

FRIENDS PROVIDENT LIFE AND PENSIONS LTD

Unit Linked Pricing: Principles and Practices *(June 2010)*

This document was reviewed in June 2010 and updated to incorporate some minor changes and improvements. It supersedes the version dated December 2007. There have been no changes to the Principles since the original 2007 version.

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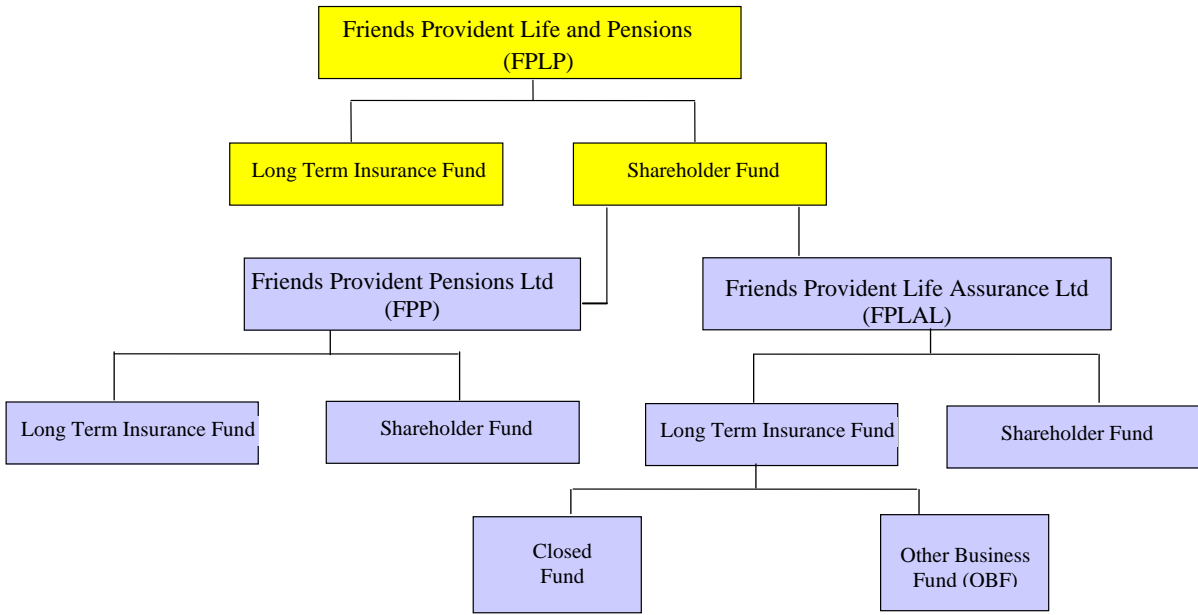
1	<p>Introduction</p> <p>This section describes why we have prepared this document and the types of plan it covers.</p> <p>Words or phrases in bold are defined in the Appendix.</p>
1.1	<p><i>What is the purpose of this document?</i></p> <p>This document is addressed to our unit linked policyholders and will be most suitable to those policyholders who already have some background knowledge about unit linked plans and the funds in which they can be invested. It will also be of interest to financial advisers.</p> <p>The main purpose of this document is to describe the principles (Section 2) and practices (Section 5 to 11) that we apply in pricing our funds and how we determine unit prices. Other sections give relevant background information. In particular, we are able to apply discretion in managing our funds and Section 9 sets out how this discretion is exercised.</p>
1.2	<p><i>Does this document cover all I need to know about my unit linked plan?</i></p> <p>This document does not cover all aspects of how we manage your unit linked plan. If you need further information, you should consult the plan documentation which has been provided to you, or your financial adviser. Alternatively you can call us on 0845 602 9199, quoting your policy number. If you need advice on whether to take out or maintain a unit linked plan, you should contact your financial adviser.</p> <p>If there is a conflict between the information in this document and your plan documentation, the plan documentation will prevail.</p> <p>You may also contact us on 0845 602 9199 if you are not sure whether this document covers your Friends Provident policy.</p>
1.3	<p><i>What is a fund?</i></p> <p>When you purchase a unit linked life or pensions plan, there is a range of funds in which you can invest. For example, you may be able to invest in a fund in which all the assets are equities, or a fund in which all the assets are property. Your payments are pooled with those of others investing in the same fund.</p> <p>In exchange for each payment you make, we allocate you units in the funds in which you have chosen to invest. The amount we will pay you under your plan is equal to the value of these units, allowing where appropriate for any penalties that apply when the value of the policy is converted into cash, although the underlying assets remain the property of the relevant Friends Provident company. Legislation may require that part of the value of the policy is converted into a regular income.</p> <p>Each fund is identified by a separate pool of assets, made up of</p> <ul style="list-style-type: none"> • assets invested according to the aims of the fund, and • cash deposits, which are increased by interest, income from the invested assets and proceeds from selling assets, and reduced by buying assets, or by deductions such as taxation and expenses. <p>Each fund is increased by contributions and reduced by payments to cover withdrawals, such as maturities, surrenders and claims.</p>

