

With-profits summary



CLERICAL MEDICAL

Aims of this guide

This is an important document that should be filed for future reference.

- It explains how the Clerical Medical With-Profits Fund works for Guaranteed Growth Fund investors
- It will help you discuss the benefits of with-profits with your financial adviser

When to read the guide

- You may be considering investing into our GGFs and would like some information to help you decide whether this investment is right for you
- You may have some questions about how your money is invested and what affects the return on your investment
- You may be considering further investment and would like additional information on our GGFs

Clerical Medical is currently closed to new investments into Guaranteed Growth Funds, except for additional investments into some existing policies.

We have added to this document a Glossary that explains the key terms associated with with-profits investments.

1. Introduction

What this guide covers

This guide covers Guaranteed Growth Fund investors and covers all currency options. Guaranteed Growth Fund investments are part of Clerical Medical's With-Profits Fund, and the operation of the Fund has a direct impact on your investment.

In this guide we use the term 'Clerical Medical With-Profits Fund' (or 'Fund') to refer to the Fund as a whole and the information provided is relevant to everyone. Where appropriate we provide information that relates specifically to different groups of investors.

This document is current as at May 2011. Our approach to managing the Clerical Medical With-Profits Fund can change, and we will tell you if we make any changes that may significantly affect your investment. We will also make additional information on our with-profits funds available on request when we announce our regular and final bonuses (see section 7 "Where to get more information"). This information will be available on our website or via your Financial Advisor.

2. What is a with-profits investment?

This section gives a brief explanation of a with-profits investment. More details are given in sections 3 and 4.

Investment details

Clerical Medical runs one With-Profits Fund. It is a long established fund that is run for current and future investors. However, depending on the currency and type of investment, separate groups of assets are used to set bonus levels for different groups of investors.

For example, sterling investors have a group of assets that are mainly denominated in sterling and include exposure to UK shares.

Your investment should be considered as a medium to long term investment, meaning at least five years, but preferably longer. Please refer to your policy conditions for information on the investment period.

It is designed to increase the value of the money you invest and provide one or more guarantee(s) over the medium to long term. It also provides some stability against market ups and downs in the short term.

The guarantees provided will vary between policies, and are stated in your policy documents. The guarantees only apply when you take money out of the fund in circumstances specified in your policy, for instance:

- for an endowment policy, on the maturity date;
- for some bonds, on the optional encashment date or dates, on a specified anniversary of the start date;
- for some bonds, when you take fixed regular withdrawals of a limited size that you chose when you took out the bond;
- for all plans, on death.

When we add regular bonuses to your investment, they increase the guaranteed amounts that we are committed to pay in these circumstances.

Your money is pooled with that of other with-profits investors, with all collectively sharing in the fortunes of the Fund.

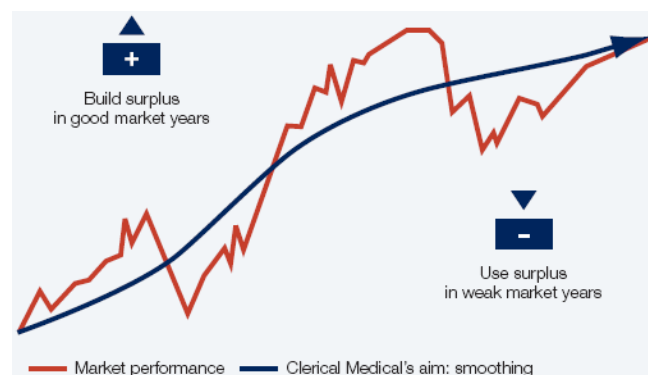
This Fund is invested in shares in companies, property, fixed-interest investments (such as Government bonds) and other types of investment (including cash). Together these investments are called 'fund assets'. Investing in a mix of assets helps spread risk as it ensures returns aren't dependent on any one type of asset. Stability in the short term is also helped by smoothing.

