

A GUIDE TO HOW WE MANAGE OUR WITH PROFITS BUSINESS

AXA Sun Life plc
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Aims of this guide

This guide tells you how we manage AXA Sun Life plc's With Profits Funds. It is a summary of the key points in our 'Principles and Practices of Financial Management' (PPFM) document. The Principles are statements of the overall standards we adopt; the Practices describe our current approach to managing the With Profits Funds.

The PPFM itself is available from our website, www.axa.co.uk, or we can send you a copy if you ask us to – please see the contact details at the end of this booklet. The terms of the PPFM apply in the case of any differences between it and this document.

Why this guide is important

Please read this guide. It gives important information about how our with profits policies work and what policyholders can expect from them.

If you are considering taking out a new policy, you may find it useful to refer to this guide while reviewing:

- the key features document, which gives essential information such as the level of risk involved; and
- your illustration, which shows what you might get back in the future.

If you already have a policy with us, please keep this guide in a safe place with your other policy documents. When reading this guide you may find it helpful to have your policy documents ready to refer to.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser; or
- call 0117 989 9000 giving your policy number.

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How does your policy work?

There are two main types of policy in the With Profits Funds:

- conventional with profits policies; and
- unitised with profits policies.

Your yearly statement or bonus notice will help you tell which type you have. If your statement shows units and unit prices, then you have a unitised policy. Otherwise, your policy is a conventional one.

If you are unsure about what type of policy you have, and need more information, please use the contact details given at the end of this booklet.

Conventional policies

If you have a conventional policy, we pay you a guaranteed amount on your policy's maturity date or on your death, which may be:

- a lump sum payment (called a 'sum assured'); or
- a series of payments (called an 'annuity' or 'pension').

We may add regular bonuses once a year to the guaranteed amount. On your policy's maturity date or on your death, we may also add a final bonus to the guaranteed amount.

Unitised policies

If you have a unitised policy, we use your premiums to buy units in the With Profits Funds. We add bonuses, if any, by either buying extra units or by increasing the price of the units, depending on the type of policy that you have.

For most unitised policies we add regular bonuses, if there are any, at least monthly by increasing the unit price. For the remaining unitised policies we add regular bonuses, if any, once a year by adding extra units. We may also include a final bonus when your policy ends, on top of any guaranteed amount we have agreed to pay you.

Guarantees

There may be guarantees under your policy. These apply if certain events happen or on specific dates stated in your policy document. For example, the event may be your policy's maturity date as agreed when you took it out. Or, for a pension policy, it may be the date you intended to retire when you bought the policy.

How are bonus rates determined?

Our overall aim is to make sure that all guarantees are met and that all policyholders are treated fairly.

Regular bonus rates: conventional policies

We set regular bonus rates for conventional policies at levels which the With Profits Funds can afford and which are likely to be stable in the long term. We take into account what we expect to pay out for existing policies in the future.

Regular bonus rates: unitised policies

To determine regular bonus rates on unitised policies, we estimate the expected underlying investment return of the assets in the With Profits Funds. This is an investment return that varies with long-term changes in economic circumstances or our investment strategy, but fluctuates less than market returns. We make certain deductions from this return, including allowances for expenses, tax, and our shareholders' profit.

For some unitised policies there is a guaranteed rate of interest. Your policy documents tell you if this applies to your policy. For these policies we may also set a regular bonus which will be paid on top of this guaranteed interest.

Final bonus rates: conventional and unitised policies

To determine final bonus rates on conventional and unitised policies, we compare your policy's guaranteed benefits with its asset share. The asset share is an amount we work out by looking at how much you have paid into the With Profits Funds and the investment returns earned in respect of your policy. We then take away certain deductions which include expenses, tax, our shareholders' profit, and the cost of providing the agreed benefits for your policy (such as life insurance).

The expenses we allow for include:

- fees we pay for administration, marketing and sales;
- commission paid to intermediaries;
- fees for investment management services;
- other investment related expenses, for example the cost of buying and selling assets; and
- part of the general expenses of the With Profits Funds, such as fees we pay to the financial regulator.

We use asset share as a guide when setting final bonus rates although you may get more or less than this as a result of smoothing (see overleaf).

In addition to this, we may decide to add an extra amount to your final bonus. This extra amount is provided from surplus assets within the With Profits Funds if we decide there is enough surplus. The extra amount may vary depending on which type of policy you have, how long you have held your policy and why you have moved some or all of your investments out of the With Profits Funds. These extra amounts could be significant in the long term.

Smoothing

We cushion our policyholders from large fluctuations in regular and final bonus rates due to varying investment returns. We hold back some of the investment return in good years and use it to provide bonuses when returns are poor. This is known as 'smoothing'.

Smoothing is one of the main ways in which the With Profits Funds aim to be fair to all with profits policyholders. Over the long term, we would not expect the Funds themselves to gain or lose from smoothing.

If your policy is not entitled to any final bonus, its regular bonuses may vary more than other policies' because we cannot use a final bonus to adjust the overall amount we pay you. Policies where we do not pay final bonuses include With Profits Individual Savings Accounts, Retirement Savings Schemes and policies invested in the Group With Profits Fund.

Our shareholders' profit

For every £9 of bonus we add to your policy, our shareholders are entitled to a maximum of £1.

