Guide to your Police Mutual investment

This guide applies to the:

- Guaranteed Investment Bond
- Platinum Bond
- Top-up Pension Plan

This guide explains what it means to invest in the Guaranteed Investment Bond, Platinum Bond and Top-up Pension Plan. It gives important information about how these products work and what you can expect back from them. Please read it and keep it in a safe place with your other plan documents.

Our other with-profits products work differently, so we have a separate guide that covers Regular Savings, Full Endowment, Moneyspinner, Children's Bond, Gold and Silver, Capital Growth Bond, Low Cost Endowment and Minimum Low Cost Endowment.

This guide summarises our current approach to managing the Guaranteed Investment Bond, Platinum Bond and Top-up Pension Plan. All three products invest in our Life Fund. We expect the way we manage the plans will change over time. We will tell you if we change the way we manage your Guaranteed Investment Bond, Platinum Bond or Top-up Pension Plan when we send you your yearly statement. We will also send you an updated copy of this guide with your yearly statement if anything significant has changed in the previous year.

We have tried to answer the questions you are likely to have. If, when you've read this guide, you still feel unclear about investing in our Guaranteed Investment Bond, Platinum Bond or Top-up Pension Plan, please contact us directly. If you want more information than is contained in this guide, please ask for our Principles and Practices of Financial Management (also referred to as PPFM). This gives a fuller description of the way we manage the financial aspects of our with-profits business. Our full contact details are provided opposite.

What is a with-profits plan?

Unlike some other stock market investments, our with-profits plans offer guarantees at certain points. Since the guarantee for each product is different they are described separately (see 'What are the guarantees?').

If the stock market crashes before you reach these guarantee points, the plan will still be worth at least the guaranteed value (which includes any regular bonuses added to date) when you reach these points.

We assess what share of the Life Fund applies to your plan and use this to decide the level of bonuses. There are no regular bonuses applied to the Guaranteed Investment Bond.

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PMAS Police Mutual

Your money is pooled with other investors' money to form a fund. This works in much the same way as any other pooled fund (such as a unit trust) although its value is calculated differently.

By combining your savings with those of other investors, you get a better spread of investments than by investing on your own. Along with the smoothing (explained below), this means that the investment risk of a with-profits plan is lower than many other ways of investing in shares. The Life Fund invests mainly in a mix of company shares, property, bonds (which are a type of loan to governments or to companies) and cash.

Instead of simply sharing out what the fund makes or loses each year, a with-profits plan evens out some of the fluctuations in performance over the time you hold your plan. This is called smoothing. Although when we set any regular bonuses smoothing means that we spread profits from one year to the next, we aim to pay out all of the profits earned by the Life Fund over the long term. We also smooth when we calculate any final bonus. This is described in the 'How do we decide the bonuses?' section.

- If you decide to cash in your Guaranteed Investment Bond, in some unusual circumstances, we may not smooth your payout in the normal way. If market conditions cause a significant change in the value of the assets in which the fund invests, we may decide to use an unsmoothed share of the fund for a period. This might happen for example if the unsmoothed value varies from the smoothed value by 5% or more
- If you decide to cash in your Platinum Bond on any date other than the 10th, 15th or subsequent fifth anniversaries we may not smooth your payout in the same way as if you cash in on one of those anniversaries. This is described in more detail in the 'What if I decide to move out of with-profits?' section
- If you transfer your Top-up Pension Plan to another pension plan before retirement we won't smooth your payout in the same way as if you keep your plan until retirement

What affects how much I might get?

The biggest factor affecting how much you might get back is the performance of the investments in the Life Fund. This will depend on how much of the fund is in the different types of investment (which are known as assets). For example, the greater the proportion of the fund that is invested in shares, the better it is likely to perform over the long term. However, while shares and property typically generate a higher return than bonds or cash over the medium to long term e.g. ten years, the return is also much more volatile. One year the investment may do very well - but the next could see a big slump.