Smoothing

A with-profits investment has a special feature called 'smoothing'. Smoothing works by keeping back some of the gains earned in good investment years and using them to help pay bonuses in poor investment years.

Smoothing will not protect your investment fully from large or long-term falls in investments. Even with smoothing, if there are large changes in stockmarkets, final bonuses – see page 5 and 6 (and surrender adjustments – see page 9) and therefore payouts can sometimes move up or down very significantly, even within a few months.

The graph below shows a simplified example of how smoothing works.



Returns

Because of the smoothing process, the return you get is not based on the precise level of the financial markets on the day you invest, or the precise level on the day you take money out.

By smoothing through the ups and downs, you sometimes get higher returns than the unsmoothed performance and sometimes lower. Investors do not all get the same returns. It depends amongst other things, on the particular terms of the policy.

Risk profile

Over the longer term, the potential performance of the Fund is similar to other funds we offer with a similar mix of assets. But over the short term, smoothing reduces the effect of market ups and downs. The performance of the Fund is also impacted by the cost of the valuable guarantees provided by the fund.

3. What affects the performance of my policy?

Investment returns

The returns earned by assets applicable to your policy have the biggest impact on the value of your investment.

We aim to achieve growth over the long term whilst ensuring that we can meet the Fund's guarantees. We do this by having a significant proportion of the assets in higher-risk assets such as company shares and property.

Company shares and property are higher risk than fixed-interest investments, and their value tends to go up and down to a greater extent than other types of assets such as cash and Government bonds. Over longer periods, they have also tended to produce better returns, although this is not guaranteed to continue in the future.

Sometimes, we may also use a type of investment called a 'derivative'. An example is an investment where the return depends on the performance of an index (such as the FTSE 100) without having to buy the underlying shares or fixed interest securities within the index.

We constantly monitor and manage the assets in which the Fund is invested and will change them depending on:

- our view of investment market conditions
- the total amount of guarantees provided on policies in the Fund.

Investment returns will also be affected by the type of investment you have. GGF policies can be in a number of currencies, the main ones being sterling, euros and US dollars. There are a number of GGFs and the assets vary between them.

Most of the assets are in the same currency as the GGFs and are invested in the investment markets of that currency area. The proportion of assets in property varies between each GGF currency.

For detailed up-to-date information on where the Fund is invested please refer to our GGF factsheets. These are available from your financial adviser or from our website www.clericalmedical.com.

Taxes in the fund

Currently, no deductions for tax are made.

4. What affects my share of the Fund?

We share out the distributable performance of the Fund to its investors through bonuses.

The following sections describe how we share out returns to investors and why these returns can vary between different groups of investors.

Bonuses

There are two types of bonuses:

- Regular bonus (Annual Dividend) – We add this during the lifetime of your policy. We decide the rate once a year. It is added to your investment by increasing the value of the units you have in the GGF (the unit price) throughout the coming year.
- Final bonus (Claim Bonus Dividend) – We might add this when you take money out of the GGF when guarantees apply. We normally review this twice a year, on 1 February and 1 August, but we may need to change it at short notice if investment conditions change significantly. Claim Bonus Dividend rates vary depending on the start date of the policy.

How do you decide the bonus rates?

Regular bonus (Annual Dividend)

- Our view of future economic conditions and the likely investment returns that the Fund will produce is very important in deciding any Annual Dividends.
- We also have to bear in mind that, where guarantees apply, we cannot take away Annual Dividends once we have added them to your investment. This means that we set the rate lower than we otherwise might do. If we didn't do this, the guarantees in the Fund could become big enough to force us to increase the percentage of the Fund's assets invested in fixed-interest assets. Changing the Fund's assets in this way would mean we would expect to achieve a lower total return on your investment over the long term, even though the guaranteed part might be higher.
- If financial markets fall, the potential cost of the guarantees increases because the value of the Fund's assets are less, and we may have to reduce the Annual Dividend rate by more than we otherwise might do.

Final bonus (Claim Bonus Dividend)

Normally, the investment returns we have not passed on as an Annual Dividend build up. In this event, we add a Claim Bonus Dividend to 'top up' your policy to a fair level.