	<p>We offer a wide range of funds, each providing policyholders with a different level of risk and a different mix of investments. Funds invested in cash typically have the lowest level of risk. Funds in which all the investments are in company shares tend to be significantly more risky. Some funds have a mix of different types of investment in order to spread the risk for the policyholder, for example a mix of shares, property and cash.</p>
1.4	<p><i>What companies and plans does this document cover?</i></p> <p>This document covers unit linked life and pensions plans originally sold by:</p> <ul style="list-style-type: none"> • Friends Provident Life and Pensions Limited • Friends Provident Life Assurance Limited • Friends Provident Pensions Limited • Friends Provident Life Office • Friends Provident Corporate Pensions Limited • London & Manchester Assurance Company Limited • London & Manchester Pensions Limited • United Kingdom Temperance and General Provident Institution • NM Life Assurance Limited • NM Schroder Life Assurance Limited • The National Mutual Life Association of Australasia Limited • The Lincoln Life Assurance Company Limited • Dominion-Lincoln Assurance Limited • Schroder Life Assurance Limited • Schroder Assurance Limited • Schroder Equity Assurance Limited • Schroder Pensions Limited • Welfare Insurance Limited <p>It does not cover unit linked plans sold by:</p> <ul style="list-style-type: none"> • F&C Managed Pension Funds Limited • Friends Provident Managed Pension Funds Limited • London & Manchester Managed Pension Funds Limited • Friends Provident International Limited • Lloyds Life (IOM) Ltd • Royal Life International Ltd • Royal and SunAlliance International Financial Services Ltd • Lombard International Assurance SA <p>Also, it does not cover:</p> <ul style="list-style-type: none"> • investments in unitised with profits funds, the corresponding details for which are available in our Principles and Practices of Financial Management for With Profits Business. These are on our website at http://www.fp.com/withprofits • the Secure Growth Fund • the Personal Managed Portfolio (the SIPP option on the Group Personal Pension Plan) • the Corporate Investment Platform

2	<p>Principles and Practices</p> <p>This section describes the principles and an overview of the practices which we apply in pricing our funds.</p>
2.1	<p><i>What are principles?</i></p> <p>Principles are statements that reflect the general approach we adopt in managing unit linked business. They are not expected to change often.</p> <p>Our principles are that we will manage our funds:</p> <ul style="list-style-type: none"> • so as to treat customers fairly • in a sound and prudent manner with due regard to the interests of policyholders • in accordance with all contractual terms set out in your plan documentation • in accordance with all legal and regulatory requirements
2.2	<p><i>What are practices?</i></p> <p>Practices are statements of specific methods we employ in managing unit linked business. They reflect the current approaches given the particular circumstances and economic conditions affecting unit linked business.</p> <p>Practices are likely to be revised in response to changes in the regulatory, business or economic environment and as new methods and techniques are developed in the life and pensions industry.</p> <p>The practices we use in order to put the principles into effect are described in Sections 5 to 11 of this document.</p>
2.3	<p><i>If you change these principles and practices, how will you let me know?</i></p> <p>If we make a significant change to our principles or practices we will update our website accordingly and will notify you appropriately, probably in your next annual statement.</p> <p>Any changes will be in accordance with the terms and conditions of your plan.</p>

3	<p>Structure of the Friends Provident Group</p> <p>Friends Provident Holdings (UK) Ltd (FPH), a holding company with several insurance subsidiaries, is a wholly owned subsidiary of Resolution Limited, a publicly listed company quoted on the London Stock Exchange.</p> <p>FPH acquired Friends Provident Group plc on 5 November 2009.</p> <p>Friends Provident Life and Pensions Limited (FPLP) is a wholly owned subsidiary of Friends Provident Group plc.</p>
3.1	<p><i>What is the structure of Friends Provident Life and Pensions Limited (FPLP)?</i></p> <p>FPLP consists of a Long Term Insurance Fund and a Shareholder Fund. FPLP has two main insurance subsidiaries, both owned by the Shareholder Fund, namely Friends Provident Life Assurance Limited (FPLAL) and Friends Provident Pensions Limited (FPP).</p> <p>FPLAL has a Shareholder Fund and two subfunds within the Long Term Insurance Fund; the Closed Fund and the Other Business Fund (OBF). New life business written in the UK and also Overseas Life Assurance Business, is currently written by FPLAL in the OBF.</p> <p>FPP has a Shareholder Fund and a Long Term Insurance Fund. New pensions business is currently written in the FPP Long Term Insurance Fund.</p>
3.2	<p><i>Who manages the funds?</i></p> <p>F&C Management Limited, whose parent company is F&C Asset Management plc, manages a significant proportion of our unit linked assets invested in a range of funds. F&C Asset Management is quoted on the London Stock Exchange and is independent of both FPH and Resolution Limited.</p> <p>The assets held within each fund are determined by the investment managers within the constraints of investment mandates provided by FPLP or its subsidiaries.</p> <p>Other funds invest predominantly in just one underlying asset, typically a unit trust or OEIC managed by an external investment manager other than F&C. Such funds may hold cash balances or monies awaiting investment.</p>

Company Structure (Summary)



4	<p>Governance</p> <p>This section describes the governance arrangements within Friends Provident Holdings (UK) Ltd as they affect FPLP's funds.</p>
4.1	<p><i>Who is responsible for the operation of Friends Provident's funds?</i></p> <p>The Boards of FPLP and its subsidiaries FPP and FPLAL are responsible for the operation of their funds.</p> <p>The Boards delegate the responsibility for overseeing the calculation of unit prices to the Actuarial Function Holder.</p> <p>The Actuarial Function Holder arranges for the formal documentation of the principles, practices and delegated authorities governing the exercise of discretion over unit pricing and monitors the exercise of this discretion.</p> <p>On a day to day basis, prices are calculated by the unit pricing team, which reports to the Investment Operations Manager, an internal appointee within the Finance Division.</p> <p>The pricing process is subject to regular audit by FPLP's own internal audit team, by its internal Compliance team and also, from time to time, by external auditors.</p>