Other important factors are:

- How we smooth investment returns
- The results from other business areas where the Life Fund shares the risks and rewards

- Our charges, which are described in your Key Features document
- The effect of the guarantees we offer to you and other plan holders
- How long you invest for

Other companies will have different proportions of their funds invested in different types of assets. The amount we have invested in shares will vary according to market conditions, though we would normally expect between 30% and 60% of the Life Fund to be invested in equities and property. Subject to the constraints described below, we would generally aim be to be at the higher end of this range.

However, there are constraints on how much of the fund's assets we can put into higher risk assets. This is because we have to make sure our fund can cover all our liabilities to plan holders at any one time. If the value of the assets fell below a certain level, we'd need to put more into lower risk assets such as cash or bonds.

The performance of different types of asset varies considerably over time. So we may change the balance of assets in the fund to improve long term performance or maintain the financial security of the fund.

As the Society is a mutual, there are no shareholders to take your profits. We cannot access additional capital as easily as companies which are quoted on the stock market.

What are the guarantees?

For the Guaranteed Investment Bond the guaranteed value of the plan is your payment into the plan (reduced if any income is taken) and applies as follows:

- If you cash in your plan on the 5th, 10th, 15th or subsequent fifth anniversary we guarantee not to apply a market value reduction so you will get back at least the guaranteed value of your plan
- If you do **not** cash in your plan on the 5th, 10th, 15th or subsequent fifth anniversary then:
  - If the guaranteed value of your plan is greater than the underlying value of your plan, the underlying value will be increased up to the guaranteed value
  - If the underlying value of your plan is greater than the guaranteed value, the guaranteed value will be increased up to the underlying value. This becomes the guaranteed value for five years later

  This ensures that you are in the same position whether you cash in your plan or not
- If you die we guarantee not to apply a market value reduction and will pay out at least 101% of the guaranteed value of your plan

For the Platinum Bond the guaranteed value of the plan is your payment into the plan (reduced if any income is taken) plus the regular bonuses added to date and applies as follows:

- If you cash in your plan on the 10th, 15th or subsequent fifth anniversary we guarantee not to apply a market value reduction so you will get back at least the guaranteed value of your plan
- If you take bonuses as income you are still guaranteed to get back your initial investment if you cash in on the 10th, 15th or subsequent fifth anniversaries or on death
- We guarantee not to apply a market value reduction or surrender penalty on income of up to 7.5% of your original investment per year
- If you die we guarantee not to apply a market value reduction or surrender penalty and will pay out at least 101% of the guaranteed value of your plan

For the Top-up Pension Plan the guaranteed value is your payments into the plan minus charges taken plus the regular bonuses added to date and applies as follows:

- If you take your benefits at your selected retirement date or on retirement from your main pension scheme we guarantee not to apply a market value reduction so you will get back at least the guaranteed value of your plan
- If you die we guarantee not to apply a market value reduction and will pay out at least the guaranteed value of your plan

What type of bonuses may be added to my plan?

The guaranteed value of your plan may grow through the addition of further bonuses as each type of plan progresses as a way of sharing out the profits earned by the fund.

There are two types of bonus: regular bonuses and final bonus.

Regular bonuses: these may be added each week as a percentage of the guaranteed value. Once added they become part of the guaranteed value and are guaranteed, provided you keep your plan until a date when the guarantee applies (the 10th, 15th etc anniversary for the Platinum Bond and retirement for the Top-up Pension Plan). The regular bonus rate is set as an annual figure and we add the weekly equivalent.

There are no regular bonuses for the Guaranteed Investment Bond. For this plan the guarantee applies on the 5th, 10th, 15th etc anniversary.

Final bonus: we may pay this when you take your benefits or if you die. We will pay one if your smoothed share of the fund is more than the guaranteed value of your plan (unless, for the Guaranteed Investment Bond, the unusual conditions described in the following section apply, in which case an unsmoothed share of the fund may be used to determine the final bonus). The final bonus may make a significant difference to your payout.