The Claim Bonus Dividend top-up therefore depends on how the Fund's assets have performed, which means the amount can vary greatly between investments made over different periods.

When we decide the Claim Bonus Dividend, we consider:

- the returns that the Fund has achieved over the term of your investment;
- what our calculations suggest the total payout should be, based on a fair share of the total distributable Fund value after allowing for smoothing,
- because we set Claim Bonus Dividends six-monthly, we take into account our expectations of investment returns for the coming six months. Normally, we do not make changes to the Claim Bonus Dividend during the coming six months, and only do so if there is a significant change in investment conditions from those we expected; **and**
- the amount paid out recently for similar policies.

Smoothing

The return you get is not based on the precise level of investment markets on the day you invest, or the precise level on the day you take money out. By smoothing through the ups and downs of market movements, you may receive a higher or lower return than the unsmoothed performance.

The bonuses we pay aim to share out all the Fund's distributable performance. We do not aim to hold money back over the long term. We aim to control the payout carefully to ensure that each investor does not get too much or too little.

In summary we aim to:

- smooth through some of the peaks and troughs of financial market values
- pay out all the Fund's distributable returns we have earned to investors as a group
- pay out a fair share of investment performance to each investor.

Smoothing will not protect your investment fully from large or long-term falls in investments. Even with smoothing, if there are large changes in stockmarkets, final bonuses and market value reductions and therefore payouts can sometimes move up or down very significantly, even within a few months.

However, we aim to limit changes in payout to a maximum of 10% over any 6-month period or 15% over any 12-month period.

In certain circumstances, we may increase these limits on changes:

- Sustained periods of depressed markets can mean that we are unable to limit reductions in payouts to these maximum changes and we have to increase the limits. If we were not to do this, we would pay too much to policyholders leaving the fund, which would not be fair to investors remaining in the fund. For example, we reduced payments by more than the maximum in the years 2000 to 2003, and 2007 to 2009, when there were large

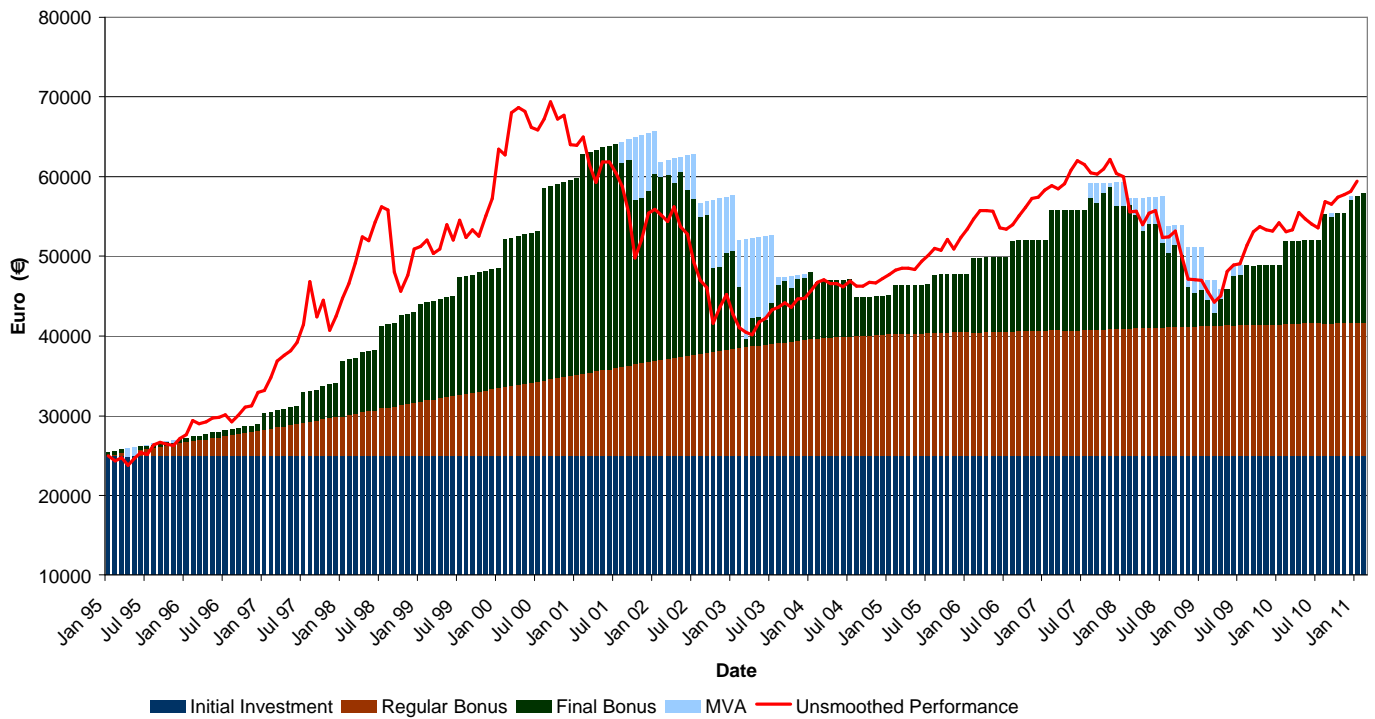
sustained falls in the stock market, with the FTSE-100 falling respectively 50% and 40% from its previous peak.