5	<p>Unit creation and unit cancellation</p> <p>This section describes how we change the number of units within a particular fund.</p>
5.1	<p><i>Can the number of units within a particular fund be changed?</i></p> <p>Yes.</p> <p>We may need to create further units as more payments are received from policyholders, or to accommodate switches in from other funds. This is known as unit creation.</p> <p>The additional payments we receive will be invested according to the appropriate investment mandate of the fund. For example, in an equity fund we will use the additional monies to purchase new equity stocks on behalf of the fund. Correspondingly for funds invested in external unit trusts or OEICs, we will use the additional monies to purchase additional units in the external unit trust or OEIC. In the short term we may hold some of the monies in cash if it is necessary to await a suitable investment opportunity.</p> <p>Alternatively we may need to cancel units, for example to pay maturities, death claims, transfers to other investment managers, surrenders, our administration charges, our charges to cover the cost of death or other risk benefits, or to accommodate switches to other funds. This is known as unit cancellation.</p> <p>To meet the cost of payments out of a fund, we may need to sell assets although it may be possible to cover some or all of the payments required using cash balances held in the fund.</p> <p>On any particular day there are likely to be both payments into a fund (including switches in from other funds) and payments out of a fund (including switches out to other funds). This means that on some days the net effect is that we will be creating new units and that on some days we will be cancelling existing units.</p>

6	<p>Valuation of assets</p> <p>This section describes how we value the assets of a fund for the purpose of setting unit prices.</p>
6.1	<p><i>How do you value the assets of a fund?</i></p> <p>We generally value a fund's assets as follows:</p> <ul style="list-style-type: none"> • <i>freehold or leasehold property</i> Direct property holdings are valued monthly (and sometimes more frequently as required) on a freehold or leasehold basis by a firm of independent valuers. The basis of valuation is in accordance with valuation standards set by the Royal Institution of Chartered Surveyors. • <i>unit trusts and OEICs</i> We use the latest available price, generally quoted daily by the trust or scheme manager. Unit trusts and OEICs managed by F&C Management Limited are valued by F&C at midday, and the value adjusted by an appropriate factor to reflect market movements up to the close of business that day. <p>Where we have an agreement in place with a fund manager that we can either buy or sell units in an underlying unit trust at the bid price, we will use the bid price to value the units.</p> <ul style="list-style-type: none"> • <i>other quoted securities</i> We use the latest available daily price quoted at the close of business on the appropriate stock exchange. • <i>securities for which there is no readily available market value, such as unlisted securities</i> We generally value these monthly. • <i>cash:</i> We value this daily at its face value, or realisable value. <p>Where there are different prices for buying and selling a particular asset, we generally use the buying price if the fund being valued is expanding, the selling price if the fund is contracting, and a mid market price if the fund is steady state. (Section 7.4 sets out how we decide whether a particular fund is expanding, contracting or steady state.)</p> <p>If the asset is single priced, we use the single dealing price. However, if an external manager applies a dilution levy to its assets, we may incorporate that levy within the valuation of our fund.</p> <p>Where not included within the price, appropriate allowance is made for income due, such as the next dividend payment on a company share or for accrued interest on a fixed interest security or bond.</p> <p>Other assets are valued using whatever factors we consider appropriate which are fair to policyholders and in line with the principles and practices set out in this document.</p> <p>We may change the basis for valuing assets in exceptional market conditions.</p>

7	<p>Calculation of unit prices</p> <p>This section describes how we calculate the price of a unit.</p> <p>Our aim is to calculate prices for investors both buying and selling units which fairly reflect the value of the underlying assets and the charges and expenses we incur (including taxation) and which avoid subsidising some policyholders at the expense of others.</p>
7.1	<p><i>What do you need to take into account when pricing units?</i></p> <p>We need to take the following into account:</p> <ul style="list-style-type: none"> • the value of the assets held in the fund (Section 6) • the various different prices we need to provide in respect of a particular fund each business day (Section 7.2) • whether we are creating or cancelling units within the fund (Sections 7.3, 7.4 and 7.5) • the costs of buying or selling the underlying assets of each fund (Section 7.4) • an allowance, where necessary, for any tax that may need to be paid in future (Section 10)
7.2	<p><i>For a particular fund do you need to provide more than one price each business day?</i></p> <p>We may need to do so for some funds.</p> <ul style="list-style-type: none"> • We may need to calculate different prices for different plans and schemes which can invest in a particular fund. For example, some funds have a different series of prices for plans sold in the past (such as those sold by companies which have been taken over by Friends Provident) or plans and schemes with a different scale of regular charges. • For some plans we calculate a single price each business day which is both the price at which policyholders can purchase a unit from Friends Provident and also the price at which policyholders can sell a unit back to Friends Provident. These are known as single priced plans. • However, for some plans we need to calculate both an offer price and a bid price. The offer price is the price at which policyholders can purchase units from Friends Provident, for example after making a payment into a fund. The bid price is the price at which policyholders sell units to Friends Provident, for example when withdrawing monies from a fund. • For some plans, units purchased in the early years termed “Capital units” or “Initial units”, are subject to a higher charge for all or part of the time the plan is in existence. We may need to reflect this by calculating a different series of prices for these types of unit.
7.3	<p><i>In Section 5 you said that you may either need to create units (unit creation) or to cancel units (unit cancellation). If you need to create or cancel units, will this affect the value of my plan?</i></p> <p>The intention is that any payments in or out of a fund bear a fair share of the costs we incur in buying or selling assets on behalf of the fund. So if we create new units or cancel existing units the value of the remaining units within the fund will not generally be affected.</p> <p>However the creation or cancellation of units may require us to alter the pricing basis</p>

