PHOENIX IRELAND

HOW WE WORK OUT UNIT PRICES

A guide for policyholders with unit-linked policies

This guide explains how we work out the prices of our unit-linked funds. The way we run the unit-linked funds may change from time-to-time, but we will normally write to you before we make any changes that have a significant effect on the funds in which you are invested, provided giving advance notice would not be unfair to any of our policyholders.

If you want to get in touch with us about your unit-linked policy, our contact details are available on www.phoenixireland.com.

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1 What does this guide cover?

The guide covers unit- linked policies that invest in one or more of the Unit-Linked Funds (the funds) of the Irish branch of Phoenix Life Limited (PLL), known as Phoenix Ireland. The Irish branch business of PLL represents the former Irish branch business of Scottish Provident, which was transferred into PLL under a scheme approved by the UK High Court in 2009. It doesn't apply to the following.

- Investments in unitised with-profits funds. These are covered in the separate guides we have for our with-profits policyholders, which you can find on www.phoenixireland.com.

- Policies with benefits linked directly to a unit trust or other type of collective investment scheme.

Phoenix Life Limited, trading as Phoenix Ireland, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom and is regulated by the Central Bank of Ireland for conduct of business rules. Phoenix Life Limited is incorporated in England (Company No. 1016269) and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG United Kingdom. An up-to-date list of its directors, containing the particulars required by paragraphs (a), (b) and (c) of Section 196(1) of the Companies Act 1963, is available upon request from the company's registered office.

- Policies with benefits linked to a market index.

The guide doesn't describe in detail how each unit-linked policy works. This is because we have many different types of policy, with many different elements. For example, if your policy includes life cover or other insurance benefits, we may sell or cancel units in your policy to pay for these benefits. Your policy document will have more information on how your policy works but, if you're not sure, please contact us.

The content of this guide does not form part of, or change, the terms of your policy.

2 What is a unit-linked policy and how does it work?

Some or all of the payments you make (the premiums) are used to buy units in one or more unit-linked funds.

A unit-linked fund is a group of assets, such as a collection of company shares, looked after by a fund manager, that you can invest your policy into. With a unit-linked fund, you can usually invest in a much wider range of assets than you could by yourself.

Each fund is divided into units, each representing an equal share of the fund. When you put money into your policy, you buy units from us. When you take money from your policy, you sell some of your units back to us.

You do not legally own the underlying assets or the units themselves; you own a contract (your policy) with a right to a benefit. The value of that benefit is determined by the number of units you have in each fund multiplied by the unit price for that fund. There may be an additional adjustment applied to this value when the units are sold, for example a charge for surrendering your policy early.

We try to ensure fairness towards all our policyholders when working out unit prices and managing our unit-linked funds. Units are normally only created or cancelled because of transactions that you and other policyholders carry out. We don't deal actively in the funds for our own benefit. However we may hold additional units in the funds if we identify additional responsibilities to you and our other policyholders that are linked to the value of the fund. We may also reduce the number of units in our funds if the regulatory rules allow us to, and where it would be financially more efficient for us to do so.

3 Where is my money invested?

Some policies allow you to choose one or more funds from a range of funds. The funds invest in assets and these will be different for each fund, depending on the objective of the fund. The assets may, for example, include company shares, fixed interest securities, property investments and cash. Funds may hold these types of asset directly, or it could be through investment in one or more collective investment schemes, such as unit trusts and Open-Ended Investment Companies (OEICs).

As part of our investment strategy, we may lend some assets of our unit-linked funds to selected financial institutions, with the objective of enhancing the returns to the fund. In certain circumstances, for example if the institution encountered financial difficulties and was unable to return the asset, the fund could suffer a loss. We use a number of controls, such as obtaining security from the borrower and monitoring their credit rating, to reduce the risks to the fund. Where we invest in collective investment schemes, the managers of those schemes may also lend assets and are responsible for their own controls.