- If the excess estate available for distribution (see page 12) increases, we'll distribute it by increasing final bonus rates (and reducing MVA rates, where they apply) and we may increase the limits in order to distribute a fair share of that excess estate to investors leaving the fund. Similarly, if the position of the fund worsens and the amount available decreases, then we will reduce final bonus rates and increase MVA rates, and that reduction may be by more than our usual limits.

The chart below illustrates how we have operated smoothing on our GGF Series1 since launch in January, 1995. We have used this as an example, but the chart illustrates the principle for any of our with-profits products.

The actual performance is produced by Annual Dividends added during the investment period, and Claim Bonus Dividends added when money is paid out at the end of the investment period.

When you take money from the Fund and guarantees do not apply, a surrender adjustment applies (see page 9), which is a market value adjuster if investment performance has not been good enough and where otherwise the payout would be in excess of a fair share. This has the effect of reducing the amount paid.



Source: Clerical Medical. Basis: €25,000 investment. The final bonus before any surrender adjustment would be applicable only where a guarantee is in force, for example on death or at the end of the investment term. Please refer to page 15 for more information on surrender adjustments. The return is after deducting the annual management charge, but not the contract fees. Period: 1 January 1995 to 1 January 2011.

The chart illustrates the effect of smoothing for one policy. The effect of smoothing varies between policies. In particular, from 2009 we reduced the element of smoothing, so payments will go up and down a bit more than they did before as they will reflect market conditions at the time more closely.

Surrender adjustments

When you take money from the Fund and guarantees do not apply, we apply a different smoothing approach.

Surrender Bonus Dividend

If investment performance has been good enough over the time that you have been in the GGF, we pay a Surrender Bonus Dividend in addition to the Annual Dividends that have already been added.

Market Value Adjuster (MVA)

If the investment performance has not been good enough, we make a Market Value Adjustment, otherwise your total payout would be more than a fair share. This is a fundamental aim of a with-profits investment, ensuring that everyone receives a fair share of the Fund's fortunes. As a result we will pay out less than the value of units.

We apply an MVA that reflects changes in asset values with very little allowance for smoothing out the ups and downs of market movements over the term of the investment.

Charges

The charges we make vary between products. Full details are set out in product literature.

As part of the normal operation of the Fund, there are no deductions for administration expenses on your policy, other than the charges and the costs related to buying, selling and holding assets. However, we may charge to the With-Profits Fund exceptional costs relating to the operation of the Fund. These costs would be paid from the With-Profits Fund's estate, (for an explanation of the estate and estate distribution - see section 5), and so they would reduce what is available for future distribution to policyholders from the estate.

