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

Guardian Assurance Ltd or
Countrywide Assured

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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 Ltd
Ballam Road
Lytham St Annes
Lancashire
FY8 4JZ

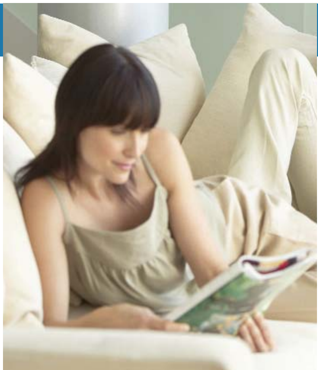
Telephone 08459 48 90 00

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

- Traditional with-profits pension policies
- With-profits life assurances
- With-profits group pension contracts

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 With-Profits Committee 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 Ltd can trace its history back to 1821 when the Guardian Fire and Life Company was formed. It is now owned by Cinven, a leading European buyout firm founded in 1977.

Premiums paid by with-profits 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, Cinven. 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?

Please note, the purpose of this document is to explain how we determine the value of your unitised with-profits units, rather than describe the options available to you with your policy. If your policy is a pension policy the proceeds must be used for the purpose of securing pension benefits at retirement.

A unitised with-profits policy pays out:

- A minimum guaranteed with-profits unit value. This is the value of the with-profits units attaching to the policy. The unitised with-profits unit price will never decrease.
- A share in the profits and losses of the with-profits fund by means of bonuses.

The unitised with-profits fund has two types of units – 'Long-Term' units and 'Short-Term' units. The type of units attaching to your policy will depend on the term of your policy. Long-Term units and Short-Term units have different unit prices and bonus rates. Most policies have Long-Term units.

Please note that your policy may also have units invested in other funds such as the Managed fund, but these units do not have a minimum guaranteed value.

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 each day by increasing the with-profits unit price.
- It increases the minimum guaranteed unit value of your policy.

Terminal bonus

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

Terminal bonus on early cash-in or transfer

- We may also pay some terminal bonus if you cash-in your policy early. You may know this as 'surrendering' your policy.
- Please note it is not possible to surrender a pension policy, but it is possible to transfer your benefits to another provider.
- If you cash-in your policy, the amount you will get is not guaranteed. In normal circumstances, the amount you receive will not however be less than the current value of the with-profits units attaching to the policy.

Final bonus

We also may pay another type of terminal bonus called final bonus for policies that were investing regular premiums into the with-profits fund when it was closed to new business in 1998.

6 How are annual bonuses set?

We have set our annual bonus rates at 1.50% for Pension Policies Long-Term units (1.25% for Short-Term units) and 1.25% for Life Policies Long-Term units (1.00% for Short-Term units) and they will remain at these levels in the future, except in very extreme or exceptional circumstances. Our investment strategy is consistent with our intention to maintain the annual bonus rates at these levels.

If future investment returns were significantly better than expected, we would increase terminal bonus rates rather than the annual bonus rates.

We send you a yearly unit statement to confirm the current with-profits unit value of your policy.

7 What affects terminal bonus?

Various factors affect how much terminal 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.** Terminal bonus is determined as your fair share of the with-profits fund on top of the guaranteed unit value (See Section 8 - "How do you calculate terminal bonuses?"). It is possible that no terminal bonus will be payable.
- **The smoothing of investment returns.** We do not alter the rates of terminal bonuses for normal day-to-day fluctuations in investment markets (for example, share prices going up and down). However, we may alter the rates in response to significant market movements such as investment value movements greater than 5% compared to when terminal bonus rates were previously set.
- **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 terminal bonus rates set?

Terminal bonus rates are set for the with-profits units purchased in each past year. For example, for a policy taken out in 1995 different terminal bonus rates will apply to the units purchased in 1995, 1996, and all years up to the year of claim. The terminal bonus rates for your policy will normally be the rates we determine for the group of policies with units purchased in the same calendar years as yours.

We use the "asset share" for a group of policies as the basis for that group's terminal bonus, cash-in, or transfer 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 they are met by the estate.

When we set terminal bonus rates we look at the relationship between asset shares and the guaranteed unit value.

- If the asset share for the group of policies is more than the guaranteed unit value, then terminal bonus will be payable. The amount of terminal bonus will be set so that the maturity value broadly equals the asset share.
- However, if the guaranteed unit value is more than the asset share then no terminal bonus will be payable.

We usually review terminal 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 terminal bonus rates.
- The rate may be zero for certain calendar years.

9 What if I cash-in or transfer my policy?

Similar to the calculation for terminal 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.

If the asset share for the group of policies is more than the guaranteed unit value, then we increase the cash-in or transfer value. The amount of the increase will be set so that the value equals the asset share. In exceptional circumstances, for example a significant rise in interest rates or a significant fall in stock markets, the total amount you receive may be less than the current value of the with-profits units attaching to the policy.

If you are thinking of cashing-in or transferring 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?"

Please note it is not possible to cash-in a pension policy, but it is possible to transfer your benefits to another provider.

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 guaranteed benefits 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 terminal 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 unitised with-profits life assurances, the current ratios are between 25% and 65%. For our unitised with-profits pensions, the current ratios are between 40% and 75%.

- These ratios vary from time to time.
- A table of the equity backing ratio 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 includes 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 shareholders 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 terminal bonuses and cash-in or transfer 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 rates at 1.50% for pension policies (1.25% for short-term units) and 1.25% for life policies (1.00% for short-term units) and they will remain at these levels in the future, except in very extreme or exceptional circumstances.

The level of terminal 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 terminal bonus rates will be lower than they would otherwise have been.

The level of terminal bonus will also potentially be impacted by levels of defaults on our corporate bond holdings. If defaults are significantly greater than expected then terminal 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 terminal 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 Ltd 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. The shareholder administers the policies in return for the fee.
- The fund also pays the investment manager Kames Capital an agreed annual fee based on the value of investments. The investment manager 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 by way of an increase in unit price, 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 terminal bonus rates and cash-in or transfer 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 annual management charges and taxation.

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.

Terminal bonus:
We may pay a terminal bonus when the policyholder dies or when the policy reaches its end date. Terminal bonus is not guaranteed and it is possible that no terminal bonus will be payable.

Shareholder:
Cinven, a European buyout firm founded in 1977, with offices in London, Paris, Frankfurt, Milan and Hong Kong.

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