	<p>between expanding, steady state and contracting bases and this may affect the value of your plan (see Section 7.5).</p>
7.4	<p><i>How do you decide whether a particular fund is expanding, contracting or steady state?</i></p> <p>We use our discretion to determine whether to price a particular fund on an expanding, contracting or steady state basis. In exercising this discretion, we take account of the pattern of cashflows including those leading to unit creation and unit cancellation over a recent period of time.</p> <p>Generally this will be over a period of months. However, if there are significant inflows or outflows from a particular fund, we may take account of the pattern of unit creation and unit cancellation over a much shorter period, for example daily.</p> <ul style="list-style-type: none"> • If we have been creating units for most of this period, we generally price the fund on an expanding fund basis. This means that we base its value on the amount we would have to pay to acquire the assets, allowing for any taxes, duties, expenses and other charges that would be payable. This is because for an expanding fund we have payments to invest and therefore have to allow for the cost of buying assets. • If we have been cancelling units for most of this period, we price the fund on a contracting basis. This means that we base its value on the amount we would obtain by selling the assets, reduced by any taxes, duties, expenses and other charges that would be payable. This is because for a contracting fund we have to pay out claims and we therefore have to allow for the cost of selling assets. • If we decide that the fund is neither generally expanding nor generally contracting, we price it on a steady state basis. This means that we base its value on mid market prices with no allowance for the cost of buying or selling any assets. This is because for a steady state fund we anticipate that from day to day it is equally likely that we will need to buy assets or to sell assets. <p>Where a fund has an overall net pattern of unit cancellations over a period of time, but the investment income from the assets of the fund continues to be sufficient to fund any outflows from the fund without the need to sell assets, then we will take this into account in determining whether the fund should be priced on a steady state or contracting basis.</p> <p>Notwithstanding the above, we generally price new funds, ie those which have been available to policyholders for only a few months, on an expanding fund basis.</p>
7.5	<p><i>How do you calculate the price of a unit?</i></p> <p><i>Note: where we quote both an offer price and a bid price for a particular fund, this section covers the calculation of the bid price of a unit. For single priced funds, this section covers the calculation of the single price.</i></p> <p>If a fund is priced on an expanding basis, we work out the price by</p> <ul style="list-style-type: none"> • taking the value of the assets as the amount we would have to pay to acquire the assets, allowing for any taxes, duties, expenses and other charges that would be payable • taking certain deductions (see below) • dividing the result by the total number of units in the fund • rounding the result to the nearer multiple of 0.1p (or to 6 decimal places in the case of NGP plans)

	<p>If a fund is priced on a contracting basis, we work out the price by</p> <ul style="list-style-type: none"> • taking the value of the assets as the amount we would obtain by selling the assets, reduced by any taxes, duties, expenses and other charges that would be payable • taking certain deductions (see below) • dividing the result by the total number of units in the fund • rounding the result to the nearer multiple of 0.1p (or to 6 decimal places in the case of NGP plans) <p>If a fund is priced on a steady state basis, we work out the price by</p> <ul style="list-style-type: none"> • taking the value of the assets on mid market prices • taking certain deductions (see below) • dividing the result by the total number of units in the fund • rounding the result to the nearer multiple of 0.1p (or to 6 decimal places in the case of NGP plans) <p>The deductions mentioned above cover the amounts set aside to pay any anticipated future taxes, fees or levies. See Section 10 “Taxation” for further details.</p> <p>We will retain any gains or suffer any losses due to rounding unit prices up or down.</p> <p>Some funds have more than one series of units, each with its own price. Typically this would enable us to reflect different levels of charge within each series.</p>
7.6	<p><i>If the pricing basis of a fund switches from an expanding basis to a steady state basis, will this affect unit prices? If so, how?</i></p> <p>Prices on an expanding basis will be higher than those on a steady state basis. Prices on a steady state basis will be higher than those on a contracting basis.</p> <p>For example, if the pricing basis of a fund switches from an expanding basis to a steady state basis, unit prices will fall, ignoring other considerations such as market movements.</p>
7.7	<p><i>For funds which have both an offer price and a bid price, how do you calculate the offer price of a unit?</i></p> <p>We work out the offer price by dividing the bid price by 0.95 (0.94 in the case of overseas life funds) and rounding the result to the nearer multiple of 0.1p.</p>
7.8	<p><i>How big is the difference between the offer price and the bid price?</i></p> <p>The difference between the offer price and the bid price is never greater than 5% (6% in the case of overseas life funds) together with a rounding adjustment in the unit price of no more than 0.1p (or to 6 decimal places in the case of NGP plans).</p>
7.9	<p><i>If I make a payment to my plan, what price will you use to determine the number of units I receive?</i></p> <p>If the particular plan has both an offer price and a bid price, we will use the offer price for the day specified in your plan documentation.</p> <p>For single priced plans, we will use the single price for the day specified in your plan documentation.</p>

7.10	<p><i>If my plan matures, or if I decide to surrender all or part of my plan what price will you use to determine how much I will receive?</i></p> <p>If the particular plan has both an offer price and a bid price, we will use the bid price for the day specified in your plan documentation.</p> <p>For single priced plans, we will use the single price for the day specified in your plan documentation.</p>
7.11	<p><i>If I switch all or part of my investment from one unit linked fund to another what prices will you use?</i></p> <p>If the particular plan has both an offer price and a bid price, we will use the bid prices on both funds on the day specified in your plan documentation.</p> <p>For single priced plans, we will use the single prices on the day specified in your plan documentation.</p>
7.12	<p><i>If I switch all or part of my investment from one fund to another, will I incur any buying or selling charges?</i></p> <p>We may apply a charge for switching. You should refer to your plan documentation for full details.</p> <p>Apart from any switch charges that may apply, the value of your investments immediately before and after the switch will be the same.</p>
7.13	<p><i>How can I find the price used to value my units?</i></p> <p>Most prices are available from our customer website, http://customer.friendsprovident.co.uk/fund_centre or from published sources such as Bloomberg and Reuters.</p> <p>If the price you need is not available or you need a valuation of your plan, please contact us on 0845 602 9199.</p>
7.14	<p><i>How frequently do you update the prices of a fund?</i></p> <p>We generally update prices each business day. However, we reserve the right not to price units on any particular business day, for example:</p> <ul style="list-style-type: none"> • on the business days immediately before or after the Christmas or New Year period • in the event of an emergency situation, for example if up to date asset values are unavailable following a major loss of power, a loss of communications, a systems issue, unusual weather conditions, or a combination of these