We usually decide the regular bonus rates once a year. Regular bonus rates don't normally change each year; we aim to set them at a level that we do not have to change regularly. Any changes we do make are likely to be gradual.

Final bonuses are decided on a case by case basis. They will change regularly as investment conditions change. They will depend on how much you invested and when.

There may be circumstances where we do not pay any final bonus, such as if the Life Fund makes a loss or if the guarantees already built up on your plan mean that the guaranteed value is more than your share of the fund.

How do we decide the bonuses?

Platinum Bond and Top-up Pension Plan

The aim in setting regular bonuses is to distribute that part of the investment return and profit of the Life Fund which is reasonably certain, whilst maintaining a reasonable margin for final bonuses. We consider both past and potential future investment returns and the solvency of the Life Fund when setting regular bonus rates.

When your plan comes to an end we assess what to pay as your final bonus. If profits we haven't paid as regular bonuses build up we would use these to pay a final bonus. We work out the final bonus by calculating a smoothed share of the fund over the past twenty six weeks, with an allowance for interest. If this is more than the guaranteed value of your plan we will pay a final bonus. If it is less, we may apply a market value reduction unless the guarantees apply.

A market value reduction is the difference between the guaranteed value of the plan and the share of the fund attributable to the plan. The purpose of the market value reduction is to prevent the value of the Life Fund being eroded at times of unfavourable stock market conditions and so protect the interests of the remaining plan holders.

The smoothing process means that the payout at any one time can be more or less than your share of the fund at that time. However, on average we expect to pay the share of the fund attributable to a plan. The investment performance of the Life Fund will vary over time and, although we aim to smooth out the effects of fluctuations, payouts will still vary over different periods.

In some conditions the total profits earned on your plan could be less than those we have already added as regular bonuses. If this happened then we might not add a final bonus and might apply a market value reduction. This would most commonly happen if you cash in your Platinum Bond or transfer your Top-up Pension Plan in the early years or if investment conditions have been particularly poor. In this case the amount we pay out will be less than the guaranteed value of your plan but will still reflect the share of the fund attributable to your plan. We will not apply a market value reduction if the guarantees apply.

We do not provide pensions so for the Top-up Pension Plan you must transfer your plan when you retire to a company which can convert your plan to a pension. However, we will not apply a market value reduction if you take your benefits at your selected retirement date or on retirement from your main pension scheme.

Guaranteed Investment Bond

This operates in a similar way to Platinum Bond and Top-up Pension Plan as described previously. The key differences are detailed below.

There are no regular bonuses for the Guaranteed Investment Bond. However, if at any time your plan has an underlying smoothed value which is above the guaranteed value the difference is effectively a final bonus. If at any time your plan has an underlying smoothed value which is below the guaranteed value the difference is effectively a market value reduction.

In some unusual circumstances, we may not smooth your payout in the normal way. If market conditions cause a significant change in the value of the assets in which the fund invests, we may decide to use an unsmoothed share of the fund to determine the final bonus or market value reduction for a period. This might happen for example if the unsmoothed value varies from the smoothed value by 5% or more.

What are the business risks associated with investing in the fund?

Business risks arise from activities we take on to move the business forward which we believe will be in our members' interests. Major business risks currently include the guarantees on with-profits plans (for which we make a charge to reduce this risk) and the operation of subsidiary companies. The risks identified above are not the only risks and they will change over time.

Before taking on any significant new business activity or risk this must be approved by the Society's Managing Board. They would consider the costs and benefits of entering into the venture and whether it would be in the members' interests. While we would expect to generate profits from these ventures there is always the chance that losses may occur and, as a mutual organisation, the Society's with-profits plan holders share in the results of all the Society's business activities. These results will affect the size of the Life Fund.

There are other risks associated with holding a with-profits plan. These are highlighted in your Key Features document which was issued when you took out your plan. For more information on these, or if you no longer have your Key Features document, please contact us.

What is the inherited estate used for?

