How safe are your investments?

The power of FRIENDS®

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Friends keep you safe

You may be aware of recent media coverage concerning the plight of financial institutions, particularly in the USA, that appear to have impacted other financial markets around the world.

We appreciate that this is a very unsettling and confusing time for you. Therefore, we would like to reassure you that the Friends Provident Group is financially strong and this has been confirmed by independent credit rating agencies. Also, we have been established since 1832 and have experienced many varied and difficult market conditions.

In January 2008 we announced the conclusion of our Strategic Review, which gave us the opportunity to take a long hard look at every aspect of our business. As hopefully you are aware, the decision was taken to move to a more streamlined and more focused business, with International at the heart of this new strategy. Importantly, the new Group will be well capitalised and self-financing, with no need for external capital. In current market conditions, this is further reason to have confidence in the Friends Provident Group.

1832

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Q&A

Q What would happen to Friends Provident International Limited (FPIL) policies if the Friends Provident Group (FP) became insolvent or stopped trading?

A FPIL is a wholly owned subsidiary of the Friends Provident Group. This means that if the UK company were to run into trouble, there would be no legal means by which it could call on the assets reserved for FPIL policyholders. The likely scenario in this case would be that FPIL would be sold to raise capital for the Group. However, this would not affect FPIL clients' policies, or their underlying investments.

Q Can you make any comment about FPIL's solvency?

A Where the risk lies in relation to FPIL clients' assets is in the unlikely event of FPIL becoming insolvent. We view the protection given to our policyholders in three layers:

1. FPIL's solvency — We must meet strict regulatory and solvency requirements in a number of jurisdictions, including the Isle of Man, Hong Kong, Singapore and UAE. The statutory solvency requirements in these jurisdictions are comparable with those applicable in the UK. We are required to submit annual solvency reports, and are subjected to annual audits by independent auditors. Currently we comfortably exceed the minimum solvency margins required by the regulators in each jurisdiction.
2. Order of payment — Schedule 3 of the Isle of Man Insurance Act 1986 provides that the assets of the company in its long-term business fund "shall only be available for meeting liabilities of the company attributable to long term business". So, the position is that policyholder funds are ring-fenced and any creditors only have access to policyholders' funds after liabilities to policyholders have been met in full.
3. As a last resort, there is a statutory compensation scheme in the Isle of Man — The Life Assurance (Compensation of Policyholders) Regulations 1991.

Q To what extent are FPIL policies protected by the Isle of Man - The Life Assurance (Compensation of Policyholders) Regulations 1991 ("the Scheme")?

A Should it ever be called upon, the Scheme ensures that in the unlikely event of failure a levy would be made against all other Isle of Man-resident life assurance companies so that up to 90% of our liabilities to eligible policyholders would be met (without any upper monetary limit).

Q Who are eligible policyholders under the Scheme?

A Policyholders who took out an FPIL policy on or after 5 April 1988. It does not matter where they were resident at the time they took out the policy, or where they are now resident, in order to be eligible under the Scheme.

Q What happens if a policy holds investments which fall in value or fail? Is a policyholder entitled to claim under the Scheme for the investment loss suffered?

A No — the investments the client chooses to make within their policy are their responsibility. The Scheme is in place to protect policyholders in the event of a life assurance company not being able to meet their liabilities to their policyholders. It does not offer any protection against the investment performance or failure of the underlying assets to which the policy is linked.

Q Where can I find out more about the Scheme?

A The rules of the Scheme are contained within the Isle of Man Financial Supervision Act 1988, Life Assurance (Compensation of Policyholders) Regulations 1991. The full legislation is available from FPIL's regulator — the Isle of Man Government Insurance & Pensions Authority (IPA). The website details are: www.gov.im/ipa and details can be found under "Policyholder Protection".

Q Who holds custody of the investments linked to FPIL policies and how secure are these custody arrangements?