Guarantees

When we add Annual Dividends to your investment we are committing to pay them on specific events (see section 2), depending on your policy (for instance, on your selected retirement date or death). So we have to ensure

that the Fund is able to meet these guaranteed payouts in the future.

We currently make a deduction from the return earned by the Clerical Medical With-Profits Fund to cover the cost of meeting these guarantees.

The future level of deduction largely depends on two things:

- past and future performance of the assets applicable to your policy
- the overall amount of money paid into, and withdrawn from, the Fund

Generally speaking, the level of deduction is not expected to exceed an average of 1% each year over the next ten years and no more than 2% in any one year. But, in very adverse market conditions we may have to deduct more than this to ensure that guarantees are met across the Fund.

The impact of this deduction will be a reduction in your Claim Bonus Dividend or Surrender Bonus Dividend or an increase in any applicable MVA.

Working out your fair share

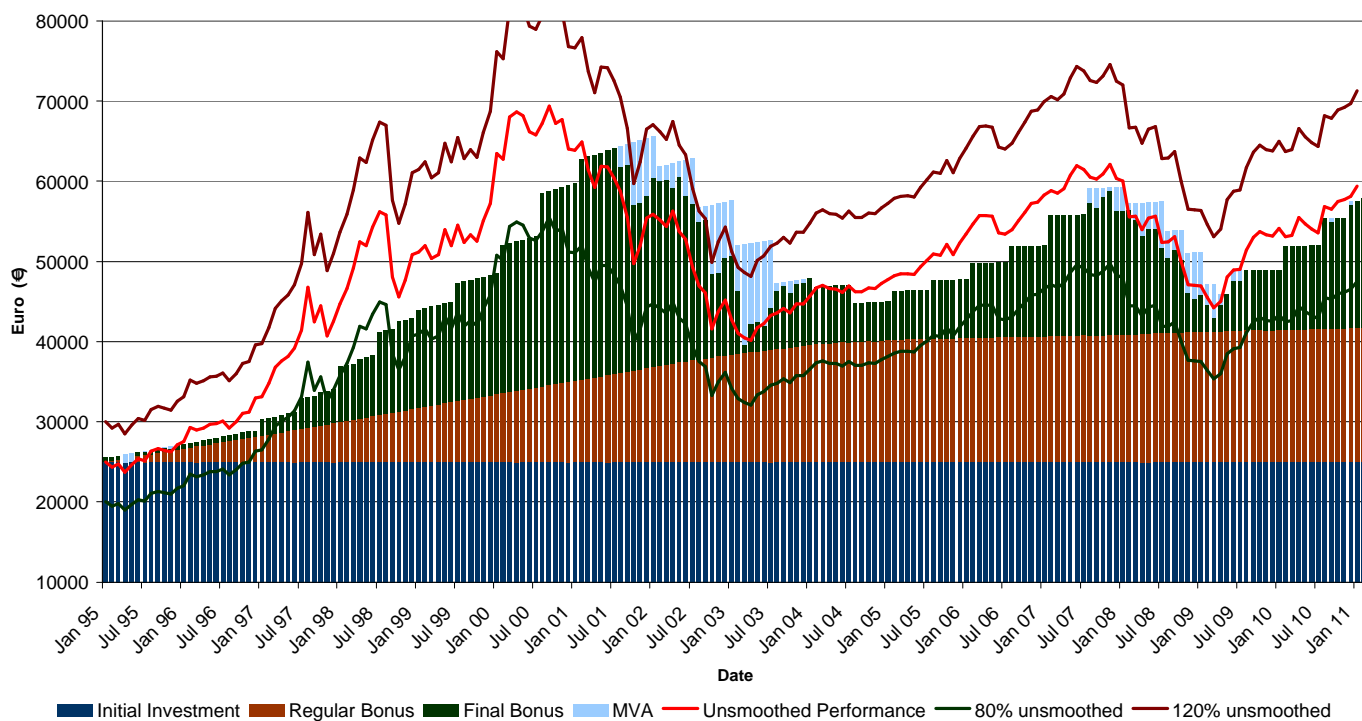
To calculate your fair share, we calculate the amount resulting from investing premiums less deductions on typical policies and this mainly determines what we pay out as each policy's share of the fund.. This is called the 'asset share'.