8	<p>Charges and expenses</p> <p>This section describes how our charges and expenses affect the pricing of funds.</p> <p>It does not cover those charges and expenses, such as policy charges, that are specific to particular plans.</p> <p>If you need details of the charges and expenses that apply to your particular plan, please refer to your plan documentation, or contact us on 0845 602 9199.</p>
8.1	<p><i>What costs and expenses do you incur in operating a fund?</i></p>
8.1.1	<p><i>There are various costs and expenses which are deducted from a fund before the price is calculated, for example:</i></p> <ul style="list-style-type: none"> • all dealing costs and expenses we have to pay to buy or sell any asset • the costs and expenses we have to pay to maintain or value any asset • levies, including those payable to the Financial Services Authority • custodian and auditor fees • tax payments on income and realised or unrealised gains
8.1.2	<p><i>We also make an allowance for anticipated future payments, for example in respect of tax</i></p> <p>If we need to make an allowance for a future payment, for example in respect of tax, we use our discretion (see Section 9) to set aside a notional reserve within the fund. However, earnings on this reserve still accrue to the fund.</p> <p>The method of allowing for taxation, including the calculation of the reserves needed to cover anticipated future tax liabilities, is explained further in Section 10.</p>
8.1.3	<p><i>Other costs and expenses</i></p> <p>We take account of other costs and expenses by levying charges on your plan, as set out in Section 8.2. These charges support the cost of setting up and administering the plan, paying claims, investing contributions and pricing units.</p>
8.2	<p><i>How do you allow for the costs and expenses which you incur in operating a fund?</i></p>
8.2.1	<p><i>Costs and expenses which are deducted from a fund before the price is calculated</i></p> <p>See 8.1.1.</p>
8.2.2	<p><i>Annual Management Charges (AMC)</i></p> <p>For most funds, we deduct an AMC directly from the fund on a daily basis. The daily charge is the opening net asset value multiplied by the percentage AMC and divided by 365 (366 in a leap year).</p> <p>However, for NGP pension funds and some life funds, the unit price does not take into account the AMC. The value of the AMC is deducted from a policyholder's unit holding on a monthly basis by cancelling units.</p> <p>If there is a statutory cap on the total charges that can be levied, for example for stakeholder plans, any costs and expenses that take the overall charges over the level of the cap are rebated to the fund.</p>

8.2.3	<p><i>Difference between the offer price and the bid price</i></p> <p>Some funds have different prices for the buying and selling of units. The difference between the two prices is effectively a charge, taken when the units are purchased. This is never greater than 5%, (6% in the case of Overseas Life Assurance Business), subject to rounding to the nearest multiple of 0.1p.</p>
8.2.4	<p><i>Higher charges on Capital or Initial units</i></p> <p>For some plans, units purchased in the early years of the plan, termed “Capital units” or “Initial units”, are subject to a higher charge for all or part of the time the plan is in existence. Your plan documentation will provide details for your plan.</p>
8.2.5	<p><i>Investment in other internal funds / Internal transactions</i></p> <p>Some funds invest in other internal funds in order to give investors exposure to different types of assets and reduce the expenses associated with holding those assets directly. For example, a managed fund may invest in a mix of other funds, such as an equity fund, a property fund, a fixed interest fund etc.</p> <p>As a consequence, one fund may buy or sell units in another fund. Such transactions are carried out at the bid price (or the single price in the case of single priced plans) and before annual management charges. This is so that policyholders are not double charged and are therefore treated fairly.</p>
8.3	<p><i>What charges are levied on funds wholly or partly invested in unit trusts or OEICs?</i></p> <p>Charges levied by the manager of a unit trust or OEIC will be taken account of within the price of the relevant asset with any charges levied by Friends Provident being in addition. The fund will be reimbursed with rebates, if any, provided by the manager of the unit trust or OEIC.</p>
8.4	<p><i>How do these charges affect my plan?</i></p> <p>Charges reduce the investment return on your units and therefore the value of your plan.</p>
8.5	<p><i>Can you change these charges?</i></p> <p>Your plan documentation may give us discretion to alter our charges. Further details on the way we exercise discretion are set out in Section 9.</p>

9	<p>Exercise of discretion</p> <p>This section sets out the areas in which we can apply discretion in managing and pricing our funds, and how we exercise this discretion. Any exercise of discretion will be in accordance with the terms of your plan documentation.</p> <p>The Actuarial Function Holder arranges for the formal documentation of the delegated authorities governing the exercise of discretion over unit pricing, monitors the exercise of this discretion and carries out an annual review of the way that discretion is exercised.</p>
9.1	<p><i>How do you use discretion in the operation of your funds?</i></p>
9.1.1	<p><i>Charges and expenses</i></p> <p>The plan documentation, which has been provided to you, may give us discretion to change the annual management charge or the charge applicable to Capital or Initial units.</p> <p>When deciding whether to change any discretionary charges, we apply our discretion in accordance with the principles set out in Section 2. In particular we endeavour to treat customers fairly and consider the interests of all policyholders. For example, we may increase our charges if:</p> <ul style="list-style-type: none"> • there are increases in our costs, for example as a result of tighter regulation of the insurance industry • there are increases in the charges levied by a fund manager. <p>We will write to you to advise you if we do make such a change.</p>
9.1.2	<p><i>Taxation</i></p> <p>In Section 10 we describe the method we use to allow for taxation, including the calculation of the reserves needed to cover anticipated future tax liabilities.</p> <p>We apply our discretion so that the reserves we set aside to cover a future tax liability are a best estimate of that anticipated future liability.</p>
9.1.3	<p><i>Moving funds between expanding / contracting / steady state bases</i></p> <p>In Section 7.4 we describe what we mean by pricing a fund on an expanding, steady state or contracting basis.</p> <p>We apply our discretion by altering the pricing basis between expanding, steady state or contracting bases so that policyholders buying or selling units bear a fair share of the costs we incur in buying or selling the underlying assets of the fund.</p>
9.1.4	<p><i>Asset valuation</i></p> <p>In Section 6 we describe the basis for valuing a fund's assets.</p> <p>We apply our discretion in valuing assets so as to treat customers fairly and consider the interests of all policyholders. For example:</p> <ul style="list-style-type: none"> • where a current valuation is not readily available, we may update an earlier value in accordance with an appropriate index. • if the asset does not have a quoted market value, we may need to take advice from an expert in the relevant area.
9.1.5	<p><i>Pricing point</i></p> <p>Currently we price units using asset values determined at midnight. We may exercise our discretion to change the pricing point if we decide that this is appropriate. Assets held in currencies other than sterling are valued using an appropriate exchange rate.</p>

