
REPORT TO WITH-PROFITS POLICYHOLDERS OF COUNTRYWIDE ASSURED PLC

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT - REPORT ON COMPLIANCE FOR 2016

This report covers the with-profits business of Countrywide Assured plc (Countrywide Assured) which is wholly reassured to ReAssure Limited (“ReAssure”). At the end of 2015 your policy was wholly reassured to Guardian Assurance plc (“Guardian”). In June 2016 Guardian was renamed ReAssure Life Limited and on 31 December 2016 the policies of ReAssure Life Limited were transferred to ReAssure. ReAssure’s ultimate parent is Swiss Re Life Capital Limited. The with-profits business of Countrywide Assured is contained in the Guardian Assurance With Profits Fund (“GAWPF”) which is a ring-fenced fund within ReAssure. Separate reports cover Countrywide Assured’s with-profits business that was originally written by Save & Prosper Pensions Ltd and Save & Prosper Insurance Ltd.

Under the terms of the reinsurance agreement, ReAssure assumes the responsibility for making decisions regarding bonus rates, fund investment policy and surrender values (including Market Level Adjustments for unitised with-profits business such as Privilege II). Countrywide retains the direct responsibility for setting certain charges under unitised with-profits business and the ultimate responsibility for ensuring the provision of appropriate benefits under all of its reassured policies.

Countrywide has published its Principles and Practices of Financial Management (PPFM) recognising the split of responsibilities set out above. In particular, it has adopted the GAWPF PPFM, which covers how ReAssure manages the reinsurance business accepted from Countrywide. The GAWPF PPFM is available from

<https://www.reassure.co.uk/uploads/2016/09/Guardian-PPFM.pdf>

Alternatively, a copy can be obtained from Customer Services, Countrywide Assured plc, Harbour House, Portway, Preston, Lancashire, PR2 2PR.

Each year, Countrywide must report to policyholders on compliance with its PPFM. This report covers governance arrangements; the direct exercise of discretion by Countrywide; justification for Countrywide accepting the exercise of discretion by ReAssure without adjustment; and includes a statement from the With-Profits Actuary.

For more detail on the exercise of discretion by ReAssure, reference should be made to that company's equivalent report to its own policyholders and the accompanying report by ReAssure's With-Profits Actuary. When reading these documents, Countrywide products are linked to equivalent GAWPF products in the following way:

Countrywide Assured Policy Type	GAWPF Equivalent Policy
Asset	Life Assurance
Asset Budget	Endowment
Asset Budget 4	Endowment
Treasury	Endowment
Privilege	Versatile Individual Pension Plan
Privilege II	Choices Unitised With Profit

This report and the ReAssure reports cover the period from 1 January 2016 to 31 December 2016 inclusive.

Governance Arrangements

The Board of Countrywide Assured plc has overall responsibility for the company's affairs. From 1 January 2012 oversight of all of the with-profits business has been carried out by a With-Profits Committee.

The company is advised by its With-Profits Actuary, David Addison. Mr Addison is an associate of Willis Towers Watson.

In preparing this report, the Board has considered a paper from Mr Addison and received the views of the With Profits Committee which both support the conclusions reached below.

Exercise of Discretion by ReAssure and Countrywide

In order to satisfy ourselves that ReAssure had operated the GAWPF in accordance with the terms of its own PPFM, in so far as this impacts on Countrywide reassured business, we provided ReAssure's With-Profits Actuary with a number of questions related to the exercise of discretion over 2016. We received satisfactory responses to these questions. In particular:

- It was confirmed that, over 2016, Countrywide reassured business was treated in the same way as the direct business in the GAWPF when setting discretionary benefits.
- Annual and reversionary bonuses in 2016 were set consistent with Practices section 4.3 of the PPFM.
- There have been no changes to the methodology used to calculate asset shares over 2016. Through the use of terminal bonuses, asset shares in respect of the business in force at the end of 1998 were enhanced for claimants 2016 by 3% in respect of the distribution of the Guardian estate. This compares to an additional return of 3% for claimants in 2015. For claimants in 2017 the figure has been provisionally set at 3%.
- Pay-outs on policies at both maturity and surrender were within the target ranges set out in Practices sections 4.4 and 4.5 of the PPFM.
- No Market Level Adjustments have been applied during 2016.