What happens if you leave the With Profits Funds early?

You may decide to move some or all of your investment out of the With Profits Funds early, for example:

- cashing in your policy;
- transferring to another company; or
- switching to another type of AXA fund.

We would then work out how much to pay you with the aim of being fair to you and other policyholders leaving the With Profits Funds, and to those policyholders staying in the With Profits Funds.

We will use the asset share as a guide for working out how much we should pay you if you cash-in or transfer your policy or switch from the With Profits Funds into other investment funds.

Conventional policies

We reduce your policy's guaranteed benefits to reflect that you have been invested in the With Profits Funds for a shorter time than we expected when you took out your policy. We may add a final bonus as described earlier. In adverse financial conditions, for example if investment markets fall significantly, we may change the way we determine how much is due to you. This may mean that we reduce the amount we pay you in order to be fair to all policyholders.

Unitised policies

We work out the cash-in, transfer or switch value by looking at the value of the units in your policy and then applying any reduction as described in the policy booklet. We may then add a final bonus as described earlier.

If the assets in the With Profits Funds which back your policy have performed worse than we assumed when we added regular bonus to your policy then we may reduce your payout by applying what is known as a 'Market Value Reduction' (MVR). We apply an MVR to make sure that:

- the cash-in, transfer or switch value is fair compared to the asset share of the policy; and
- a fair share of the With Profits Funds is left for the remaining policyholders.

However, for certain policies we guarantee not to apply an MVR on certain dates. Your policy booklet will tell you if this is the case.

How is your money invested?

Our investment strategy for with profits policies is to invest in a broad range of assets. We aim to provide the best possible investment returns for the benefit of policyholders generally, allowing for:

- the level of guarantees within the With Profits Funds; and
- the amount of surplus assets in the With Profits Funds.

The With Profits Funds invest in a mixture of assets: mainly shares, property, bonds (loans to governments or companies), and cash. Historically, shares and property have produced higher returns than bonds and cash over long periods such as twenty years. However, bonds and cash are more secure and are more suitable for backing guaranteed payments. We generally aim to hold a higher proportion of shares and property than the average of our competitors.

We set guidelines for our investment managers to tell them the proportions of the With Profits Funds that should be invested in each type of asset. We aim to control any potential risks to the With Profits Funds by setting guidelines covering the quality of the assets, and setting limits on the amount that we invest in any one asset or with any third party.

We review our long-term investment strategy at least yearly but may do so more often if market conditions change quickly.

How are business risks managed?

The With Profits Funds are exposed to a number of risks. The cost of risks is normally allocated to the With Profits Funds as a whole. Our biggest risks come from the need to pay the guaranteed payments on all policies when they become due, and from the possibility of falls in asset values.

We aim to minimise the risks to the With Profits Funds by monitoring the various risk factors, and taking action to reduce our exposure to risk, for example by changing our investment strategy.

In addition, we aim to control the total amount that new policies invest in the With Profits Funds each year.

What are the estate and the Reorganisation Scheme?

The estate

The estate is the assets in the With Profits Funds over and above those required to cover the amounts we expect to pay out to policyholders, including bonuses we expect to add in the future.

The Reorganisation Scheme

From 1 April 2001, AXA Sun Life's business was reorganised under a scheme approved by the High Court. This is known as the 'Reorganisation Scheme'. At this time our existing With Profits Fund was renamed as the Old With Profits Fund, and a new With Profits Fund was set up. Eligible policyholders in the Old With Profits Fund were given the choice of:

- moving to the New With Profits Fund and receiving a cash payment, but giving up the prospect of receiving anything from the estate in future; or
- remaining in the Old With Profits Fund.

Throughout this guide we have used the phrase 'With Profits Funds' to refer to both the Old With Profits Fund and the New With Profits Fund together.

A part of the estate was set aside to pay reorganisation bonuses to policyholders who held eligible with profits policies at the time the Reorganisation Scheme was set up. If you are eligible, these bonuses are paid when you move some or all of your investments out of the With Profits Funds.

Policyholders in the Old With Profits Fund may receive special bonuses if certain conditions in the Reorganisation Scheme are met.

How do we use the estate?

As a result of some policyholders moving to the New With Profits Fund, part of the estate (called the 'attributed estate') was attributed to shareholders, but kept available to support the With Profits Funds. It can only be paid out to shareholders if certain conditions in the Reorganisation Scheme are met.

The estate and the attributed estate:

- provide us with investment flexibility;
- enable bonuses on with profits policies to be smoothed;
- are available to support the continuing sale of new policies; and
- enhance the security of policy benefits generally.

How is the sale of new policies managed?

We aim to control the total amount that new policies invest in the With Profits Funds each year.

We have no current intention of ceasing to sell new with profits policies. However, we may do so if

regulations change or if there is little demand for such policies. If we were to stop selling new policies, the With Profits Funds would continue to be managed in accordance with the Reorganisation Scheme.

How can you find out more?

This guide is a summary of our 'Principles and Practices of Financial Management' (PPFM) document, which gives a more detailed description of how the With Profits Funds are managed. It also gives more detail about the Reorganisation Scheme.

If you would like a copy, please use the contact details below. Or you can read it on our website www.axa.co.uk.

If, having read this guide, you need more information, please:

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