Table 3 current valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.66	0.38	0.26	0.17
35	0.71	0.38	0.49	0.32
45	1.82	0.77	1.47	0.83
55	5.84	2.44	3.95	2.22

Table 3 previous valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.70	0.40	0.28	0.18
35	0.75	0.41	0.51	0.34
45	1.92	0.82	1.56	0.88
55	6.18	2.58	4.18	2.35

The morbidity bases (combined morbidity and mortality rates where both benefits are covered) used in the valuation of the significant groups of business were as follows:

Product Group	Current Valuation Modified Table	Previous Valuation Modified Table
Term Assurance (Ex-NAL) – Tailored Mortgage Protection, Combined Life & Critical Illness Cover		
Gross liabilities	Table 4 [3,4]	Table 4 [5,6]
Net liabilities (pre 19/3/01 business)	Table 5 [3,4]	Table 5 [5,6]
Net liabilities (post 20/3/01 business)	Table 6 [3,4]	Table 6 [5,6]
Non Linked PHI (Ex-NAL) – Critical Illness		
Gross liabilities	Table 7	Table 7
Net liabilities	Table 8	Table 8
Non Linked PHI (Ex-NAL)–Tailored Mortgage Protection, Critical Illness Cover only		
Gross liabilities	Table 7	Table 7
Net liabilities (pre 19/3/01 business)	Table 9	Table 9
Net liabilities (post 20/3/01 business)	Table 10	Table 10

[3] AIDS 27.5% R6A (peak)
[4] AIDS 9.17% R6A (peak)
[5] AIDS 33.3% R6A (peak)
[6] AIDS 11.1% R6A (peak)

For products listed above where 'modified table' has been used, sample mortality rates per 1000 lives are shown in the tables below:

Table 4 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.24	1.30	0.74	0.79	1.12	1.13	0.70	0.71
35	2.48	2.53	1.33	1.37	3.11	3.14	1.73	1.75
45	7.80	8.05	3.53	3.73	8.19	8.32	3.68	3.79
55	20.12	21.13	8.79	9.66	17.09	17.64	7.17	7.64

Table 4 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.44	1.52	0.86	0.92	1.33	1.34	0.84	0.84
35	2.94	3.00	1.58	1.62	3.69	3.73	2.06	2.08
45	9.26	9.55	4.19	4.43	9.74	9.89	4.37	4.49
55	23.79	24.99	10.40	11.45	20.24	20.90	8.48	9.04

Table 5 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.22	1.28	0.74	0.78	1.04	1.05	0.66	0.66
35	2.35	2.40	1.28	1.31	2.87	2.89	1.61	1.62
45	7.31	7.53	3.34	3.52	7.60	7.72	3.45	3.55
55	19.02	19.92	8.41	9.20	15.97	16.47	6.83	7.25

Table 5 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.35	1.42	0.82	0.87	1.18	1.18	0.74	0.75
35	2.63	2.68	1.43	1.46	3.23	3.26	1.81	1.83
45	8.20	8.45	3.74	3.95	8.54	8.68	3.88	3.98
55	21.30	22.32	9.41	10.31	17.92	18.48	7.65	8.13

Table 6 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.00	1.04	0.59	0.61	0.74	0.74	0.48	0.48
35	1.73	1.76	0.92	0.94	1.96	1.97	1.13	1.14
45	5.26	5.39	2.34	2.45	5.23	5.31	2.48	2.54
55	14.06	14.63	6.06	6.56	11.27	11.58	5.12	5.39

Table 6 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	1.06	1.11	0.62	0.65	0.79	0.80	0.52	0.52
35	1.85	1.88	0.99	1.01	2.10	2.11	1.21	1.22
45	5.62	5.77	2.51	2.63	5.61	5.69	2.66	2.72
55	15.03	15.64	6.48	7.02	12.06	12.40	5.47	5.76

Table 7 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.56	0.64	0.33	0.39	0.83	0.85	0.52	0.53
35	1.70	1.81	0.89	0.96	2.54	2.66	1.39	1.46
45	5.84	6.25	2.64	2.90	6.34	6.68	2.79	2.98
55	15.01	16.36	6.53	7.49	13.09	13.99	5.21	5.79

Table 7 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.67	0.77	0.40	0.47	0.99	1.02	0.63	0.64
35	2.04	2.18	1.07	1.15	3.05	3.19	1.67	1.75
45	7.00	7.50	3.16	3.48	7.61	8.02	3.35	3.58
55	18.01	19.60	7.83	8.99	15.71	16.79	6.25	6.95

Table 8 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.51	0.58	0.30	0.35	0.74	0.76	0.47	0.47
35	1.55	1.65	0.81	0.87	2.27	2.37	1.24	1.30
45	5.31	5.69	2.40	2.64	5.66	5.96	2.49	2.66
55	13.67	14.90	5.95	6.82	11.68	12.48	4.65	5.17

Table 8 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.58	0.66	0.34	0.40	0.83	0.86	0.53	0.54
35	1.75	1.87	0.92	0.99	2.56	2.68	1.40	1.47
45	6.02	6.45	2.72	2.99	6.39	6.74	2.81	3.01
55	15.49	16.86	6.73	7.73	13.20	14.10	5.25	5.84

Table 9 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.50	0.57	0.30	0.35	0.74	0.77	0.47	0.48
35	1.53	1.63	0.80	0.86	2.29	2.40	1.25	1.31
45	5.25	5.63	2.37	2.61	5.71	6.02	2.51	2.68
55	13.51	14.73	5.88	6.74	11.78	12.60	4.69	5.21

Table 9 previous valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.57	0.65	0.34	0.40	0.84	0.87	0.54	0.54
35	1.73	1.85	0.91	0.98	2.59	2.71	1.42	1.49
45	5.95	6.38	2.69	2.96	6.47	6.82	2.85	3.04
55	15.31	16.66	6.66	7.64	13.35	14.27	5.31	5.91

Table 10 current valuation

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.38	0.44	0.23	0.27	0.57	0.58	0.36	0.36
35	1.17	1.24	0.61	0.65	1.74	1.82	0.95	1.00
45	3.99	4.28	1.80	1.99	4.34	4.57	1.91	2.04
55	10.27	11.20	4.47	5.13	8.96	9.58	3.57	3.96

Table 10 previous rates

Age	Male smoker		Male Non-smoker		Female smoker		Female Non-smoker	
	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD	Without TPD	With TPD
25	0.41	0.47	0.24	0.29	0.60	0.62	0.38	0.39
35	1.24	1.33	0.65	0.70	1.86	1.95	1.02	1.07
45	4.27	4.58	1.93	2.12	4.64	4.89	2.04	2.18
55	10.99	11.96	4.78	5.48	9.58	10.24	3.81	4.24

Policies previously written in BULA

The mortality bases used in the valuation of the significant groups of business were as follows:

Product Group	Current Valuation : M/F bases	Previous Valuation : M/F bases
Business formerly in the Unit Linked Fund		
Unit-linked Business (excluding the below)	110% AMC00 110% AFC00	100% AM80 100% AM80 -3 yrs
Unit-linked endowments with critical illness	125% Gerling SI morbidity and: 110% AMC00 110% AFC00	145% Swiss Re morbidity and: 100% AM80 100% AM80 -3 yrs
Unit-linked deferred annuity (pre-vesting)	58% AMC00 58% AFC00	100% AM80 100% AM80 -3 yrs
Business formerly in the Non-Profit Fund		
Pension Annuities in Payment	Modified PMA92 Modified PFA92	Modified PMA92 Modified PFA92
Life Fund Annuities in Payment	82.5% IM80 C2010 improving 1.50% p.a. 83.0% IF80 C2010 improving 1.25% p.a.	82.5% IM80 C2010 improving 1.50% p.a. 83.0% IF80 C2010 improving 1.25% p.a.
Unit Linked Business with aggregate smoker status	88% AM92 88% AF92	110% AM92 110% AF92
Unit Linked Business with smoker split		
Aggregate	88% AM92 88% AF92	100% AM92 100% AF92
Non Smoker	77% AM92 66% AF92	100% AM92 100% AF92
Smoker	176% AM92 132% AF92	100% AM92 100% AF92
Aggregate Term Assurance	130% TMC00 121.3% TFC00	120% AM92 plus AIDS 90% AF92 plus AIDS
Term Assurance (codes GITN & GITF)		
Non Smoker	354.3% TMN00 189.6% TFN00	230% AM92 plus AIDS 184% AF92 plus AIDS
Smoker	227.6% TMS00 192.8% TFS00	345% AM92 plus AIDS 264.5% AF92 plus AIDS
Other Term Assurances		
Non Smoker	150.6% TMN00 144.1% TFN00	110% AM92 plus AIDS 120% AF92 plus AIDS
Smoker	132.2% TMS00 123.5% TFS00	110% AM92 plus AIDS 120% AF92 plus AIDS
Whole of Life (with medical selection)	105% AM92 119% AF92	115% AM92 140% AF92
Senior Security Plan	Modified AM92/AF92	Modified AM92/AF92
Other Permanent Assurances	99% AM92 121% AF92	110% AM92 125% AF92
AIDS loading where relevant	Nil	1/3 R6A Projection from AIDS Working Party #5

There are no mortality bases for significant groups of business which cannot be expressed as a flat percentage of a standard table.

For pension annuities in payment, the expectations of life at age 65 and 75 are shown in the following table:

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	25.54	26.61	24.50	25.66
75	15.57	16.64	15.03	16.18

For life annuities in payment, the basis is the same as for policies previously written in PLL.

For the Senior Security Plan where a 'modified table' has been used, sample percentages of the mortality table are shown in the table below for the current valuation:

BULA Senior Security Plan (% of AM92 / AF92)

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
25	397.285%	411.434%	342.257%	543.905%
35	397.285%	411.434%	342.257%	543.905%
45	366.341%	385.908%	320.090%	497.555%
55	237.845%	274.604%	228.775%	312.260%

For the Senior Security Plan where a 'modified table' has been used, sample percentages of the mortality table are shown in the table below for the previous valuation:

BULA Senior Security Plan (% of AM92 / AF92)

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
25	395.600%	530.150%	430.100%	403.650%
35	395.600%	530.150%	430.100%	403.650%
45	364.550%	491.050%	397.900%	381.800%
55	239.200%	404.800%	263.350%	286.350%

Policies previously written in BRS

The mortality tables used are modified PMA92/PFA92 mortality factors plus longevity improvement factors. For males, the annual rates of improvement follow the CMI R17 basis for calendar years to 2003 and thereafter follow the 'medium cohort' series of improvement factors proposed by the CMI Bureau in October 2002. The CMI R17 factors are used for females for all years.

The table below shows the expectation of life for each class of impaired life for the current valuation:

Representative description of underwriting category	Standard	Light smoker	Diabetic	Smoker	Medium impairment	High impairment	Seriously ill
Male aged 65	24.41	22.75	22.94	20.27	18.19	16.64	18.61
Male aged 75	15.38	14.10	14.19	12.28	10.72	10.69	12.57
Female aged 65	25.71	24.42	24.40	22.60	20.81	20.62	22.36
Female aged 75	16.43	15.46	15.35	14.23	12.93	13.78	14.29

The table below shows the expectation of life for each class of impaired life for the previous valuation:

Representative description of underwriting category	Standard	Light smoker	Diabetic	Smoker	Medium impairment	High impairment	Seriously ill
Male aged 65	25.30	22.70	21.40	19.10	18.30	16.90	18.90
Male aged 75	16.30	14.20	13.30	11.60	11.10	11.30	12.90
Female aged 65	26.60	24.20	23.30	21.30	20.90	20.80	22.50
Female aged 75	17.50	15.40	14.80	13.40	13.30	14.20	14.60

Policies previously written in BA

Product Group	Current Valuation : M/F bases	Previous Valuation : M/F bases
Decreasing term assurance with critical illness cover	125% Gerling Re morbidity and: 105% TMC00 110% TFC00	145% Swiss Re morbidity and: 100% AM80 100% AM80 -3 yrs
Non linked immediate annuity	Modified PMA92 Modified PFA92	Modified PMA92 Modified PFA92
Aggregate Term Assurance	105% TMC00 110% TFC00	100% AM80 100% AM80 -3 yrs
Term Assurance (codes T1 & T2)		
Aggregate	166% TMC00 163% TFC00	100% AM80 100% AM80 -3 yrs
Non Smoker	106% TMC00 105% TFC00	100% AM80 100% AM80 -3 yrs
Smoker	226% TMC00 222% TFC00	100% AM80 100% AM80 -3 yrs
Term Assurance with serious illness (codes ST1 & ST2)	125% Gerling SI morbidity and:	145% Swiss Re morbidity and:
Aggregate	199% TMC00 139% TFC00	100% AM80 100% AM80 -3 yrs
Non Smoker	119% TMC00 88% TFC00	100% AM80 100% AM80 -3 yrs
Smoker	278% TMC00 189% TFC00	100% AM80 100% AM80 -3 yrs
Endowment and Whole of Life	110% AMC00 110% AFC00	100% AM80 100% AM80 -3 yrs
Pension deferred annuities (pre-vesting)	90% AMC00 90% AFC00	100% AM80 100% AM80 -3 yrs

Note that the mortality basis for the assurances is combined with the allowance for mortality described in section 4(5).

For pension annuities in payment the expectation of life under the current (and previous year) valuation assumptions for sample ages are:

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	23.79	29.34	21.10	25.10
75	14.37	19.20	11.90	15.60

(5) Morbidity Basis

Policies previously written in PLL but not in PAL or SLUK

For PHI policies previously written in PLL but not in PAL or SLUK, the reserve has been calculated as a proportion of the annual premium in force. No morbidity tables are used for this business.

Policies previously written in PAL

For PHI benefits previously written in PAL, the assumed inception & recovery rates are expressed as varying percentages of CMIR12. Sample inception & recovery rates for occupational class 1 lives, based on a 12 month deferred period, are as follows:

Inception rates expressed as a percentage of CMIR12

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	104.00%	182.00%	97.75%	171.06%
35	CMIR12	104.00%	182.00%	97.75%	171.06%
45	CMIR12	104.00%	182.00%	97.75%	171.06%
55	CMIR12	92.00%	161.00%	97.75%	171.06%

Recovery rates expressed as a percentage of CMIR12 for 2 years duration

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	51.80%	51.80%	59.20%	59.20%
35	CMIR12	51.80%	51.80%	59.20%	59.20%
45	CMIR12	51.80%	51.80%	59.20%	59.20%
55	CMIR12	51.80%	51.80%	59.20%	59.20%

Recovery rates expressed as a percentage of CMIR12 for 5 years duration

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	51.80%	51.80%	59.20%	59.20%
35	CMIR12	51.80%	51.80%	59.20%	59.20%
45	CMIR12	51.80%	51.80%	59.20%	59.20%
55	CMIR12	51.80%	51.80%	59.20%	59.20%

For policies previously written in SLUK

For PHI and critical illness policies previously written in SLUK, the following morbidity assumptions are used (for male non-smoker lives, occupational class 1):

Inception rates expressed as a percentage of the table.:

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
Individual PHI (Direct written)					
25	CMIR12	86.00%	150.50%	97.75%	171.06%
35	CMIR12	86.00%	150.50%	97.75%	171.06%
45	CMIR12	86.00%	150.50%	97.75%	171.06%
55	CMIR12	86.00%	150.50%	97.75%	171.06%
Individual PHI (Reassurance accepted)					
25	CMIR12	86.00%	150.50%	97.75%	171.06%
35	CMIR12	86.00%	150.50%	97.75%	171.06%
45	CMIR12	86.00%	150.50%	97.75%	171.06%
55	CMIR12	86.00%	150.50%	97.75%	171.06%
Critical Illness (non-smoker)					
25	CIBT93M	45.00%	63.00%	51.00%	68.00%
35	CIBT93M	45.00%	63.00%	51.00%	68.00%
45	CIBT93M	45.00%	63.00%	51.00%	68.00%
55	CIBT93M	45.00%	63.00%	51.00%	68.00%
Critical Illness (smoker)					
25	CIBT93M	95.00%	100.00%	104.00%	123.00%
35	CIBT93M	95.00%	100.00%	104.00%	123.00%
45	CIBT93M	95.00%	100.00%	104.00%	123.00%
55	CIBT93M	95.00%	100.00%	104.00%	123.00%
Critical Illness (aggregate)					
25	CIBT93M	95.00%	100.00%	62.00%	79.00%
35	CIBT93M	95.00%	100.00%	62.00%	79.00%
45	CIBT93M	95.00%	100.00%	62.00%	79.00%
55	CIBT93M	95.00%	100.00%	62.00%	79.00%
Accelerated Critical Illness (non-smoker) : Term assurance mortality plus:					
25	CIBT93M	46.00%	64.00%	52.00%	69.00%
35	CIBT93M	46.00%	64.00%	52.00%	69.00%
45	CIBT93M	46.00%	64.00%	52.00%	69.00%
55	CIBT93M	46.00%	64.00%	52.00%	69.00%
Accelerated Critical Illness (smoker) : Term assurance mortality plus:					
25	CIBT93M	98.00%	103.00%	106.00%	125.00%
35	CIBT93M	98.00%	103.00%	106.00%	125.00%
45	CIBT93M	98.00%	103.00%	106.00%	125.00%
55	CIBT93M	98.00%	103.00%	106.00%	125.00%
Accelerated Critical Illness (aggregate) : Term assurance mortality plus:					
25	CIBT93M	98.00%	103.00%	63.00%	80.00%
35	CIBT93M	98.00%	103.00%	63.00%	80.00%
45	CIBT93M	98.00%	103.00%	63.00%	80.00%
55	CIBT93M	98.00%	103.00%	63.00%	80.00%

Recovery rates expressed as a percentage of CMIR12 for 2 years duration

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
Individual PHI claims					
25	CMIR12	62.90%	62.90%	59.20%	59.20%
35	CMIR12	62.90%	62.90%	59.20%	59.20%
45	CMIR12	62.90%	62.90%	59.20%	59.20%
55	CMIR12	62.90%	62.90%	59.20%	59.20%
Group PHI claims					
25	CMIR12	62.90%	62.90%	59.20%	59.20%
35	CMIR12	62.90%	62.90%	59.20%	59.20%
45	CMIR12	62.90%	62.90%	59.20%	59.20%
55	CMIR12	62.90%	62.90%	59.20%	59.20%

Recovery rates expressed as a percentage of CMIR12 for 5 years duration

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
Individual PHI claims					
25	CMIR12	62.90%	62.90%	59.20%	59.20%
35	CMIR12	62.90%	62.90%	59.20%	59.20%
45	CMIR12	62.90%	62.90%	59.20%	59.20%
55	CMIR12	62.90%	62.90%	59.20%	59.20%
Group PHI claims					
25	CMIR12	62.90%	62.90%	59.20%	59.20%
35	CMIR12	62.90%	62.90%	59.20%	59.20%
45	CMIR12	62.90%	62.90%	59.20%	59.20%
55	CMIR12	62.90%	62.90%	59.20%	59.20%

Policies previously written in Alba

The reserves for products covering morbidity risk do not exceed the materiality limits.

Policies previously written in BRS

No products cover morbidity risk.

Policies previously written in BA

The morbidity rates are based on those charged by the reinsurer and reflect the fact that the business relates to the United Kingdom.

Tables for aggregate (ie combined smoker non smoker) rates are shown below:

Male Aggregate	Current Valuation	Previous Valuation
Age		
25	0.051%	0.064%
35	0.085%	0.139%
45	0.260%	0.400%
55	0.654%	0.935%
Female Aggregate	**Current Valuation**	**Previous Valuation**
Age		
25	0.070%	0.064%
35	0.156%	0.139%
45	0.325%	0.400%
55	0.640%	0.935%

Tables for non smoker rates:

Male Non Smoker	Current Valuation	Previous Valuation
Age		
25	0.045%	0.064%
35	0.062%	0.139%
45	0.166%	0.400%
55	0.436%	0.935%
Female Non Smoker	**Current Valuation**	**Previous Valuation**
Age		
25	0.050%	0.064%
35	0.109%	0.139%
45	0.227%	0.400%
55	0.456%	0.935%

Tables for smoker rates:

Male Smoker	Current Valuation	Previous Valuation
Age		
25	0.056%	0.064%
35	0.108%	0.139%
45	0.355%	0.400%
55	0.872%	0.935%
Female Smoker	**Current Valuation**	**Previous Valuation**
Age		
25	0.089%	0.064%
35	0.204%	0.139%
45	0.423%	0.400%
55	0.824%	0.935%

(6) Expenses

The following table shows the gross attributable expenses per policy (excluding renewal commission).

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
CWP savings endowment (product code 120)	n/a	n/a
CWP target cash endowment (125)	n/a	n/a
CWP pensions (155/165)	n/a	n/a
Term assurance (325 / 330)	13.07	11.75
Critical illness (340 / 345 / 350 / 355)	59.01	51.84
Income protection (360 / 365)	59.01	30.44
Income protection claims in payment (385)	0.00	0.00
Annuity (400)	21.74	20.83
UWP Bond (500)	n/a	n/a
UWP savings endowment (510)	n/a	n/a
UWP target cash endowment (515)	n/a	n/a
UWP regular premium pension (525 / 545)	n/a	n/a
UWP single premium pension (525 / 545)	n/a	n/a
UWP group regular premium pension (535)	n/a	n/a
UWP group single premium pension (535)	n/a	n/a
UL bond (700)	37.24	28.70
UL savings endowment (715)	37.24	34.41
UL target cash endowment (720)	37.24	34.41
UL regular premium pension (725)	37.24	34.41
UL single premium pension (725)	37.24	40.44
UL group regular premium pension (735)	37.24	34.41
UL group single premium pension (735)	37.24	27.58

For BULA, in addition to the per policy expenses, the per premium cost assumptions for the calculation of unit linked sterling reserves were:

Product Group	Current Valuation	Previous Valuation
	%	%
Ex-Unit Linked Fund	1.50%	1.50%

The expenses on life business are netted down for tax at 20%.

There are no zillmer adjustments for the policies to which the above expenses apply..

The non-attributable expenses are for fund merger costs, migration costs, additional project costs and endowment review costs. The reserves for the non-attributable expenses is equal to the expected expenses after allowing for tax relief on life business.

(7) Unit Growth Rates

Previous Company	Product Group	Unit growth rate before management charge	Expense inflation rate assumed	Policy charge increase rate assumed
		(% p.a.)	(% p.a.)	(% p.a.)
PLL but not SLUK	Life business except for Home Ownership Plan	4.55%	7.30%	4.50%
	Home Ownership Plan	2.51%	7.30%	3.50%
	Pensions business	4.75%	7.30%	4.50%
SLUK	Life business	4.55%	4.90%	0.00%
	Pensions business	4.75%	4.90%	0.00%
Alba	Life business	4.55%	4.50%	0.00%
	Pensions business	4.75%	4.50%	0.00%
Century	Life Funds	4.25%	5.50%	4.50%
	Pension Funds	4.45%	5.50%	4.50%
BULA				
Former UL Fund business	Life business	4.55%	3.50%	3.50%
	Pensions business	4.75%	3.50%	3.50%
Former Non-Profit Fund business	Life business	4.55%	4.50%	3.50%
	Pensions business	4.75%	4.50%	3.50%
BRS	Pension Annuities	7.75%	3.50%	n/a
BA	Pension Annuities	n/a	4.50%	n/a

In the case of linked contracts previously written in Alba, where there is discretion in the level at which charges are set, provision has been made for policy fees to increase according to the increases in the either the Retail Price Index or the National Average Earnings Index according to the terms of the policy. No other increases to policy charges have been assumed.

(8) Future Bonus Rates

Not applicable

(9) Persistency Assumptions

For products where the valuation method has not been changed for CP06/16 legislation, no future lapses are taken credit for in the valuation method used.

Policies previously written in PLL

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse (if reserve positive)	8.40%	8.16%	6.00%	6.00%
Level term	Lapse (if reserve negative)	5.60%	5.44%	4.00%	4.00%
Decreasing term	Lapse (if reserve positive)	12.00%	12.48%	10.80%	10.80%
Decreasing term	Lapse (if reserve negative)	8.00%	8.32%	7.20%	7.20%
Accelerated critical illness	Lapse (if reserve positive)	10.80%	10.80%	10.80%	10.80%
Accelerated critical illness	Lapse (if reserve negative)	7.20%	7.20%	7.20%	7.20%

The reserve for an individual policy is equal to the most onerous calculation from assuming:

- A positive margin at all durations
- A negative margin at all durations
- A positive margin when the policy is an asset and a negative margin when the policy is a liability.

Policies previously written in Alba

The valuation makes no allowance for lapses.

Policies previously written in BULA

Product		Average lapse / surrender / paid-up			
		1-5	6-10	11-15	16-20
Level term	Lapse (if reserve positive)	11.00%	9.60%	9.60%	9.60%
Level term	Lapse (if reserve negative)	7.40%	6.40%	6.40%	6.40%
Decreasing term	Lapse (if reserve positive)	26.20%	29.00%	29.00%	29.00%
Decreasing term	Lapse (if reserve negative)	17.50%	19.30%	19.30%	19.30%

The reserve for an individual policy is equal to the most onerous calculation from assuming:

- A positive margin at all durations
- A negative margin at all durations
- A positive margin when the policy is an asset and a negative margin when the policy is a liability.

Policies previously written in BRS

The valuation makes no allowance for lapses as all of the policies are immediate annuities.

Policies previously written in BA

No allowance for lapses is made in the valuation.

(10) Other Material Assumptions

Not applicable.

(11) Allowance for Derivatives

The fund holds a number of swap contracts. The swap contracts (both assets and liabilities) are incorporated within the fixed interest portfolio for the purposes of determining a valuation rate of interest. Specifically for interest rate swaps we:

(i) Calculate the cashflows that the swaps will produce if future interest rates are in accordance with the LIBOR forward yield curve at the valuation date.

(ii) Calculate the cashflows arising from the fixed interest portfolio (excluding swaps) if held to redemption.

(iii) Find the overall yield on the fixed interest portfolio (excluding swaps) by equating the cashflows in (ii) to the market value of the fixed interest assets (excluding swaps).

(iv) Find the overall yield on the combined fixed interest and swap portfolio by equating the cashflows in (i) and (ii) to the market value of the swaps plus the fixed interest assets.

(v) The difference between the yields in (iii) and (iv) shows the impact on yield of folding the swaps in with the fixed interest portfolio.

In addition to the swaps, the assets described in form 13 contain derivative contracts. These derivative contracts are to manage asset exposure and reduce risk and are appropriately matched. The derivatives do not directly impact the long term insurance liabilities.

(12) Effect of Basis Changes

Not applicable. The changes in INSPRU valuation rules effective from 31 December 2006 were implemented prior to the December 2007.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

Policies previously written in PLL

(a) Methods

A reserve to cover possible liabilities under the guaranteed annuity option is calculated using scenarios from the Barrie & Hibbert investment model to estimate the additional liability at the normal retirement date, assuming that 5% of the maturity value will be taken as cash. The following mortality basis is used:

Mortality		
	Before vesting	53.4% AM92
		60.10% AF92
	After vesting	61.50% PMA80 C=2010
		75.20% PFA80 C=2010
Allowance for future improvements		
	Before vesting	1.5% p.a. males
		1.5% p.a. females
	After vesting	1.5% p.a. males
		1.5% p.a. females

(b)

Product Name	Personal Pension Investment Plan contracts issued in 1982 and 1983, Directors' and Executives Pension Plan	Personal Pension Plan and Retirement Annuity Policy
Basic reserve	£17.1m	£5.6m
Spread of outstanding durations	As a percentage of guarantee 65.4% < 5 years 23.8% between 5 and 10 years 10.5% between 10 and 20 years 0.3% over 20 years	As a percentage of guarantee 69.8% < 5 years 27.1% between 5 and 10 years 3.1% between 10 and 20 years nil over 20 years
Guarantee reserve	£2.4m	£1.8m
Guarantee annuity rate (age 65 male)	£109.30 p.a. for £1000 cash sum for Personal Pension Investment Plan £111.37 p.a. for £1000 cash sum for Directors' and Executives Pension Plan (PGP&A)	£106.67 p.a. for £1000 cash sum.
Increments	Increments are not allowed	Increments are not allowed
Frequency	Annually in arrears, no guarantee period	Annually in arrears, no guarantee period
Retirement ages	Between 60 and 75	Between 60 and 75

Policies previously written in SLUK

(a) Methods

An additional reserve is calculated for options on the FT30 index-linked life policies. The following basis is used:

Age	Surrender rate
	p.a.
Prior to age 50	0%
At exact age 50	10%
55	20%
60	40%
65	100%

It is assumed that 80% of policyholders exercise the option to purchase an annuity, valued on the basis of 95% IMA92/IFA92, 3.9% p.a. interest with 2% expenses.

The uncertainty of future interest rates has been allowed for by valuing the annuity using the alternative assumptions that interest rates will be 30% lower or 30% higher than those underlying the central rate. The reserve is taken as the average of the three results.

(b)

Product Name	Protection Plan	Escalator Plan
Basic reserve	£19.6m	£51.9m
Spread of outstanding	0-25 years	0-25 years
Guarantee reserve	£3.2m	£5.2m
Guarantee annuity rate (age 65 male)	£102.88 p.a. for £1000 cash sum for policies commencing before 1979 £79.88 p.a. for £1000 cash sum for policies commencing in 1979 or 1980	£102.88 p.a. for £1000 cash sum for policies commencing before 1979 £79.88 p.a. for £1000 cash sum for policies commencing in 1979 or 1980
Increments	Increments are not allowed	Increments are not allowed
Frequency	Half-yearly in arrears, 5 years guarantee period	Half-yearly in arrears, 5 years guarantee period
Retirement ages	Available on surrender at 50, 55, 60 or 65	Available on surrender at 50, 55, 60 or 65

Policies previously written in Alba

Not applicable

Policies previously written in Century

(a) Methods

The liabilities for Guaranteed Annuity rate Options (GAOs) were calculated at policy level using a deterministic valuation interest rate. All the policies were significantly in

the money at the valuation date and are likely to remain so in the future unless interest rates increase substantially. The value of the GAOs is therefore virtually all intrinsic value, and if a stochastic method had been used, the reserves thus calculated would not be materially different from the values reported.

The main assumptions used to value GAOs were:

(i) 20% of policies take 25% of their fund as cash at retirement leading to a 95% GAO take-up rate assumption for all outstanding durations;

(ii) mortality was assumed to be on the same basis as for the underlying policy valuation;

(iii) an expense allowance of 4% was included for payment expenses post vesting for all classes;

(iv) a valuation interest rate of 3.85%; and

(v) the rate of interest used after vesting was 4.75%.

For Ex-NEL Guaranteed growth policies, swaptions are held to hedge the GAO risk. The liabilities for these contracts are valued using the method above, and full value is given to the swaption contract.

The swaption asset is included at fair value from information provided by Deutche Bank.

Details of GAOs that were in force at the valuation date are shown in the table below

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	GAO Rate	Incrs Yes/No	Ann. Form	Ret. Ages
Ex-NEL Gteed Growth	19.8	0-26	12.5	11.11%	Yes	*	60-75
Ex-NEL Linked	13.5	0-22	8.5	11.11%	Yes	*	60-75
Ex-Crown Dep Admin	2.5	0-23	0.1	10.25%	Yes	*	60-65
Ex-OMLA Ex-WP	8.4	0-18	2.6	8.90%	Yes	*	50-75

*The GAO rates shown are for a male age 65, monthly level annuity, payable in advance with 5 year guarantee period – other options are available. For the Ex-Crown policies, the rate shown is for policies retiring during policy years 11 to 20.

In general, where policyholders may make increments to the policy, the GAO does not apply to the regular premium increases or additional single premiums.

Policies previously written by BULA

There are no guaranteed annuity rate options

Policies previously written by BRS

There are no guaranteed annuity rate options

Policies previously written in BA

There are no guaranteed annuity rate options

(2) Guaranteed Surrender and Unit-linked Maturity Values

Policies previously written in PLL

a) Methods

Surrender Guarantees

Multiple Growth Bonds: Some policies have a special minimum value on surrender (only payable in certain extreme circumstances) of 100% of premiums paid to date. It was not considered necessary to incorporate an additional reserve.

Property Growth Plan and Executive Property Growth Plan: From the fifteenth policy anniversary onwards there is the guarantee that the surrender value is not less than the sum of premiums paid. The current value of units of each policy is such that it is not considered necessary to keep any reserve in respect of this guarantee.

Flexible Savings Plan: From the tenth policy anniversary onwards there is the guarantee that the surrender value is not less than five-sixths of premiums paid. The current value of units of each policy is such that it is not considered necessary to keep any reserve in respect of this guarantee.

Protection Plan: This contract provides a guaranteed surrender value and contains an in-built contingency margin as the value of the units in the reserve account at the previous policy anniversary will usually exceed this surrender value. A further contingency reserve of £10,000 is set up in respect of the guarantee. This reserve has not been included in the table below.

All-Weather Bond: From the fifteenth policy anniversary onwards there is the guarantee of a cash value of at least 150% of the single premium paid. The current value of units of each policy is such that it is not considered necessary to keep any reserve in respect of this guarantee.

For non-linked single premium contracts to which guaranteed surrender values currently apply, the reserve was, if necessary increased so that it is not less than the current guaranteed surrender value.

Maturity Guarantees

The reserving bases for investment performance guarantees are summarised below.

Lloyds Bank contracts issued between 1968 and 1973: These have a minimum amount guaranteed on maturity. Some of these contracts have been endorsed at maturity to continue for a further period of ten years but the original guarantee only has been retained and not increased despite the payment of a further ten years'

premiums. It is considered that no reserve is necessary to provide against these guarantees because of the current size of the unit liabilities compared with the guarantees given.

Fairshare Endowment Plans (Series I), Endowment Plans (Property and Managed Fund units): A reserve to cover possible liabilities under the maturity guarantee is calculated using the Barrie & Hibbert stochastic investment model to assess the market value of the guarantee.

Endowment Plans (Fixed Interest Fund units): A stochastic investment model was considered unnecessary and a reserve of £10,000 is included for the maturity guarantee reserve on this small group of policies. This reserve has not been included in the table below.

Home Ownership Plan (including Low Start variant): Any projected shortfall at maturity has been allowed for in the cash flow projections and no further reserve is necessary. The deterministic cash flow reserve exceeds the market value of the guarantee as estimated using a Barrie and Hibbert market consistent stochastic asset model.

Acorn Plan, Flexible Savings Plan, Endowment Policy and Whole Life Policy: No reserve is considered necessary.

b)

Product Name	**Fairshare Endowment Plans (Series I)**	**Endowment Plans (Property and Managed Fund units):**
Basic reserve	£6.2m	£0.7m
Spread of outstanding durations	As a percentage of unit fund: 26.0% < 5 years 31.3% between 5 and 10 years 24.9% between 10 and 15 years 9.4% between 15 and 20 years 8.3% over 20 years	As a percentage of unit fund: 80.0% < 5 years 19.3% between 5 and 10 years 0.7% between 10 and 15 years nil between 15 and 20 years nil over 20 years
Guarantee reserve	£0.2m	£0.0m
Guaranteed amount	Guaranteed sum assured at maturity specified at outset of the policy	Guaranteed sum assured at maturity specified at outset of the policy
MVA free conditions	No MVAs are allowed	No MVAs are allowed
In force premiums	£0.1m	£0.0m
Increments	Increments are not allowed	Increments are not allowed

Product Name	Wealth Assured Endowments
Basic reserve	£38.2m
Spread of outstanding	Up to 45 years outstanding duration.
Guarantee reserve	£0.8m (aggregate reserve for all Wealth Assured Contracts)
Guaranteed amount	For contracts issued before April 1979 there is a guarantee that at the end of ten years and throughout the eleventh year the sum payable will not be less than 100% of the total premiums paid (excluding the policy fee). This proportion will increase by 1% at each policy anniversary until final maturity. For later contracts the minimum sum assured payable at the end of ten years for each £10 per month premium (excluding policy fee) is £1000 and this amount increases by £125 for males and £140 for females at the end of each complete year thereafter until final maturity.
MVA free conditions	No MVAs are allowed
In force premiums	£0.4m
Increments	Increments are not allowed

Product Name	Wealth Assured Ten + Ten contracts
Basic reserve	£0.2m
Spread of outstanding	Outstanding durations until the next guarantee date range from 3 months to 9 years
Guarantee reserve	£0.8m (aggregate reserve for all Wealth Assured Contracts)
Guaranteed amount	Minimum sum assured payable at end of ten years is the total premiums paid
MVA free conditions	No MVAs are allowed
In force premiums	£0.0m
Increments	Increments are not allowed

Product Name	Wealth Assured Bonds
Basic reserve	£7.9m
Spread of outstanding	Whole Life contract. The youngest current age is 30.
Guarantee reserve	£0.8m (aggregate reserve for all Wealth Assured Contracts)
Guaranteed amount	On surrender the cash value of the bond is the value of the units allocated at the last published bid price, subject to a provision that if the bond had been in force for ten years and no part of it had been cashed or withdrawn, the cash value is guaranteed to be not less than 125% of the original single premium; this guarantee increases to 200% after 20 years and 300% after 30 years. Reduced guarantees apply if part of the bond has been cashed.
MVA free conditions	No MVAs are allowed
In force premiums	N/A
Increments	Increments are not allowed

Policies previously written in Alba

There are no guaranteed surrender and unit-linked maturity values.

Policies previously written in Century

The total basic reserve for guaranteed surrender and unit-linked maturity values, where an additional reserve is considered necessary, is below the lesser of £10m and 0.1% of total mathematical reserves.

Policies previously written in BULA

The Flexible Investment Plan (first series) contains a maturity guarantee. The contract is an endowment assurance maturing on the anniversary of the date of the contract preceding the sixty-fifth birthday of the life assured. The contract is closed to new business.

The amount payable on maturity of the contract or on earlier death of the life assured is the greater of the value of the relevant shares at the current bid price and the premiums payable over the entire term of the contract. There is an option on maturity for the contract to be continued for an indefinite period without the continued payment of premium. The amount payable at the end of the continuation is the value of the relevant shares at the current bid price. The amount payable on death during the continuation is the greater of the value of the relevant shares at the current bid price and the premiums payable over the entire term of the contract.

The unit reserves are calculated as described in section 4(1) above.

Expense reserves are determined by use of projected cashflows which allow for the guarantee and the reserves were set such that no policy would produce a future valuation strain.

b)
In respect of the guarantees described in 5(2) (a)

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	Gtee Amount £m	MVA Free conditio	In Force Premiums £m	Incrs Yes/No
Flexible Investment Plan (first series)	18.9	0-22	0.0	7.5	N/A	0.2	No

Policies previously written in BRS

There are no guaranteed surrender or unit-linked maturity values.

Policies previously written in BA

There are no guaranteed surrender or unit-linked maturity values.

(3) Guaranteed Insurability Options

Policies previously written in PAL

Some term assurance policies include options to extend the policy term or convert to other policies without requiring further evidence of heath. Where there are options to convert or extend an additional reserve is calculated as the larger of 10% of the normal term assurance reserve and 20% of the office premium except for Renewable Convertible Term Assurance. For Renewable convertible Term Assurance this reserve is the larger of 20% of the normal reserve and 30% of the office premium. The total sum assured under the policies is less than £1bn.

The Progressive Protection Plan and Flexible Mortgage Plan include a Special Events option which allows the planholder to increase the sum assured without further underwriting on certain events such as marriage of the life assured or birth of each of the life assured's children. The cost of the options is implicitly allowed for in the normal reserve.

Policies previously written in SLUK

Some term assurance and critical illness policies contain conversion and renewal options. Some policies also contain guaranteed insurability options where a term assurance may be taken out at standard rates if the life survives for 12 months following a critical illness claim. Loadings are applied in the calculation of the reserve, usually as a percentage of premiums paid, to allow for the cost of these options. The total sum assured under these policies is less than £1bn.

Policies previously written in Alba

The reserves for guaranteed insurability options do not exceed the materiality limits.

Policies previously written in Century

Guaranteed insurability, continuation and conversion options are available on a number of conventional and linked products.

For Century Level and Increasing Term Assurances which carry the right to renew the policy on the expiry of the term, provision was made for an additional reserve at the end of the term equal to £3.00 for each £1,000 of sum assured then in force.

A reserve has been set up in respect of the provision included in ex-NEL Convertible Term Assurance to effect replacement contracts without further evidence of health. This reserve is included in the net premium reserve for the contract. An additional reserve of £40,000 has been made to cover options to effect new contracts without evidence of health under other policies. A further revival reserve of £40,000 has been made with respect to ex-NEL policies.

The provision for the options under Convertible Term Assurances and Mortgage Protection - New Series contracts was determined by accumulating the proportion of the office premium reserved for options at the appropriate valuation rates of interest.

For ex-CCL convertible term assurances, an additional reserve was held equal to the proportion of the total office premiums in respect of the conversion option paid since

the inception of the contract. The premium rates for convertible term assurances are equal to those for ordinary term assurances with a 15% loading for the conversion option (10% for policies issued before March 1979).

For ex-CCL Versatile Investment Plan policies, provision has been made for the guaranteed insurability option of 0.1% of the total office premiums paid since inception.

For A-plan policies additional reserves were held equal to 3% of the sum assured discounted to the maturity date at 4.5% in respect of the guaranteed insurability option.

No provision was deemed necessary in respect of the options under the Flexible Protection Plans, Serious Illness Plans and Flexible Mortgage Plans, on the grounds that (i) there are already margins in the existing rates of monthly mortality deductions, and (ii) these, and the rates of morbidity deductions, can be increased at the Company's discretion.

No specific provision has been made in the reserves for the option under the ex-NBA Mortgage Protection contract as it is not expected, under current conditions, that any option effected will result in a loss to the Company.

No explicit provision has been made for the option under the ex-NAL Mortgage Protection Plans or Tailored Mortgage Protection to increase the sum assured. The margins in the mortality assumptions are assumed to cover any cost of the option.

In respect of certain Retirement Annuities, where the pension date and the benefits payable may be altered within the limits imposed by statute, and in respect of cash options under certain deferred annuity bonds, no specific provision has been made for the options available. Deferred annuity bonds with cash options have been valued by discounting the amounts of the cash options. No significant liability would arise if the policyholders elected to exercise the annuity options.

b)

The total sum assured for policies with guaranteed insurability, continuation and conversion options is less than £1bn.

Policies previously written in BULA

A number of term assurance products have a renewability option on expiry. A reserve is held equal to 13% of the total office premium payable over the whole term of the policy.

There are no products with conversion or renewal options where the total sum assured exceeds £1bn.

Policies previously written in BRS

There are no guaranteed insurability options.

Policies previously written in BA

There are no guaranteed insurability options.

(4) Other Guarantees and Options

Policies previously written in PLL

Investment Performance Guarantees

Price Guarantees

The prices of units in a number of deposit funds are guaranteed not to fall, for some of the products investing in those funds.

The assets backing these funds and the nature of the institutions with whom the investments are placed (mainly building societies and banks) are such that no reserve is considered necessary for these guarantees.

Units in the Old Building Society Linked Pension Fund are guaranteed to increase in value on a year to year basis in line with the lending rate of interest used by Abbey plc on residential mortgages. An additional provision of £1.941m has been made within the long-term insurance business liabilities in respect of this arrangement. This is calculated as 15% of the value of the fund, taking into account the outstanding term of the business and the expected difference between the rate guaranteed and the rate earned on the underlying assets.

Investment Guarantees on Deposit Administration Pension Contracts (PAL)

The Deposit Administration Pension contracts previously written by PAL have investment guarantees. The additional provision in respect of the guarantee is £4.341m. This is calculated as 15% of the base reserves for these contracts, taking into account the outstanding term of the business and the expected difference between the rate guaranteed and the rate earned on the underlying assets.

Policies previously written in Alba

There are no other significant guarantees or options.

Policies previously written in Century

Investment guarantees operate on ex-NELPEN Guaranteed Growth plans, ex-Crown plans investing in the Deposit Administration fund, and certain ex-OMLA and ex-Hiscox ex-With Profit plans. These are explicitly valued and form part of the basic reserves.

In view of the nature of the investments of the ex-NELPEN Nelex Deposit Fund, ex-NBA Building Society Fund (Life Assurance Business), the Crown Money Fund and the ex-Prosperity Deposit and Pension Deposit Funds, no provision has been made for the guarantee that unit prices will not fall.

On ex-Prosperity Accident Income plans, WISP and Super WISP 25 policies, there is an option to change the beneficiary at any time – no reserve is currently held for this option.

Policies previously written in BULA

Some term assurance products include an option to increase the sum assured on marriage or birth. This option is allowed for by holding a reserve equal 10% of the of the office premiums, which have become due by the valuation date.

Policies previously written in BRS

There are no other guarantees or options.

Policies previously written in BA

There are no other guarantees or options.

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the twelve months after the valuation date from implicit and explicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is shown below.

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
All Products	1.8	13.2	44.2	21.2	80.4
All expenses attributable	1.8	13.2	44.2	n/a	59.2
Total	1.8	13.2	44.2	21.2	80.4

(2) Implicit Allowances

Implicit allowances for expenses are the margin between the office premium and the net premium for prospectively valued contracts where the net premium method has been employed.

(3) Form 43 Comparison

The total amount of maintenance expenses shown in 6 (1) is significantly different from the total shown in line 14 of Form 43:

	F43.14	table 6(1)	Difference
Homogeneous risk group	(a) £m	(b) £m	(b) - (a)
All Products	61.5	80.4	18.9
Total	61.5	80.4	18.9

The difference is explained mainly by the non-attributable expenses and margins in the expense loadings which are not included in the current year form 43 line 14.

Non –attributable expenses include a provision for costs associated with treating customers fairly (see section 8) which are expected to be incurred in 2008, expenses associated with the mortgage endowment review and an allowance for ongoing project costs. These items appear in line 15 of form 43 in the year they are incurred.

The expense loadings also include an additional years inflation compared to form 43. These additional expenses are offset by the run off of the the closed fund.

(4) New Business Expense Overrun

The company is closed to new business except for contractual increments which includes immediate annuities arising from vesting deferred pension policies. The agreement with the management services company specifies the expenses to be incurred and premium rates allow for the expenses to be charged. The company does not therefore expect to incur any material strain in writing new business so no additional reserve is required.

(5) Maintenance Expense Overrun

Expense reserves in accordance with 6.1 are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts under the management services agreement. The agreement includes a prudent allowance for costs that are not covered by standard fees payable under the agreement.

Policies previously written in Alba

For the LASPEN Managed Fund contracts. (As the basis of charging for both administrative and investment management services can be varied outside the period of guarantee, which covers only the first three years following the commencement of a policy, no explicit provision for future expenses is deemed necessary.)

An additional reserve of £0.6m has been set up in respect of the Capita contract to allow for the potential cost of renegotiating the contract at the renewal date. No such reserve is considered necessary in respect of RMS contract since the contract allows for Alba IT costs to fall to BA unit cost levels which has not been allowed for in the expense assumptions.

Policies previously written in PLL

Other than a reserve of £0.228m, no allowance has been made for redundancy costs (as these will be met by the service provider), or for any costs of terminating the management services agreement (as the service provider does not have the option to terminate the contract).

Policies previously written in BRS

The expenses in table 6(1) make no allowance for future redundancy costs. An additional reserve of £1.7m is established to cover the risk that there is a one-off

increase in expenses when the current management services agreement is reviewed in 2014. This reserve assumes a 25% uplift in per policy expenses at the review date.

Policies previously written in BA

The expenses in table 6(1) make no allowance for future redundancy costs. An additional reserve of £0.9m is established to cover the risk that there is a one-off increase in expenses when the current management services agreement is reviewed in 2014. This reserve assumes a 20% uplift in per policy expenses at the review date.

(6) Non-attributable expenses

The non-attributable expenses are for fund merger costs, system migration costs, additional project costs and endowment review costs. The reserves for the non-attributable expenses is equal to the expected expenses after allowing for tax relief on life business.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

Currency	Mathematical Reserves £m	Backed by assets £m
Sterling (£)	989.6	989.6
Other currencies	4.9	4.9
Total	994.5	994.5

(2) Other Currency Exposures

The proportion of these liabilities which are matched by assets in the same currency is 28%.

(3) Currency Mismatching Reserve

All of the liabilities and the majority of the assets are denominated in sterling and are backed mainly by fixed interest assets and cash. This combined holding results in minimal currency risk and so no additional currency mismatching reserve is required.

(4) Most Onerous Scenario Under INSPRU 3.1.16(R)

Not applicable

(5) Most Onerous Scenario Under INSPRU 3.1.23(R)

There are no significant territories outside the United Kingdom.

(6) Resilience Capital Requirement

Not applicable

(7) Additional Reserves Arising From INSPRU 1.1.34(2)(R)

No further reserve is required in respect of INSPRU 1.1.34(2)(R).

The size, currency and term of assets in respect of non profit fund are reviewed regularly. The liabilities are backed mainly by fixed interest assets and cash and projections are carried out on appropriate, realistic assumptions and Investment Managers are given rules to control the duration of such assets.

In view of this, no additional reserves for cashflow mismatching are regarded as appropriate.

8. OTHER SPECIAL RESERVES

The special reserves exceeding the lesser of £10m or 0.1% of the total mathematical reserves are as follows:

Description	Gross Reserve	Reassurance	Net Reserve
	£m	£m	£m
Endowment Compensation Reserve	14.1	0.0	14.1
Data Contingency Reserve	30.0	7.8	22.2
Litigation Reserve	22.5	5.9	16.6
Counterparty Risk Reserve	13.0	0.0	13.0
PHI Contingency Reserve	30.0	0.0	30.0
TCF Reserve	12.0	0.0	12.0

Endowment Compensation Reserve

Some policyholders may have been given non-compliant advice to take out an endowment policy to repay a mortgage.

An reserve has been provided to cover the cost of providing compensation to them. This has been assessed from the number of complaints expected to be received, the proportion anticipated to be valid and the expected amount of compensation per case payable, account being taken of the FSA guidelines on determination of compensation. Provision has also been made for the cost of handling complaints received.

The amount is included in the mathematical reserve for the relevant endowment products.

Data Contingency Reserve

Data contingency reserves for additional expenses which may arise in connection with data errors affecting the long-term business and is calculated having regard to past experience.

Litigation Reserve

Reserves are held for future litigation settlements and similar costs, which are calculated having regard to past experience.

Counterparty Risk Reserve

A counterparty risk reserve in respect of the Company's policy administration and investment management outsourcing arrangements.

PHI contingency Reserve

A reserve has been established to provide additional prudence to the PHI reserving assumptions.

TCF Reserve

A reserve has been established to cover costs associated with a project to ensure all the company's policies and processes treat customers fairly.

9. REINSURANCE

(1) