
REPORT TO WITH-PROFITS POLICYHOLDERS OF COUNTRYWIDE ASSURED PLC

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT - REPORT ON COMPLIANCE FOR 2009

Introduction

The with-profits business of Countrywide Assured plc (Countrywide) is wholly reassured to Guardian Assurance plc (Guardian). Guardian's ultimate parent is Aegon nv, a large multinational insurance group based in the Netherlands.

Under the terms of the reinsurance agreement, Guardian assumes the responsibility for making decisions regarding bonus rates, fund investment policy and surrender values (including Market Level Adjustments for unitised with-profits business such as Privilege II). Countrywide retains the direct responsibility for setting certain charges under unitised with-profits business and the ultimate responsibility for ensuring the provision of appropriate benefits under all of its reassured policies.

Countrywide has published its Principles and Practices of Financial Management (PPFM) recognising the split of responsibilities set out above. In particular, it has adopted the Guardian PPFM, which makes specific reference to treating reinsurance business accepted from Countrywide in a similar way to its own direct business. The PPFM is available from <http://www.countrywideassured.co.uk/ppfm/GdnPPFMDec2009.pdf>

Alternatively, a copy can be obtained from Customer Services, Countrywide Assured plc, Harbour House, Portway, Preston, PR2 2PR.

Each year, Countrywide must report to policyholders on compliance with its PPFM. This report covers governance arrangements; the direct exercise of discretion by Countrywide; justification for Countrywide accepting the exercise of discretion by Guardian without adjustment; and includes a statement from the With-Profits Actuary.

For more detail on the exercise of discretion by Guardian, reference should be made to that company's equivalent report to its own policyholders and the accompanying report

by Guardian's With-Profits Actuary. When reading these documents, Countrywide products are linked to equivalent Guardian products in the following way:

Countrywide Assured Policy Type	Guardian Equivalent Policy
Asset	Life Assurance
Asset Budget	Endowment
Asset Budget 4	Endowment
Treasury	Endowment
Privilege	Versatile Individual Pension Plan
Privilege II	Choices Unitised With Profit

This report and the Guardian reports cover the period from 1 January 2009 to 31 December 2009 inclusive.

Governance Arrangements

The Board of Countrywide Assured plc has overall responsibility for the company's affairs. It has nominated one of its members, Peter Wright, as having responsibility for overseeing the with-profits business of the company and for reporting to the Board accordingly. Mr Wright is a Fellow of the Institute of Actuaries, the chairman of the company's Risk Committee and a Non Executive Director of Chesnara plc, which is the company's parent.

The company is advised by its With-Profits Actuary, who is Charles Pickup. Mr Pickup is an associate of Towers Watson. He was appointed to the role with effect from 1 January 2008, following the retirement of the previous With-Profits Actuary.

In preparing this report, the Board has considered papers from both Mr Wright and Mr Pickup, which support the conclusions reached below.

Direct Exercise of Discretion by Countrywide

Countrywide retains discretion to set monthly administration and (in some relatively rare cases) insurance risk charges under its unitised with-profits policies. The PPFM states

that these charges should be equal to those applied to equivalent Countrywide unit linked funds, into which funds can be switched.

This equality has been maintained throughout 2009.

Exercise of Discretion by Guardian

In order to satisfy ourselves that Guardian had operated its with-profits fund in accordance with the terms of its own PPFM, at least as this impacts on Countrywide reassured business, we provided Guardian's With-Profits Actuary with a number of questions related to the exercise of discretion over 2009. We received satisfactory responses to these questions. In particular:

- No changes were made to the PPFM over 2009.
- It was confirmed that, over 2009, Countrywide reassured business was treated in the same way as Guardian's direct business when setting discretionary benefits.
- Annual and reversionary bonuses in 2009 were set consistent with Practices section 4.3 of the PPFM.
- There have been no changes to the methodology used to calculate asset shares over 2009. Asset shares in respect of business in force at the end of 1998 were enhanced over 2009 by 2% in respect of the distribution of the Guardian estate.
- Pay-outs on policies at both maturity and surrender conformed with the target ranges for these set out in Practices sections 4.4 and 4.5 of the PPFM. These target ranges were established with effect from 31 December 2005.
- The application of Market Level Adjustments over 2009 on unitised with-profits business conformed with the statements made in the PPFM regarding this product feature.
- Investment policy for the fund over 2009 conformed with the Practices described in the PPFM. This included relatively close matching of guarantees by suitably dated, high credit quality bonds.

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- Expenses charged to the with-profits fund in 2009 were in accordance with the agreements with Aegon UK Services and Aegon Asset Management and there were no changes to these agreements over that year.
 - Shareholders received a payment equal to 1/9th the cost of bonus added to policyholder benefits. Additional tax payable in respect of this payment was deducted from the estate rather than asset shares.
 - Overall tax deducted from the with-profits fund did not exceed the tax that would have been applicable to that fund as a stand alone entity.
 - There has been no need for Guardian to take any special management actions as a result of the sharp downturn in financial markets during the first half of 2009.

We therefore conclude that there was no need for Countrywide, when paying policy proceeds to its policyholders, to adjust the payments received under the reinsurance arrangement with Guardian. This conclusion is, in normal circumstances, to be expected.

Conclusion

In the opinion of the Board, Countrywide has complied with its PPFM over the period 1 January 2009 to 31 December 2009.

G L Kettleborough
Chief Executive
May 2010

Statement from the With-Profits Actuary to the with-profits policyholders of Countrywide Assured

The FSA's Handbook of Rules and Guidance requires that the with-profits actuary makes a written report to the with-profits policyholders to accompany the forgoing report from Countrywide. This report has been prepared so as to comply with the Board for Actuarial Standards' Technical Actuarial Standard R.

I have reviewed the arrangement of the Company's with-profits business for the period 1 January 2009 to 31 December 2009 inclusive. The Company's with-profits business is wholly reassured to Guardian Assurance plc (Guardian) with most discretion being exercised by Guardian. However, the Company retains the ability, which it has not exercised over 2009, to pay its policyholders benefits which differ from those available to it under the reinsurance agreement with Guardian. This ability to pay different benefits would be utilised only if required to treat customers fairly in accordance with the Financial Services Authority's Handbook.

In carrying out my review, I have relied on information supplied by both the Company and Guardian. I have not independently verified the information supplied by Guardian.

In my judgement, based on this information, the exercise of with-profits discretion over the period 1 January 2009 to 31 December 2009 has been reasonable and proportionate, striking a balance between the interests of shareholders of both Countrywide and Guardian and different groups of policyholders. I am not aware of any material events or changes which have occurred since the date I received the information on which this report is based. I prepared a report on the same matters with identical conclusions last year.

C D Pickup, FIA
With-Profits Actuary
May 2010