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- For Traditional Life Assurance and Versatile Individual Pension Plan, expense deductions from asset shares have followed the agreed level of expenses referred to in section 4.2.5.4 of the PPFM.
 - No material changes have been made to the investment policy over 2016. It conformed with the Practices described in the PPFM which include relatively close matching of guarantees by suitably dated, high credit quality bonds.
 - Expenses charged to the with-profits fund in 2016 were in accordance with the agreement with the investment managers Kames Capital and BlackRock.
 - Expense deductions for Countrywide business are identical to those for the equivalent Guardian contracts. During 2016, the GAWPF participated in an expense benchmarking survey which indicated the level of expenses within the fund were favourable compared to peers.
 - Tax deducted from the with-profits fund was consistent with the PPFM.
 - No special management actions or other application of discretion have been taken over 2016.

We also reviewed the terms of the transfer to ReAssure. As part of the transfer, ReAssure made a change (which has been reflected in the PPFM) to give more certainty over how the fund may eventually be managed once it becomes too small to continue to operate in the policyholders best interests in its current form. These measures include allowing the fund to merge with another with-profits fund or changing the with-profits benefits to a different form if the value of the fund falls below a specified size. We are comfortable with the changes made to the PPFM to reflect these measures and note that the fund is in any event unlikely to fall below the specified size for at least 10 years.

We therefore conclude that there was no need for Countrywide, when paying policy proceeds to its policyholders, to adjust the payments received under the reinsurance

arrangement with ReAssure Life. This conclusion is, in normal circumstances, to be expected.

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Conclusion

In the opinion of the Board, Countrywide has complied with its PPFM over the period 1 January 2016 to 31 December 2016.

K Hogg
Chief Executive
April 2017

Statement from the With-Profits Actuary to the with-profits policyholders of Countrywide Assured

This report covers the with-profits business of Countrywide Assured plc (Countrywide Assured) which is wholly reassured to ReAssure Limited ("ReAssure"). Separate reports cover Countrywide Assured's with-profits business that was originally written by Save & Prosper Pensions Ltd and Save & Prosper Insurance Ltd.

The Financial Reporting Council ("**FRC**") sets technical standards for the members of the UK Actuarial Profession. This report is subject to and complies with the following standards:

- Insurance Technical Actuarial Standard
- Technical Actuarial Standard R: Reporting Actuarial Information
- Technical Actuarial Standard D: Data

The actuary appointed by Countrywide Assured to perform the with-profits actuary function is required, among other things:

- to advise management on key aspects of the discretion to be exercised affecting its with-profits policyholders; and
- in respect of each financial year, to make a written report addressed to the with-profits policyholders to accompany the report from the company to its with-profit policyholders.

I have reviewed the arrangement of the with-profits business for the period 1 January 2016 to 31 December 2016 inclusive. As the with-profits business originally written by Countrywide Assured is wholly reassured to ReAssure most discretion is exercised by ReAssure. However, Countrywide Assured retains the ability, which it has not exercised over 2016, to pay its policyholders benefits which differ from those available to it under the reinsurance agreement with ReAssure. This ability to pay different benefits would be utilised only if required to treat customers fairly in accordance with the FCA and PRA Handbooks.

In carrying out my review, I have relied on information supplied by both Countrywide Assured and ReAssure. I have not independently verified the information supplied to me.

Based on this information, in my opinion, the exercise of with-profits discretion over the period 1 January 2016 to 31 December 2016 has been reasonable and proportionate, striking a balance between the interests of the shareholders of both Countrywide and ReAssure and different groups of policyholders. I am not aware of any material events or changes which have occurred since the date I received the information on which this report is based.

David Addison BSc FFA
With-Profits Actuary
April 2017