9.1.6	<p><i>Rounding</i></p> <p>We exercise our discretion by rounding prices to the nearer multiple of 0.1p (other than NGP plans, which are rounded to 6 decimal places).</p> <p>This is neutral in that there is an equal chance of rounding prices up as of rounding them down, which is fair to all policyholders and to shareholders over time.</p>
9.1.7	<p><i>Deferring transactions</i></p> <p>In very rare circumstances we may exercise our discretion by delaying carrying out your request for a payment, such as a transfer value or surrender value, or your request to switch units into another fund. The purpose of a deferral is to be fair to all policyholders, ie those wishing to buy units, those wishing to sell units and those who have not requested to buy or sell units.</p> <p>We may defer transactions if, for example, there has been a significant fall in the market value of a fund's assets, if properties need to be sold, if there are difficulties in realising assets invested overseas or to match any suspension of transactions imposed by the underlying fund manager. This is because in such circumstances, there may be difficulties in placing an accurate value on the assets of the fund, or we may be unable to sell the underlying assets.</p> <p>We may also defer transactions if policyholders wish to switch their investments between funds so frequently that the interests of other policyholders invested in the same funds are being affected.</p> <p>When the transaction is processed we will value your units using the unit price which applies immediately after the end of the period of delay.</p>
9.1.8	<p><i>Closing / merging funds</i></p> <p>Occasionally we may exercise our discretion by closing a fund to new payments, closing it completely or merging it with another fund.</p> <p>To be fair to policyholders we will normally give three months' advance notice of any such change. There may be exceptional circumstances when we cannot give you this much notice, for example:</p> <ul style="list-style-type: none"> • when we consider it is in the best interests of our policyholders to move out of a fund in less than three months • if we receive less than three months notice that an external manager is closing its own fund <p>Some examples of the reasons why we may decide to close a fund are:</p> <ul style="list-style-type: none"> • the amount invested in the fund has become too small for us to invest it efficiently on behalf of our policyholders • an external fund manager closes its own fund in which our fund is invested • an external fund manager increases its charges to what we consider an unreasonable level • we judge that the external fund in which the assets are invested is no longer an appropriate investment, for example because the external fund manager or the objectives of the external fund have changed <p>If we withdraw a fund or close a fund completely, we will ask you to tell us to which funds you would like us to switch the value of your units. If you do not notify us, we will switch the value of those units to another similar fund. The value of the units immediately after they are switched will be the same as the value immediately before the switch.</p>

9.1.9	<p><i>New funds</i></p> <p>We may exercise our discretion by opening new funds at any time. Providing you are eligible to invest in the new fund, you may be able to redirect new payments or to switch existing units to that fund.</p> <p>We may invest Friends Provident’s shareholder’s monies into a new fund in order to create a pool of money that can be invested in order to determine a unit price. The units credited to Friends Provident will be cancelled as policyholders purchase units by investing in the fund and the value of these cancelled units returned to Friends Provident.</p>
9.1.10	<p><i>Switching between different funds</i></p> <p>Your plan may allow you to switch your investment from one Friends Provident fund to another. We may have discretion</p> <ul style="list-style-type: none"> • to charge you when you switch funds • to determine which day’s prices will be used to determine the number of units you are entitled to following the switch <p>If you need further information, you should consult your plan documentation in the first instance.</p>
9.1.11	<p><i>Determining income distribution rates</i></p> <p>Some funds distribute income to policyholders on a regular basis. The amount distributed is based on the fund’s income since the previous distribution, although we may exercise our discretion to smooth the distribution of income from one period to another.</p>
9.1.12	<p><i>Exceptional circumstances, such as times of crisis or disaster</i></p> <p>In exceptional circumstances we reserve the right to suspend trading, to suspend unit pricing or diverge from a fund’s stated investment strategy. We will use such powers to the minimum extent necessary.</p>
9.1.13	<p><i>Error correction (See Section 11)</i></p> <p>We may exercise our discretion in determining</p> <ul style="list-style-type: none"> • whether errors are deemed to be systemic (Section 11.4) • the methods used in correcting the errors themselves
9.2	<p><i>What impact will the exercise of discretion have on my investment?</i></p> <p>There may be an impact on the return you achieve from your plan, for example if we increase charges. However, the intention is that the exercise of discretion is fair to all policyholders and also to the group’s shareholders.</p>
9.3	<p><i>How will you tell me when you make changes to the way you exercise your discretion?</i></p> <p>If we make a significant change to our principles or practices we will update our website accordingly and will notify you appropriately, probably in your next annual statement.</p>