We aim to pay amounts that are within 20% of the asset share.

We expect to achieve that aim most of the time and for at least 90% of policies, but we may not achieve it all the time. For example, if financial markets rise or fall by unusual amounts in a short period, we may decide not to change bonuses immediately to adjust the amount being paid out, or we may limit the change to ensure it is not excessive.

The chart below demonstrates how our fair share principle works in practice. Like the previous chart, it is based on the GGF series 1. During the investment period of this example, financial markets experienced exceptional rises and falls, which meant that our smoothing rules did not at all times achieve our aim of paying amounts within 20% of asset share.

In the event that a guarantee applies when you take your money out, we pay the guaranteed amount even if this is higher than the asset share.



Source: Clerical Medical. Basis: €25,000 investment. The final bonus before any surrender adjustment would be applicable only where a guarantee is in force, for example on death or at the end of the investment term. Please refer to page 15 for more information on surrender adjustments. The return is after deducting the annual management charge, but not the contract fees. Period: 1 January 1995 to 1 January 2011.

The chart illustrates the effect of smoothing for one policy. The effect of smoothing varies between policies. In particular, from 2009 we reduced the element of smoothing, so payments will go up and down a bit more than they did before as they will reflect market conditions at the time more closely.

In the event that a guarantee applies when you take your money out, we pay the guaranteed amount even if this is higher than the asset share.

5. How do you ensure the Fund is managed fairly and effectively?

Fairness

In this document we have briefly explained how we operate our With-Profits Fund using rules that are designed to ensure fairness. More detailed information is available in our Principles and Practices of Financial Management (PPFM) that can be found on our website.

The rules still allow us an element of discretion, and we believe that this works to the benefit of many investors. Financial markets can be volatile. If we were to follow rules mechanically in all investment conditions, there would be times when those rules could work unfairly in favour of one class of investor at the expense of another class. We have a formal framework to ensure that we operate fairly. We have a With-Profits Committee of non-executive directors. It considers any significant transactions and issues that could cause a conflict between different classes of policyholders and between policy holders and the shareholder, and makes recommendations to the Board that aim to ensure that policyholders' interests are dealt with fairly.

Investment strategy

The Clerical Medical Board sets the investment strategy. A committee reporting to the Board advises on how much of the Fund to invest in each type of asset, allowing the investment managers some freedom to depart from this within a set range. Our investment managers must then aim to invest in the best assets in each asset category.

Rather than have one investment strategy for the whole fund, we have a different investment strategy for each part of the fund's assets.

- the assets which support the asset shares and principally drive future bonus amounts and therefore policy payouts. A significant proportion is usually invested in higher risk assets, such as company shares and property, which have the potential for higher returns and therefore growth.
- the remaining assets in the fund, collectively known as 'the estate', held as a cushion to support payouts in adverse conditions such as a fall in stock market values. We have a more cautious investment strategy for this part of the fund than we do for the asset shares. This helps keep the value of the estate stable, which in turn allows us to keep a significant proportion of the assets supporting the asset shares invested in higher risk assets.

Prudent management

The Board takes advice from its actuaries, including the With-Profits Actuary on the prudent management of the Fund, managing the risks to the Fund in such a way that the company can meet the guarantees it provides. Committees regularly monitor the impact of risks on the financial position of the fund, and if needed, they ensure that actions are taken to control the risks.