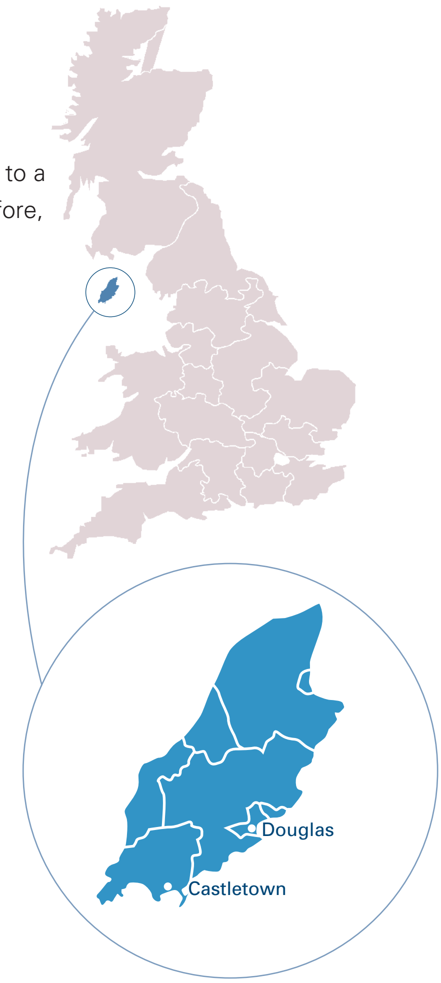
A Policyholder investments are mainly held with third party custodians (for example Citibank and Euroclear) on a nominee basis, in a trust account, in FPIL's name. Therefore, if these custody providers were to become insolvent, the assets are protected, as they are ring-fenced from these companies' own balance sheet.

Q Is there a compensation scheme for bank and building society deposits held by portfolio bond policyholders?

A As accounts held through portfolio bonds are legally and beneficially owned by FPIL, policyholders would not be entitled to any compensation under the Isle of Man Depositors Compensation Scheme, as amended on 9th October 2008. This is because corporate investors are excluded from this scheme, which only applies to individual deposit holders. Therefore, if the bank in question defaults on its liabilities to deposit holders, and we are unable to recover the money under normal liquidation procedures, the portfolio bond value would be reduced accordingly.

Policyholders who are concerned by this risk should ensure that their bond holdings are sufficiently diversified to reduce the risk against any one bank failing.

Under the scheme prior to amendment, FPIL would have been covered up to a maximum of £15,000 across all client holdings with each institution. Therefore, the new scheme represents little change for portfolio bond holders.



Q How could the present banking crisis affect my General Transactions Account?

A The General Transactions Account forms part of the investment portfolio within your fund, so any default by the institutions used to back this Account could result in a reduction in the value of your bond.

However, as a matter of good practice, FPIL manages the risk on its cash holdings (including those that back the General Transaction Account) by spreading the cash around a number of fixed deposits and money market funds with various institutions. Apart from our day-to-day working capital, no more than approximately 15% of our cash holdings is with any one institution at any time.

Please bear in mind that the General Transactions Account is not intended to be used for long-term holding of large balances but should only be used for the temporary holding of cash in between investment transactions.

The uncertainty in the market has led to increased activity within our administration areas and you may notice a slight delay in our normal service.

Friends Provident International Limited
Registered & Head Office: Royal Court, Castletown, Isle of Man, British Isles, IM9 1RA
Telephone: +44(0) 1624 821212 Fax: +44(0) 1624 824405
Website: www.fpinternational.com
Incorporated company limited by shares.
Registered in the Isle of Man No. 11494.
Authorised by the Isle of Man Insurance & Pensions Authority and regulated by the Financial Services Authority for the conduct of investment business in the UK.
Provider of life assurance and investment products.

Hong Kong
The appointed representative of the Company in Hong Kong is Friends Provident International Limited's branch office:
Friends Provident International Limited
Suites 1203-1211, Two Pacific Place, 88 Queensway, Hong Kong
Telephone: +852 2524 2027 Fax: +852 2868 4983
Website: www.fpinternational.com.hk

Singapore
Friends Provident International Limited's branch office:
Friends Provident International Limited (Singapore Branch)
63 Market Street, #06-05, Singapore 048942
Telephone: +(00)65 6327 4019 Fax: +(00)65 6327 4020
Website: www.fpinternational.com/singapore
Registered in Singapore No. F06835G
Authorised by the Monetary Authority of Singapore to conduct life insurance business in Singapore
Member of the Life Insurance Association of Singapore
Member of the Singapore Financial Dispute Resolution Scheme

United Arab Emirates
Friends Provident International Limited's branch office:
Friends Provident International Limited
Emaar Square, Building 6, Floor 5,
PO Box 215113, Dubai, United Arab Emirates
Telephone: + 9714 436 2800 Fax: + 9714 438 0144
Email: dubaiservicing@fpinternational.com
Registered in the United Arab Emirates as an insurance company (Registration No.76) and as a foreign company (Registration No. 2013).
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