This guide is for the following with-profits group pension policies with Guardian Assurance plc:

Deposit Administration

Pension Saver

Group Funding & Flexible Premium Plan

CONTENTS

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:-

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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 life assurances.

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'. It is available on our website at www.guardianfs.co.uk or from us at the address above.

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 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, 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 bonus rates 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 the policy pay out?

Group pension policies are assets of employer sponsored pension schemes. The benefits paid to individual members of a pension scheme therefore depend on the rules of that particular scheme rather than the amounts paid out by the group pension policies described in this booklet. An exception to this is where a Pension Saver policy has been issued to an individual member as a Section 32a policy after the scheme has been wound-up.

Pension Saver and Deposit Administration are group contracts where premiums less administration costs accumulate at basic interest rates plus bonus interest rates to provide amounts to meet scheme benefits.

Group Funding is a group deferred annuity contract secured by single premiums. Deferred annuity benefits are secured progressively for scheme members. Flexible Premium Plan is the same but secured by annual premiums. The benefits are increased each year by an annual bonus and a final bonus is paid at retirement. An alternative guaranteed minimum cash option is also available at the normal retirement date of each member.

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 fixed interest securities (for example loans to the Government or to large corporations). We earn interest on the fixed interest securities.

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 will be added?

For Pension Saver and Deposit Administration we add your share of the profits through the following types of bonus:

Annual basic interest & bonus interest:

- We add these at 31 December each year.
- It is an additional guarantee on top of your basic scheme account.
- For schemes once we add it to your policy, we guarantee to pay it for normal withdrawals to pay scheme benefits. It is not however guaranteed in the event of a scheme discontinuing the entire contract. For a Section 32a policy we guarantee to pay it at normal retirement age.
- The only difference between basic interest and bonus interest (apart from the rates) is that the shareholder receives a 10% share of the bonus interest but does not receive a share of the basic interest.
- For Pension Saver a single bonus interest rate is declared. For Deposit Administration a different bonus interest rate is declared for each past year of deposit.

For Group Funding & Flexible Premium Plan we add your share of the profits through 2 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 the basic annuity benefit.

Final bonus

- We may pay a final bonus when a member dies or reaches normal retirement.
- Final bonus is not guaranteed.

Final bonus on early transfer

- We may also pay an element of final bonus if you transfer the scheme contract.
- However, if you do this, the amount you will get is not guaranteed. The total amount you receive may be less than the guaranteed benefits, including annual bonus additions.

6 How are annual and final bonuses set?

For Deposit Administration a different annual bonus interest rate is set for each past year of deposit. For each past year of deposit the annual bonus interest rate is set so that, together with the basic interest rate, the total is broadly equal to the yield on 15-year UK Gilts in that year.

For Pension Saver a single bonus interest rate is declared which, together with the basic interest rate, is broadly equal to the average yield on the underlying fixed interest investments backing the Pension Saver contract.

For Group Funding & Flexible Premium Plan the annual bonus rate is 2.6% and the final bonus rate is 10%. Our investment strategy is consistent with our intention to maintain the annual and final bonus rates at these levels. If future investment conditions change we will alter the Group Funding & Flexible Premium Plan premium rates for new business rather than altering the bonus rates.

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

7 How are transfer values set?

Please note it is not possible for an individual to cash-in their policy as the proceeds have to be used to secure pension benefits. It may be possible for the proceeds to be transferred to another pension provider.

We use the "asset share" for a group of policies as the basis for that group's transfer values.

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

The outgoings could potentially include deductions for the cost of guarantees provided. However, currently we do not make these deductions because they are already deducted from the estate.

If the asset share for the group of policies is more than the guaranteed benefits or scheme account, including annual bonus additions, then we increase the transfer value. The amount of the increase will be set so that the transfer value equals the asset share.

However, if you transfer your policy the amount you receive may be less than the guaranteed benefits or scheme account. This could happen if fixed interest yields have risen since money was paid into the contract.

If you are thinking of transferring your policy you should seek further 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?”.

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

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 least risk returns 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.

For group pension contracts such as yours we do not invest in company shares (equities).

If we make any significant changes to the investment strategy we will write to you to let you know.

9 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 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.

We intend over time to distribute the estate, however, group pension contracts such as yours will not share in this distribution. This is because these contracts have not contributed to the build-up of the estate over time.

10 What are the ongoing risks to our investment in this fund?

For Deposit Administration and Pension Saver future bonus rates and transfer values will depend on the yields available from fixed interest investments. The bonus rates and transfer values are not affected by equity returns.

For Group Funding & Flexible Premium Plan the annual and final bonus rates are matched by fixed interest investments and are not affected by market movements in capital values or changes in interest rates. Transfer values and future premium rates for new money will however be influenced by fixed interest yields.

11 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 services 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, bonus interest or reversionary bonus. When an annual bonus is added to your policy, it's guaranteed to be paid in full except in the event of a transfer.

Asset share:
This is a calculation we use when setting transfer values for with-profits group pension policies. It is done for each policy and is the accumulated income, including premiums and investment returns, less outgoings, including expenses.

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.

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

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