Distribution of excess estate

At least once a year, we determine whether the estate is more than is needed to meet the aims of prudent management of the fund. Following a review of the amount needed to support the fund, a distribution of excess estate was started from 1 February 2010. This is being done through the normal periodic bonus review processes, gradually setting slightly higher amounts of final bonus than would otherwise apply, or lower MVAs, where they apply. In the event that a guarantee applies when you take your money out, we pay the guaranteed amount if this is higher than the amount we would otherwise pay you when your policy is surrendered or matures.

For money invested after 1 February 2010, the amount we add depends on when the money is invested; for an amount to be added there will need to be an increase in the level of estate distribution after the date the money is invested.

We review periodically the level of estate against what is needed. There may be times when we can increase the amount of any excess estate included in any final bonus, but there may be times when we have to reduce it or possibly not pay anything extra at all.

Eligibility for distribution of the excess estate

The following rules describe which policies are eligible to share in the distribution of estate that started on 1 February 2010. We will tell you if we make any changes in eligibility criteria for sharing in this or future distributions.

If you have a policy that commenced before 1 January 2011 and ended after 1 February 2010, you are eligible for any extra bonus amount relating to this estate distribution.

If you had a policy that was ended before 1 February 2010, you won't be eligible for any such extra bonus amount.

These rules are subject to the following exceptions and clarifications for certain policies, including the following:

- If you switched to another fund out of with-profits before 1 February 2010, you won't be eligible for any such extra bonus amount.
- If you have an existing single premium policy that was in force as at 1 January 2011 and make an additional investment, the additional investment will be eligible for any such extra bonus amount.
- If you have a regular premium policy that was in force as at 1 January 2011, the regular premiums and increments to regular premiums paid into the policy after 1 January 2011 will be eligible for any such extra bonus amount.
- If you have a policy that started before 1 January 2011 that allows you to reinvest for a further term at the end of the current investment term, as stated in your policy certificate, you'll be eligible for any extra bonus amount when you get to the end of the current investment term. And, if you decide to reinvest for a further term, you will be eligible for any such extra bonus amount on your policy after the reinvestment date.
- If you have a pension policy that started before 1 January 2011, you'll be eligible for any such extra bonus amount when you get to your selected retirement date, or take retirement on another date, or on your earlier death, as stated in your policy certificate. But you won't be eligible for any such extra bonus amount in any with-profits annuity payment after your retirement or to your spouse after your death.
- If you have a policy that was started before 1 January 2011 which offers a choice between sterling, dollar or euro with profits funds, you will be eligible for any such extra bonus amount if you switch from one currency to another. You will not however be eligible for any such extra bonus amount for the period after you've switched.

How we take decisions

Like every insurance company, we have appointed a senior actuary – the With-Profits Actuary – to advise on the fair exercise of discretion in running the Fund. The Board and its committees make their decisions taking into account the advice of the With-Profits Actuary.

Arrangements for closing to new business

If the Fund was closed to new business, the estate would continue to be used to support the operation of the Fund. We would continue to manage the Fund in the same way as if it were open to new business. It is possible that the Fund could be reopened to new business at a later date.

6. Different bonus classes

Clerical Medical runs one With-Profits Fund. All the different types of with-profits policies, UK and European/International, are supported by the same Fund. However the Fund is notionally sub-divided for specific purposes, for example:

- Setting bonuses – different groups of policies called ‘bonus classes’ may have different bonus and MVA rates
- Investment management – the Fund may hold different groups of assets for different bonus classes.

Guaranteed Growth Funds

There are a number of Guaranteed Growth Funds and each may have different rates of Annual Dividends and Claims Bonus Dividends and different surrender adjustments. This is because the assets and currencies vary between different GGFs.

7. Where to get more information

Our Principles and Practices of Financial Management (PPFM) provide more detail on the information in this summary. If you want a copy of the PPFM as well as further information on the underlying assets in Guaranteed Growth Funds, you can contact your financial adviser or download it from our website:

www.clericalmedical.com.

