also a glossary of terms at the end for easy reference.

If you require financial advice when you've read this guide, then you should contact your financial adviser.

Please note we can't give you any financial advice, but if you would like more information about your policy or how we run our with-profits fund, please contact us:-

Guardian Assurance plc
Ballam Road
Lytham St Annes
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Telephone 08459 48 90 00

We have separate guides for other types of policy, available on request:

- Traditional with-profits pension policies
- Unitised with-profits pensions and life assurances
- With-profits group pension schemes

In addition, we have a more detailed guide to our with-profits management strategy called 'Principles and Practices of Financial Management of With-Profits Business' (PPFM). We also produce a yearly report on our with-profits business confirming whether we've complied with the PPFM during the year. If you would like any of these documents, please ask us or download them from our website www.guardianfs.co.uk

The independent Scottish Equitable Policyholders Trust is also involved in the ongoing assessment of our compliance with the PPFM, providing an element of impartial judgement throughout the process.

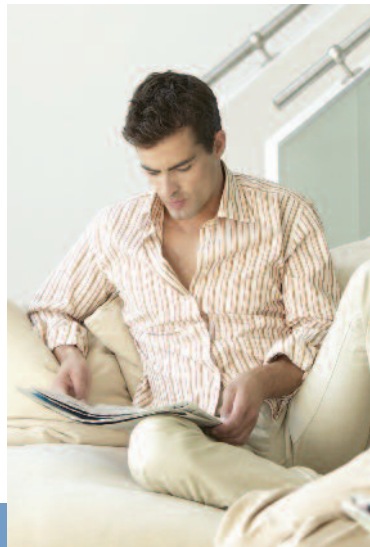


2 Background to Guardian Assurance and the with-profits fund

Guardian Assurance plc can trace its history back to 1821 when the Guardian Fire and Life Company was formed. It is now part of AEGON nv, a large multinational insurance group based in The Netherlands.

Premiums paid by policyholders are paid into the Guardian with-profits fund. The profits arising in this fund are shared between our with-profits policyholders and our shareholder, AEGON nv. The with-profits policyholders receive 90% of the profits and the shareholder receives 10%.

In 1998 the with-profits fund was closed to new business. The estate (that's the excess of the fund's assets over its liabilities) is being distributed gradually to with-profits policyholders by paying higher bonuses than would otherwise have been the case. Only with-profits policies that were in-force when we announced that the fund was closing will benefit from the distribution of the estate.



3 What does my policy pay out?

A with-profits life assurance policy pays out:

- A sum assured. This is the minimum amount we will pay out providing you pay all the premiums due and keep the policy for the full term.
- A share in the profits and losses of the with-profits fund by means of bonuses, providing you pay all the premiums due and keep the policy for the full term.

4 Where do profits and losses come from?

Profits and losses come from:

- The fund's investments
- Other business such as pensions in payment and unit-linked policies.

As you pay into your policy, we put your payments together with those of the other with-profits policyholders.

- This 'pooling' of money generally means that on your behalf we can invest in a wider spread of assets than if you'd invested on your own. This can help to spread the risk and the costs.

We invest your money in a mixture of company shares (equities), fixed interest securities (for example loans to the Government or to large corporations) and cash deposits.

We aim:

- to earn dividend income and an increase in value from the equities.
- to earn interest on the fixed interest securities and cash deposits.

The return on these investments is put back into the fund and is then shared by with-profits policyholders and the shareholder (See Section 2 - "Background to Guardian Assurance and the with-profits fund").

5 What bonuses might I get?

We add your share of the profits through two main types of bonus:

Annual bonus (also known as regular bonus or reversionary bonus):

- We add it at 31 December each year.
- It is an additional guarantee on top of your sum assured.
- Once we add it to your policy, we guarantee to pay it provided you pay all the premiums due and keep the policy for the full term.

Final bonus (also known as terminal bonus)

- We may pay a final bonus when the life assured dies or when the policy reaches its end date.
- Final bonus is not guaranteed and it is possible that no final bonus will be payable.

Final bonus on early cash-in

- We may also pay some final bonus if you cash-in your policy early. You may know this as 'surrendering' your policy.

- If you cash-in your policy, the amount you will get is not guaranteed.
- The total amount you receive may be less than the sum assured plus annual bonus additions.

6 How are annual bonuses set?

We have set our annual bonus rate at one per cent (1%) and it will remain at this level in the future, except in very extreme or exceptional circumstances. Our investment strategy is consistent with our intention to maintain the annual bonus rate at this level.