We hold some money known as the inherited estate. This money isn't needed to directly meet payments to current plan holders. However it is primarily used to:

- Give investment freedom (with the aim of improving investment returns)
- Meet solvency and capital requirements
- Provide working capital and capital support for guarantees
- Finance other business ventures
- Enable smoothing of investment returns and payouts

- Meet any exceptional costs in managing the business
- Meet any excess of costs over charges for other with-profits business

The size of the inherited estate is assessed regularly as part of the financial management of the fund. If the inherited estate is larger (or smaller) than the adequate level then it is reduced (or increased) back to the adequate level over a specified period. We manage this by amending investment strategy or charges or by controlling the addition of regular and final bonuses.

What if Police Mutual stopped accepting new business?

We will continue to allow people to invest in the Life Fund as long as we believe it is in the interests of both our existing and new members.

If Police Mutual stopped writing significant amounts of new with-profits policies then we would review our investment policy, the extent to which payments were being smoothed and the management of the inherited estate. The review would consider how the interests of both current and potential future members of the Society could best be met.

What if I decide to move out of with-profits?

With-profits plans are long term contracts and are designed to provide the best returns at certain specified dates. Cashing in before or transferring them to another plan before you reach these dates may not be in your best interest.

If you decide not to keep your Guaranteed Investment Bond or Platinum Bond going, for example if you want your money back, you can ask for a cash-in value. You can cash in your Guaranteed Investment Bond or Platinum Bond at any time in whole or in part. If you decide to transfer your Top-up Pension Plan before retiring you can ask for a transfer value. In each case the guarantees you have built up in the plan will not apply if you do this.

- We will calculate the cash-in or transfer value at the time. It will depend on the investment return, the amount you have paid in, our expenses and the outcome of the other business activities of the Society. It could be more or less than the guaranteed value of your plan and could be less than you invested. This would most commonly happen if you cashed in/transferred early or if investment conditions have been particularly poor
- If the share of the fund attributable to your plan is more than the guaranteed value at the time when you cash in/transfer we may add a final bonus. The amount you can take/transfer will be more than the guaranteed value
- If the share of the fund attributable to your plan is less than the guaranteed value at the time when you cash in/transfer we may apply a market value reduction. The amount you can take/transfer will be less than the guaranteed value
- For the Guaranteed Investment Bond if you cash in on the 5th, 10th, 15th or subsequent fifth anniversary we guarantee not to apply a market value reduction. The amount you will receive will be at least the guaranteed value of the plan

- For the Platinum Bond if you cash in during the first five years we will apply a surrender charge. We will apply the greater of the surrender charge and any market value reduction
- For the Platinum Bond if you cash in on the 10th, 15th or subsequent fifth anniversary we guarantee not to apply a market value reduction. The amount you will receive will be at least the guaranteed value of the plan

For the Guaranteed Investment Bond, except in some unusual circumstances, we will smooth your payout in the normal way.

For the Platinum Bond if a claim is made that is subject to a market value reduction then no smoothing is applied to the payout.

For the Top-up Pension Plan if you transfer your plan we won't smooth your payout in the same way as if you stayed until retirement as smoothing is designed for investors who stay until retirement.

How is the Life Fund managed fairly and effectively?

Police Mutual has a framework in place to ensure that we manage the Life Fund fairly and effectively, and in accordance with the regulations of the Financial Services Authority.

- We produce a document called the Principles and Practices of Financial Management (PPFM) which gives a fuller description of the way we manage the financial aspects of our with-profits business
- A sub-committee of the Managing Board meet on a regular basis to review whether the business has been managed in accordance with the PPFM. This sub-committee includes non-executive representation and is attended by the With-Profits Actuary, who is specifically appointed under FSA regulations, to give advice to the Managing Board and ensure that policyholders are treated fairly
- On an annual basis, the Managing Board and the With-Profits Actuary make a report available to policyholders, confirming whether the Life Fund has been managed in accordance with the PPFM

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