Glossary

Term	Definition
Actuary	A professional person who assesses and quantifies risk in monetary terms in relation to life insurance premiums, basing them on life expectation and likely investment returns.
Annual Dividend	The rate at which the unit price of a Guaranteed Growth Fund will increase. The Annual Dividend is declared once each year (usually in February), and is net of the Annual Management Charge. Once declared, the Annual Dividend is guaranteed not to be taken away, provided the investment remains in the fund. Please refer to your policy documentation for additional information on guarantees and whether they apply or not to encashments
Annual management charge	An annual charge applied on a daily basis for fund management.
Assets	The investments underlying a policy.
Asset share	The amount resulting from investing premiums less deductions on typical policies, which mainly determines what we pay out as each policy's share of the fund.
Claims Bonus Dividend (CBD)	A positive adjustment applied (but which may be zero) when the units in a Guaranteed Growth Fund are encashed at the end of the Policy Term (Maturity Date), end of Investment Term; or in the event of payment of benefits in the case of death of the relevant life assured or for encashments that have been requested in advance under the policy conditions.
Encashment	Ad hoc or regular withdrawal of money from the policy by the cashing in of units in the respective investment fund(s).
Estate	<p>The fund consists of two parts: the asset shares applicable to policies, and the estate. The assets known as the estate are held as reserves to provide a cushion against the effects of poor investment conditions and therefore help protect the value of your investment.</p> <p>The Clerical Medical With-Profits Fund was established in January 1997 when Clerical Medical became part of the Halifax group (now part of Lloyds Banking Group) and ceased to be a mutual organisation. The demutualisation arrangement (the 'Scheme') determined the initial size of the Clerical Medical With-Profits Fund's estate. Since then, and for a number of years before then, policy payouts have been driven by the returns on the assets backing asset shares, and the size of the estate has been driven by returns on the assets held by the estate.</p>

Guaranteed Growth Fund (GGF)	Clerical Medical maintains a number of different Guaranteed Growth Pools (the "Pools"), each one represented by a separate account within the Clerical Medical With-Profits Fund (the "With-Profits Fund") which is itself a sub-fund of Clerical Medical's Long Term Business Fund. Each Pool is subdivided into units. The unit price is guaranteed to be at its highest at the end of the relevant investment term. This does not, however, guarantee return of the client's exact original investment, as charges are deducted by encashing units and it is possible (if no annual dividends were declared) that there would be no increase in the unit price. Under these highly unlikely circumstances the statement that the unit price is guaranteed to be at its highest at the end of the relevant investment term is true, as the price will be the same as that at outset - and therefore still the highest it has been during the investment term.
Market Value Adjuster (MVA)	A negative adjustment which will be applied (but which may be zero) if units in a Guaranteed Growth Fund are encashed in circumstances different from those under which a Claim Bonus Dividend may become payable, for example on encashments that have not been requested in advance. The rate of the Market Value Adjuster is determined by taking into consideration: 1) the performance of the underlying assets of the fund in the period during which the fund units were allocated to the policy; 2) the requirement for the fair treatment of policyholders whose policies remain linked to the fund and for those who leave the fund.
Surrender	The full withdrawal made from the Policy resulting into the realisation of all units allocated to a Policy and resulting in the cancellation of the Policy.
Surrender adjustment	An adjustment which may be applied when units in a Guaranteed Growth Fund are realised in any circumstances other than where a Claim Bonus Dividend is payable. There are 2 types of surrender adjustment: the Market Value Adjuster and the Surrender Bonus Dividend
Surrender Bonus Dividend	A positive adjustment which may be applied if units are cancelled under circumstances different from those under which a Claim Bonus Dividend may become payable, for example on encashments that have not been requested in advance.
Surrender value	The value of the units allocated to the Policy at the bid value minus a Market Value Adjuster or plus a Surrender Bonus Dividend.

Issued by:

Clerical Medical Investment Group Limited

33 Old Broad Street, London EC2N 1HZ, United Kingdom.

Registered in England und Wales. Registered number 3196171.

Supervised by the UK Financial Services Authority.

phone: +352 317 831 361, fax: +352 317 831 214

www.clericalmedical.be