10	<p>Taxation</p> <p>This section describes the method we use to allow for taxation in our unit pricing, including the calculation of the reserves needed to cover anticipated future tax liabilities.</p>
10.1	<p><i>What principles do you adopt when allowing for taxation?</i></p> <p>The overall aim is to ensure that all tax allocations are fair between policyholders and the group’s shareholders, between different funds and between different groups of policyholders. Our approach is to charge tax to each fund that approximates as closely as possible to the tax that the fund might bear as a standalone taxable entity.</p> <p>We seek to pass on to a fund the actual tax charge as it occurs on these funds. In circumstances where the actual charge is not known, we will estimate the charge to the fund.</p> <p>We do not give any immediate credit to policyholders for losses that could be carried back and offset against gains that were brought into the company’s actual tax computations in earlier years. This reduces the complications of allowing for tax in pricing and hence the risk of pricing errors. Such losses will be carried forward and offset against future tax liabilities.</p> <p>The scope and nature of the taxation of unit linked funds may be subject to change over time. We will account for any future changes in any tax calculations from the effective date of such changes.</p>
10.2	<p><i>What are unit linked funds taxed on?</i></p> <p>For funds linked to pension business, life assurance ISA business and overseas life assurance business (except for overseas life assurance funds holding UK property), there is no charge to UK tax.</p> <p>Tax is charged on investment income and on realised capital gains for all linked life funds. A provision is also made for the future liability for tax on unrealised capital gains due on the eventual disposal of assets within unit linked life funds.</p>
10.3	<p><i>What comprises investment income?</i></p> <p>Investment income includes:</p> <ul style="list-style-type: none"> • dividends from shares • rental income from property • coupons / interest from fixed interest assets • income earned by the fund from stock lending • rebates of management charges from underlying unit trusts and OEICs • distributions from underlying unit trusts and OEICs • profits <i>and losses</i> on fixed interest securities • interest income from cash deposits • profits <i>and losses</i> from unit trusts and OEICs that hold over 60% of their assets in fixed interest securities <p>Note: losses referred to above count as negative income</p>
10.4	<p><i>What is the basis of taxation on investment income?</i></p> <p>Tax is charged on investment income at a special corporation tax rate.</p> <p>Dividends from UK and overseas equities and the dividend element of UK distributions from unit trusts and OEICs are not subject to further tax.</p>

10.5	<p><i>What is a realised capital gain?</i></p> <p>A realised capital gain occurs when an asset is sold (or deemed to be sold) at a price higher than it was purchased for, subject to any indexation relief available.</p>
10.6	<p><i>What is a realised capital loss?</i></p> <p>A realised capital loss occurs when an asset is sold (or deemed to be sold) at a price lower than it was purchased for.</p>
10.7	<p><i>What is an unrealised capital gain?</i></p> <p>An unrealised capital gain occurs when an asset is valued (but not sold) at a price higher than it was purchased for, subject to any indexation relief available.</p>
10.8	<p><i>What is an unrealised capital loss?</i></p> <p>An unrealised capital loss occurs when an asset is valued (but not sold) at a price lower than it was purchased for.</p>
10.9	<p><i>Can you offset realised capital losses?</i></p> <p>Yes. Any realised capital losses that cannot be immediately offset against realised capital gains are carried forward and can be offset against future gains, or deemed disposals, carried forward.</p> <p>We allow such realised capital losses to be offset against deemed gains that have been brought forward from previous years and have yet to fall into the company's actual tax computation. We also allow realised capital losses to be offset in the calculation of the tax provision on unrealised gains.</p> <p>We do not give credit for realised capital losses in excess of the total of deemed gains carried forward and unrealised capital gains.</p> <p>We do not give relief for unrealised capital losses in excess of realised capital gains falling into the current tax computation and deemed gains carried forward.</p> <p>Where realised or unrealised capital losses are carried forward and not given immediate relief we hold a reserve to ensure that we do not make a profit from not giving value for those losses at fund level when we have taken credit for them at company level.</p>
10.10	<p><i>What is the basis of taxation on unit trusts and OEICs?</i></p> <p>Gains and losses on most unit trusts and OEICs are taxed under the deemed disposal rules. (Unit trusts and OEICs that hold over 60% of their assets in fixed interest securities are currently taxed under the loan relationship scheme regime.)</p> <p>Under the deemed disposal regime:</p> <ul style="list-style-type: none"> • at the end of each year, Friends Provident is deemed to have disposed of and immediately repurchased the holdings at market price and a notional gain or loss is calculated • A gain, but not a loss, will be adjusted by any appropriate indexation allowance • This gain or loss is divided by 7 • This value is charged to tax in the current tax year and each of the next 6 tax years <p>There will also be an unrealised gain or loss position in respect of future tax years. We estimate the expected charge to capital gains for the current year by adding 1/7th of the</p>

	currently unrealised gains or losses to 1/7th of the deemed disposals gain or loss from each of the previous 6 years. Any 1/7ths carried forward to future tax years are included in unrealised capital gains.
10.11	<p><i>What is the rate of tax on capital gains?</i></p> <p>Net realised gains and unit trust and OEIC deemed disposal gains which fall into the company's actual tax computation are charged to tax at a special corporation tax rate.</p> <p>The provision made in a fund against the tax liability on eventual disposal of assets with unrealised gains accrued to date and any deemed disposal gains which will fall into the company's tax computations in future years is calculated using the special corporation tax rate. This reserve is set aside within the fund, with earnings on the reserve accruing to the fund.</p>
10.12	<p><i>How does taxation affect my investment?</i></p> <p>Typically the impact of taxation is to reduce the return available from your plan.</p>

11	<p>Error identification and error correction</p> <p>This section describes how we identify and correct errors.</p>
11.1	<p><i>How do you identify whether you have made any pricing errors?</i></p> <p>We set over a thousand unit prices each day. This is a complex task requiring daily data gathering, validation and processing. Within the pricing process we have a number of regular checks designed to eliminate errors as far as possible. So in the normal course of events, we do not expect pricing errors to occur.</p> <p>However, on very rare occasions we do identify after the event that prices have been calculated incorrectly. For example, this may come to light when we calculate a price for a later date or it may come to light following one of our regular checks.</p>
11.2	<p><i>What happens if you do make an error in calculating a unit price?</i></p> <p>First, we ensure that the error is not perpetuated in any unit prices calculated in future.</p> <p>Next, we decide if the error which has affected unit prices that have been quoted in the past is material. A material error is one where the unit price is affected by more than 0.5% and the impact on an individual policy is more than £10.</p>
11.3	<p><i>What happens if an error is material and affects my unit holding?</i></p> <p>If an error is material and affects your unit holding, we will put you back as closely as we can to the position you would have been in had the error not occurred. This applies whether you are still invested in the fund, or whether you have left the fund.</p> <p>If, as a result of an error, we have paid you too much, then in most circumstances the group's shareholders will bear the additional costs.</p>
11.4	<p><i>What happens if the error is not material?</i></p> <p>If the error has affected unit prices by between 0.1% and 0.5%, we will investigate it for possible wider implications. We would not normally change the historical prices or any individual unit holdings unless the error is deemed systemic, in which case we would treat it in the same way as described in Section 11.3.</p> <p>If the error has affected unit prices by less than 0.1%, we will investigate it for possible wider implications. We would not change the historical prices or the individual unit holdings which have been affected.</p>

12	Complaints This section describes what you should do if you have a complaint.
12.1	<i>What do I do if I have a complaint?</i> You may write to us at Friends Provident, PO Box 1550, Milford, Salisbury, SP1 2TW, <i>or</i> you may email us on customer.services@friendsprovident.co.uk . <i>or</i> you may call us on 0845 602 9199. Further details are available on our website at http://www88.friendsprovident.com/support

Appendix

	<p>Glossary</p> <p>This section defines the words or phrases in the text in bold.</p>
Bid price	The price at which a policyholder can sell a unit to Friends Provident
Board	A company's governing body
Capital (or Initial) units	For some plans, units purchased in the early years of the plan, termed "Capital units" or "Initial units", are subject to additional charges for all or part of the time the plan is in existence.
Contracting funds	When considering the pricing of funds we look at the pattern of unit creation and unit cancellation over a recent period. If we have been cancelling units for most of this period, we generally price the fund on a contracting basis. This means that we base its value on the amount we would obtain by selling the assets, reduced by any taxes, duties, expenses and other charges that would be payable.
Dilution levy	An extra charge levied by fund managers on investors buying or selling units in a fund designed to offset any potential effect on the value of the fund of such purchases or sales.
Expanding funds	When considering the pricing of funds we look at the pattern of unit creation and unit cancellation over a recent period. If we have been creating units for most of this period, we price the fund on an expanding basis. This means that we base its value on the amount we would have to pay to acquire the assets, allowing for any taxes, duties, expenses and other charges that would be payable.
Fund	<p>Each fund is identified by a separate pool of assets, made up of</p> <ul style="list-style-type: none"> • assets invested according to the aims of the fund, and • cash deposits, which are increased by interest, income from the invested assets and proceeds from selling assets, and reduced by buying assets, or by deductions such as taxation and expenses. <p>Each fund is increased by contributions and reduced by payments to cover withdrawals, such as maturities, surrenders and claims.</p> <p>When you purchase a unit linked life or pensions plan, there is a range of funds in which you can invest. For example, you may be able to invest in a fund in which all the assets are equities, or a fund in which all the assets are property. Your payments are pooled with those of others investing in the same fund.</p> <p>In exchange for each payment you make, we allocate you units in the funds in which you have chosen to invest. The amount we will pay you under your plan is equal to the value of these units, allowing where appropriate for any penalties that apply when the value of the policy is converted into cash, although the underlying assets remain the property of the relevant Friends Provident company. Legislation may require that part of the value of the policy is converted into a regular income.</p>

Initial units	See Capital units
NGP	New Generation Pension plans, which include the Personal Range and Stakeholder, first introduced by Friends Provident in 1999.
OEIC (Open Ended Investment Company)	OEICs issue shares to raise money to invest in other companies in order to give investors the opportunity to spread investment risk. OEICs are open ended, meaning that the manager can create or cancel shares in the OEIC according to demand.
Offer price	The price at which a policyholder can purchase a unit from Friends Provident
Practices	<p>Practices are statements of the specific methods we employ in managing unit linked business.</p> <p>They reflect the current approaches given the particular circumstances and economic conditions affecting unit linked business. Practices are likely to be revised in response to changes in the regulatory, business or economic environment and as new methods and techniques are developed in the life and pensions industry. The practices we use in order to put the principles into effect are described in Sections 5 to 11 of this document.</p>
Principles	<p>Principles are statements that reflect the general approach we adopt in managing unit linked business. They are not expected to change often.</p> <p>Our principles are that we will manage our funds:</p> <ul style="list-style-type: none"> • so as to treat customers fairly • in a sound and prudent manner with due regard to the interests of policyholders • in accordance with all contractual terms set out in your plan documentation • in accordance with all legal and regulatory requirements
Rounding	We round prices to the nearer multiple of 0.1p (or to 6 decimal places in the case of NGP plans). This is intended to be neutral to both policyholders and the group's shareholders, and should not result in a systematic charge either way.
Single priced funds	Funds for which the price at which policyholders can purchase a unit from Friends Provident on any day is the same as the price at which policyholders can sell a unit to Friends Provident
Steady state funds	When pricing funds we look at the pattern of unit creation and unit cancellation over a recent period. If we decide that the fund is neither expanding nor contracting, we price the fund on a steady state basis. This means that we base its value on mid market values with no allowance for the costs of buying or selling the underlying assets.
Unit cancellation	If payments out of the fund exceed new receipts on a particular day, then we need to reduce the number of units in the fund. This is known as unit cancellation.
Unit creation	If new receipts exceed payments out of the fund on a particular day, then we need to increase the number of units in the fund. This is known as unit creation.

Unit trust

An investment in which investors pool their money in a single fund to spread the investment risk. Unit trusts are open ended, meaning that the manager can create or cancel units in the trust according to demand.