



How safe are your investments?

The power of **FRIENDS®**

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Friends keep you safe

You will be aware of media coverage over the last few months concerning the plight of financial institutions that have impacted financial markets around the world.

We appreciate that this is a very unsettling and confusing time for you. Therefore, we would like to reassure you that the Friends Provident Group is financially strong and this has been confirmed by independent credit rating agencies. Also, we have been established since 1832 and have experienced many varied and difficult market conditions.

During 2008, we carried out a full review of our operations, which gave us the opportunity to take a long hard look at every aspect of our business. As part of this review, the decision was taken to move to a more streamlined and more focused business, with International at the heart of this new strategy.

Importantly, the new Group is well capitalised and self-financing, with no need for external capital. In current market conditions, this is further reason to have confidence in the Friends Provident Group.



FRIENDS PROVIDENT
INTERNATIONAL



Q What would happen to Friends Provident International Limited (FPIL) policies if the Friends Provident Group (FP) became insolvent or stopped trading?

A FPIL is a wholly owned subsidiary of the Friends Provident Group. This means that if the UK company were to run into trouble, there would be no legal means by which it could call on the assets reserved for FPIL policyholders. The likely scenario in this case would be that FPIL would be sold to raise capital for the Group. However, this would not affect FPIL clients' policies, or their underlying investments.

Q Can you make any comment about FPIL's solvency?

A Where the risk lies in relation to FPIL clients' assets is in the unlikely event of FPIL becoming insolvent. We view the protection given to our policyholders in three layers:

1. **Order of payment** — Schedule 3 of the Isle of Man Insurance Act 1986 provides that the assets of the company in its long-term business fund "shall only be available for meeting liabilities of the company attributable to long term business". So, the position is that policyholder funds are ring-fenced and any creditors only have access to policyholders' funds after liabilities to policyholders have been met in full.
2. **FPIL's solvency** — We must meet strict regulatory and solvency requirements in a number of jurisdictions, including the Isle of Man, Hong Kong, Singapore and UAE. The statutory solvency requirements in these jurisdictions are comparable with those applicable in the UK. We are required to submit annual solvency reports, and are subjected to annual audits by independent auditors. Currently we comfortably exceed the minimum solvency margins required by the regulators in each jurisdiction.
3. As a last resort, there is a **statutory compensation scheme** in the Isle of Man — The Life Assurance (Compensation of Policyholders) Regulations 1991.

Q To what extent are FPIL policies protected by the Isle of Man - The Life Assurance (Compensation of Policyholders) Regulations 1991 ("the Scheme")?

A Should it ever be called upon, the Scheme ensures that in the unlikely event of failure a levy would be made against all other Isle of Man-resident life assurance companies so that up to 90% of our liabilities to eligible policyholders would be met (without any upper monetary limit).

Q Who are eligible policyholders under the Scheme?

A Policyholders who took out an FPIL policy on or after 5 April 1988. It does not matter where they were resident at the time they took out the policy, or where they are now resident, in order to be eligible under the Scheme.

Q What happens if a policy holds investments which fall in value or fail? Is a policyholder entitled to claim under the Scheme for the investment loss suffered?

A No — the investments the client chooses to make within their policy are their responsibility. The Scheme is in place to protect policyholders in the event of a life assurance company not being able to meet their liabilities to their policyholders. It does not offer any protection against the investment performance or failure of the underlying assets to which the policy is linked.

Q Where can I find out more about the Scheme?

A The rules of the Scheme are contained within the Isle of Man Financial Supervision Act 1988, Life Assurance (Compensation of Policyholders) Regulations 1991. The full legislation is available from FPIL's regulator — the Isle of Man Government Insurance & Pensions Authority (IPA). The website details are: www.gov.im/ipa and details can be found under "Policyholder Protection".

Q Who holds custody of the investments linked to FPIL policies and how secure are these custody arrangements?

A Policyholder investments are mainly held with third party custodians (for example Citibank and Euroclear) on a nominee basis, in a trust account, in FPIL's name. Therefore, if these custody providers were to become insolvent, the assets are protected, as they are ring-fenced from these companies' own balance sheet.

Q Is there a compensation scheme for bank and building society deposits held by portfolio bond policyholders?

A As accounts held through portfolio bonds are legally and beneficially owned by FPIL, it is important to recognise that if we were to make a claim under the Isle of Man Depositors Compensation Scheme (as amended on 23 October 2008) against an institution which had failed, we would only be able to make one combined claim on behalf of all of our policyholders holding investments with that institution. Therefore, any maximum compensation pay out under this Scheme would need to be apportioned between all of the contracts invested, on a pro rata basis.

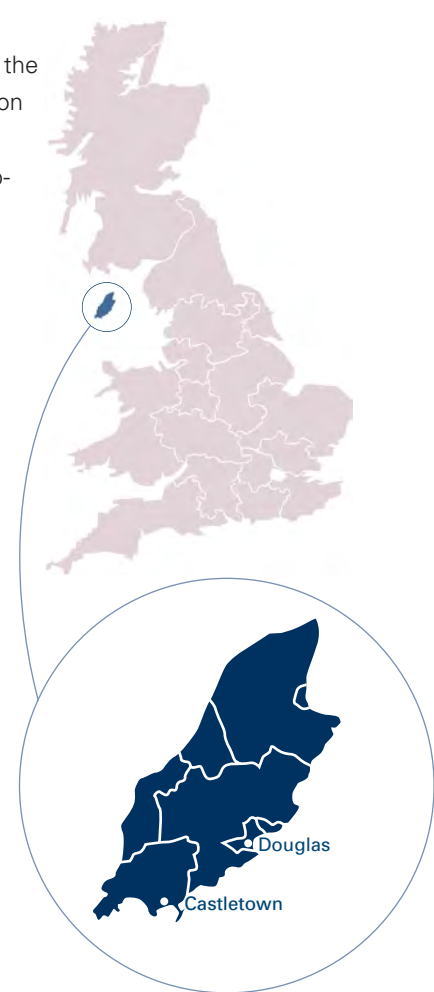
For example, if we held £20 million of policyholders' money with Bank X in the Isle of Man, on behalf of ten different contracts, the maximum compensation payment of £20,000 would be split across the ten contracts. FPIL would therefore be eligible for £20,000 compensation in total, which would be pro-rated across the ten contracts, resulting in £2,000 in compensation per contract.

Q How could the present banking crisis affect my General Transactions Account?

A The General Transactions Account forms part of the investment portfolio within your fund, so any default by the institutions used to back this Account could result in a reduction in the value of your bond.

However, as a matter of good practice, FPIL manages the risk on its cash holdings (including those that back the General Transaction Account) by spreading the cash around a number of fixed deposits and money market funds with various institutions. Apart from our day-to-day working capital, no more than approximately 15% of our cash holdings is with any one institution at any time.

Please bear in mind that the General Transactions Account is not intended to be used for long-term holding of large balances but should only be used for the temporary holding of cash in between investment transactions.



The uncertainty in the market has led to increased activity within our administration areas and you may notice a slight delay in our normal service.

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Member of the Singapore Financial Dispute Resolution Scheme

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