If future investment returns are significantly better than expected, we would increase final bonus rates rather than the annual bonus rate.

We send you a yearly bonus statement to confirm the annual bonus added to your policy.

7 What affects final bonus?

Various factors affect how much final bonus we may pay. These include:

- **The performance of the investments.** This is the biggest factor affecting how much you might get (See Section 10 - "What is your investment strategy for the with-profits fund?").
- **Taxation.** The investment returns on life assurance policies are subject to tax which reduces the amount available for bonuses.
- **The guarantees offered on your policy.** Final bonus is determined as your fair share of the with-profits fund on top of the sum assured plus annual bonus additions (See Section 8 - "How are final bonus rates set?"). It is possible that no final bonus will be payable.
- **The smoothing of investment returns.** We do not alter the rate of final bonuses for normal day-to-day fluctuations in investment markets (for example, share prices going up and down). However, we may alter the rate in

response to significant market movements such as investment value movements greater than 5% compared to when final bonus rates were previously set.

- **Early cash-in adjustments.** If you cash-in your policy early then you may receive less than the basic sum assured plus annual bonus additions. This is because these amounts are based on the assumption that you will pay all the premiums due and keep the policy for the full term.
- **Estate Distribution.** Any enhancements resulting from the gradual distribution of the estate (See Section 11 - "What is the estate and how do you manage it?").

8 How are final bonus rates set?

The final bonus rate for your policy will normally be the rate we determine for the group of policies with similar characteristics to yours taken out in the same calendar year as yours. If the number of policies taken out in a particular calendar year is low then we may also group calendar years together.

We use the “asset share” for a group of policies as the basis for that group’s final bonus or cash-in values.

- The asset share is a calculation of the policies’ accumulated income including investment return, less outgoings.

The outgoings could potentially include deductions for the cost of guarantees provided. However, currently we do not make these deductions because the cost of guarantees is currently met by the estate.

When we set final bonus rates we look at the relationship between asset shares and sum assured plus annual bonus additions.

- If the asset share for the group of policies is more than the sum assured plus annual bonus additions, then final bonus will be payable. The amount of final bonus will be set so that the maturity value equals the asset share.
- However, if the sum assured plus annual bonus additions are more than the asset share then no final bonus will be payable.

We usually review final bonus rates every month.

- We will change them if the asset shares for groups of policies are less than 95% of the maturity values or more than 105%.
- We don’t give advance notice when we change final bonus rates.
- The rate may be zero for certain classes and certain calendar years.

9 What if I cash-in my policy?

Similar to the calculation for final bonus rates, we use the asset share for the group of policies similar in age and type to yours as described in the section above. Again, if the number of policies taken out in a particular calendar year is low then we may also group calendar years together.

If the asset share for the group of policies is more than the sum assured plus annual bonus additions, then we increase the cash-in value. The amount of the increase will be set so that the cash-in value equals the asset share.

However, if you cash-in your policy early the amount you receive may be less than the sum assured plus annual bonus additions. This is because the sum assured plus annual bonus additions are based on

the assumption that you will pay all the premiums due and keep the policy for the full term.

If you are thinking of cashing-in your policy you should take advice from your financial adviser before making a decision. If you do not have a financial adviser, IFA Promotion Ltd will be able to give you information about some Independent Financial Advisers in your area. You can visit their website at www.unbiased.co.uk. If any factual information would be helpful please contact us at the address given in Section 1 - "What is this guide for?".

10 What is your investment strategy for the with-profits fund?

We invest the with-profits fund in a mixture of company shares (equities), fixed interest securities (for example loans to the Government or to large corporations) and cash deposits.

We choose fixed interest securities and cash deposits to provide the fund with sufficient money at the right time to match the sum assured plus annual bonus additions of the policies as they fall due.

- We use the same approach for other business within the fund, such as pensions in payment.
- This approach of matching known commitments with fixed interest securities and cash deposits aims to protect the fund from strains arising from interest rate movements.

However, the fund is not protected against significant levels of defaults on corporate bond holdings. By defaults we mean large corporations failing to repay their loans.

The benefits which are not guaranteed, such as final bonus, are backed by equity investments.

- The proportion of assets invested in equities is known as the equity backing ratio.
- The equity backing ratio for with-profits policies varies by policy type and also by duration within each policy type reflecting the investment strategy.
- For our traditional with-profits endowment and whole of life contracts, the current ratios are between 25% and 55%.
- These ratios vary from time to time.

- A table of the equity backing ratios is available on our website at www.guardianfs.co.uk and is updated every 3 months.

If we make any significant changes to the asset mix, we will write to you to let you know.

11 What is the estate and how do you manage it?

The estate is the excess of the fund's assets over its liabilities. By liabilities we mean an estimate of the amount needed to pay all the claims on policies as they become due.

The estate exists to cover the risk of any unforeseen decrease in the value of the fund's investments or increase in the amounts it needs to pay out to policyholders.

The estate is also used to meet:

- the cost of guarantees, e.g. the cost of pensions currently being paid or the cost of future pensions. The cost of guarantees also include meeting the excess when more than the asset share is paid out,
- the cost of smoothing of investment returns, and
- any policyholder compensation due in connection with the way we have marketed or sold the policies.

The cost of the above has been estimated and allowed for in determining the size of the estate. If the costs are greater, or other unforeseen costs emerge, then the estate will be smaller.

When we pay the shareholder their share of the profits arising in the fund some additional tax has to be paid, and this is met by the estate.

If there are no unforeseen circumstances then we intend over time to distribute the estate fairly to customers who have with-profits policies. The distribution of the estate is achieved through enhancements to asset shares which improves final bonuses and cash-in values.

The estate distribution made in 2010 was equivalent to an additional return of 2.5% on asset shares, which increased final bonus rates.

12 What are the ongoing risks to my investment in this fund?

We have set our annual bonus rate at one per cent (1%) and it will remain at this level in the future, except in very extreme or exceptional circumstances.

The level of final bonus payable will primarily depend on the investment return achieved on equity investments over the term of your contract. Hence if equity returns are “poor” then final bonus rates will be lower than they would otherwise have been.

The level of final bonus will also potentially be impacted by the level of defaults on our corporate bond holdings. If defaults are significantly greater than expected then final bonus rates will be lower than they would otherwise have been. By defaults we mean large corporations failing to repay their loans.

The level of final bonus will also depend on future distributions from the estate. The factors influencing the size of the estate, and hence the level of distributions from the estate, are described above in Section 11 – “What is the estate and how do you manage it?”.

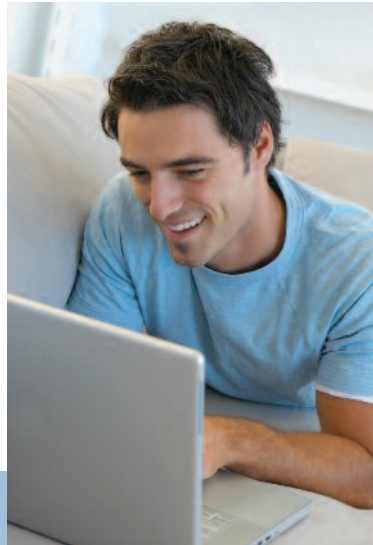
13 What discretion does the company have?

The directors of Guardian Assurance plc have discretion over the key aspects of the operation of all with-profits policies, in particular the investment policy, bonuses and early surrender adjustments. However, the Principles and Practices of Financial Management of With-Profits Business (PPFM) tell you how the directors expect to exercise this discretion. If we make any changes to the PPFM, we'll let you know.

14 Other relevant issues

There are a number of additional issues that are relevant to the operation of our with-profits fund:

- The fund pays the shareholder an agreed annual fee based on the number of policies in-force and the value of investments. The shareholder administers the policies and manages the investments in return for the fee.
- Guardian no longer sells new with-profits policies but is legally obliged to accept additional payments from current policyholders and options on certain life and pension policies.



Glossary of Terms

Annual bonus:

Also known as regular bonus or reversionary bonus. When an annual bonus is added to your policy, it's guaranteed to be paid in full provided you pay all the premiums due and keep the policy for the full term.

Asset share:

This is a calculation we use when setting final bonus rates and cash-in values for with-profits policies. It is done for each policy and is the accumulated income, including premiums, investment returns and distributions from the estate, less outgoings, including expenses, taxation and the cost of life cover and other benefits.

Estate:


The estate is the amount by which the fund's investments are more than the amount we believe it will need to pay out to all the policies as they become due. It exists to cover the risk of any unforeseen decrease in the value of the fund's investments or increase in the amounts it needs to pay out to policyholders.

Final bonus:

Also known as terminal bonus. We may pay a final bonus when the life assured dies or when the policy reaches its end date. Final bonus is not guaranteed and it is possible that no final bonus will be payable.

Shareholder:

AEGON nv, a large multinational insurance group based in The Netherlands.



Guardian Assurance plc, Guardian Linked Life Assurance Ltd and Guardian Pensions Management Ltd;
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