Your yearly statement (where you receive one) will show the names of the fund or funds your policy currently invests in. Depending on the terms of your policy, you may be able to switch your investments between funds.

If you want more detail on how we invest your particular funds or how to switch, please contact us. Contact details are available on www.phoenixireland.com.

4 How do you work out the price of each unit?

The unit price is worked out by dividing the total value of investments in the fund by the number of units in the fund. For example, if there were 10,000 units held in a fund worth €20,000, then the price of each unit would be (€20,000 divided by 10,000) = €2 (or 200 cents) a unit.

This price is usually known as the 'bid price', and is normally how much you would get if you wanted to take money out of the fund. If it is part of your policy terms, your units may also have an 'offer price', which is higher than the bid price and is what you'd pay to buy new units in the fund.

The difference between the offer and bid price is a charge known as the 'bid-offer spread'. In some funds, there is no bid-offer spread and the bid and offer prices are the same.

For most of our funds, we work out unit prices every working day but for some, the price may change less often, for example once a week or month. Unit prices may be rounded up or down, for example to the nearest tenth of a cent. Your policy terms will say how we can round prices, and by how much.

Any tax, expenses or charges met by the funds will also affect the price of the units. The price of the units in each fund goes up or down as the investments change in value, so the value of your units in the fund is generally not guaranteed.

Our unit-linked cash funds are a special case. In some funds we have guaranteed in the terms and conditions that the bid price will never go down. In others we are operating them as though they do have such a guarantee, even if it does not say as much in the terms and conditions.

If a cash fund does not have a guarantee that the price will not fall (or is not being treated like it does), then the price will fall when interest rates are lower than the charges on the fund. Even where a guarantee is being applied, the fund prices will not move at all when the interest earned is less than our charge. In this case, although the interest rate isn't enough to pay the charges, we still guarantee that the price will not fall.

You may have heard about the possibility of so-called "negative interest rates". What this means is that banks and other deposit takers charge for holding money instead of paying interest. If this situation were to affect our cash fund investments, we reserve the right to limit the extent to which we apply the guarantee, but only for those unit-linked cash funds where it is not a clear requirement from the terms and conditions for us to apply it.

5 How do you work out the value of investments in a fund?

We regularly update the value of the investments in our funds. For most investments, we get an updated value every working day using prices quoted by the stock market. Some types of investments, such as property, are valued less often. Where quoted market prices don't exist, as is the case for property, we use a valuation from an appropriate independent expert such as a qualified surveyor.

If the value of an investment is not fully up-to- date when we calculate the unit prices, we may adjust its value in our calculations. This may involve adjusting the price using changes in market indices, changes in other market indicators or changes in foreign exchange rates, for example.

Where more money is being put into a fund than is being taken out, the value of the underlying investments normally reflects the market prices for buying investments. Where more money is being taken out of the fund than is being put in, the value of the underlying investments normally reflects the market prices for selling investments. In each case, the values allow for expected dealing costs, like stamp duty, where this is due. As we are not taking on any new customers, the amount of money being taken out now exceeds new investments in many of our funds.

We add to the fund any income we receive on the investments and we take any tax, charges and expenses due from it.

6 Which day's price will I get when I buy or sell units?

When you pay premiums, switch investments between funds or make a withdrawal from your policy, we will normally work out the number of units we add or withdraw by using the next available prices after receiving your instructions. This is called 'forward pricing' and helps to protect all policyholders' units in the fund. It means that no-one can take advantage of changes in the stock markets that aren't reflected in the most recent fund prices.

Some transactions will, however, be carried out based on prices already calculated and published. An example of this is the payment we make if you die which is normally based on the price at the date of death.

In some circumstances, we may calculate a special price for the transaction you make rather than using our normal published prices. We will only do this where we think that using our published prices would be unfair to other customers and where your policy terms allow it. An example of this could be where you make a large withdrawal that will have a material impact on the management of the fund.

Your policy document will set out which prices apply to the different types of policy transactions or contact us for more information. We will always tell you if we have calculated a special price, and why we have done this.

7 How do you allow for tax when working out unit prices?

Under Irish tax rules the investments for pension policies, or other types of policies sold on or after 1 January 2001, can grow free of direct taxation. So we do not take tax directly from the funds in which these policies are invested. But we do allow for any taxes that have been taken from the investments that we cannot claim back. Examples of these taxes are tax credits attached to dividends from UK shares, or withholding taxes on some overseas investments.

Even where we do not deduct tax from these funds themselves, you may have to pay tax on any profit when you cash in all or part of your policy, if you transfer your policy to someone else, or if you die.

For life insurance policies sold after 1 January 2001, if you have not cashed in your policy before the eighth anniversary of taking it out, tax will be payable on any profit made up to that point and tax will also be payable on each eighth year after that. When you do cash in your policy, you will be able to reduce the amount of tax you pay on any profits by the amounts of tax paid on these eight-year anniversaries.

Your policy document will include more information, or please contact us for more details.

For other funds, which are mainly those for non-pension policies sold before 1 January 2001, the growth of the investments is taxable and we generally treat each fund separately as though it were the entire business of the company. The company's tax bill will be different from what we charge to the funds because the company is taxed on the position of all the funds combined, and is also taxed on different types of business such as with-profits business.

For these other types of fund we allow for the tax we expect to pay when we work out the unit price. The starting point for the rate of tax we apply is the special corporation tax rate payable by life insurance companies - currently 20%. Insurance companies also pay a different rate of tax on profits they make for their shareholders, but this does not affect the tax rate we must use for our policyholders' investments.

There are two main types of tax that we have to allow for – tax on income and tax on capital gains. We have described the main ways we deduct tax below.

Tax on income

Income is taxed at the special corporation tax rate and includes interest on deposits, untaxed income from overseas shares, coupons on fixed interest assets and rental income from properties.

Tax on capital gains

We get a capital gain when we sell an investment (such as a company share) for more than we paid for it and a capital loss when we sell an investment for less than we paid for it.

We add up all the losses and gains we have made and, if there has been an overall gain, this is taxed at the special corporation tax rate. We also make an allowance in our pricing for expected future capital gains on investments we have not yet sold.

Where we have made losses on investments, whether we have sold them or not, we may give a tax credit to the fund. This depends on whether we can use those losses to offset against gains we have already made now or will do so in future. Being able to offset losses against gains like this reduces our tax bill, so it's fair we allow for a credit in our funds based on the timing of when we think we can do this.

Tax calculations can be complex and can involve judgements being made about the future, for example, when deciding how much to set aside for tax that may be due on an investment we hold but which we will not sell until some point in the future. Changes in tax allowances in pricing can also sometimes have a significant effect on prices.

For some unit funds we don't allow for tax on capital gains in the unit price and instead we make a specific charge whenever units are sold.

8 What are the charges?

The charges on your policy are to meet our costs and allow us to make a profit from carrying out unit-linked insurance business. The charges we may apply are explained in your policy document and will vary according to the type of policy you have. Not all charges apply to all policy types, but the main charges that may affect unit prices are shown below.

- A bid-offer spread on the price of units (see Question 4 'How do you work out the price of each unit?' above).

- A regular amount that we take from the fund, reducing the unit price. This is sometimes called the annual management charge. There may be different levels of management charge that apply to different types of units you hold, even in the same fund. For example, some policies have unit types bought with the premiums in the policy's first year or two that have a higher annual management charge than the units bought with later premiums. Your policy document will tell you more about these or contact us for more information.

- Charges for tax made in some life insurance funds.

- Rounding of unit prices, for example where we round up the price you pay to buy units to the next higher tenth of a cent.

When we work out unit prices, we also allow for expenses such as management charges made in underlying collective investment schemes (where we are able to claim these back they may be added back to the fund, depending on your policy), dealing costs and safe custody fees.

We will only increase charges if your policy terms allow, and we will only make increases if we think they are fair and necessary, for example to meet any increased costs.

We may introduce new fund charges in limited circumstances, for example if the Government introduces a new tax and where this can legally and fairly be passed on to our customers.

Our fund managers will incur costs and expenses when they buy or sell the assets of the fund. These may include broker fees, commissions and taxes. Our fund managers may have to buy and sell investments to meet income and outgo, or they may trade in order to ensure that the fund maintains its objective or to meet our performance targets. We review the levels of these costs where available to us.

9 Who looks after my interests?

The Board of Phoenix Life Limited is responsible for the overall management of the company's unit-linked funds. The Board delegates day-to-day responsibilities to internal management committees.

Responsibilities include:

- to regularly review the investment performance of the funds;

- to decide whether and when to combine funds, close them down, or create new ones;

- to make sure we work out prices in line with agreed methods, that these methods are fair and keep to any regulatory requirements or industry standards;

- to decide on changes to the way we work out prices, such as changes to tax rates we use and decide whether and how to allow for any possible new expenses, taxes or costs;

- to agree changes to when and how often we work out unit prices;

- to decide what action to take if we make a mistake in working out unit prices and make sure that we take that action; and

- to identify and decide what to do in emergency situations or exceptional circumstances, which may include suspending unit pricing and transactions for a time. This could happen if we had issues with our systems or if there are wider problems in the investment markets that make it difficult to determine a fair unit price, for example.

We have the authority to close any of our unit-linked funds in certain circumstances, such as where they become too small to manage as independent funds. If this were to happen, we would give you new units of equal value in a different fund. The replacement fund will be a fund from those available to you at the time. We would normally write to you if we were going to take this action.

10 What is the role of the shareholders?

Shareholders provide a pot of money on top of the unit funds and any other funds we have set aside to ensure that we can meet policy benefits. In exceptional circumstances, we would use this to provide policy benefits if there is not enough money in the unit-linked and other funds. In return for providing this support, our shareholders receive, in most cases, all of the profits we make from running the unit-linked business.

11 What happens if you make a mistake with the calculation of unit prices?

We make every effort to work out unit prices correctly and apply rigorous checks to help minimise any errors. If mistakes do happen, we aim to put them right as quickly as possible.

We aim to ensure that the way we deal with errors is in line with industry guidance provided by the Association of British Insurers (ABI).

Our first step in putting things right is to correct the fund so that its price is correct going forwards, and to make any changes to systems or procedures to help reduce the possibility of the error happening again.

We will then look at whether there has been any impact on the transactions our customers have carried out when the prices were incorrect.

For policies that are still in force, any remediation will generally be paid in the form of additional units. For policies no longer in force, remediation will normally be by cheque and the amount may be increased to allow for interest between the date of the error and the date of payment. We will not usually pay remediation to you where your loss as a result of an error is less than €1. We don’t aim to make any profits by not paying these small amounts and our regulator may require us to add them up and pay them to charity.

The minimum amounts we apply before paying or investigating remediation will be updated in line with industry guidance from time-to-time.

Where there has been an error in price of 0.5% or more and where customers have gained from this, we may seek recovery of overpayments, in line with policies agreed with the Board. This may involve a unit adjustment to a policy if it is still in force, or in cases where a claim has been overpaid we may ask you to pay back the excess amount.

12 Where can I find out more, including current unit prices?

Your policy document will show you how your policy works and what charges apply. Your yearly statement shows the fund or funds where your policy is currently invested.

You can find the prices for our funds in the ‘Funds & Investments’ section on www.phoenixireland.com.

If you want more information about your unit-linked policy and the funds it invests in, please get in touch with us. Our contact details are available on www.phoenixireland.com.

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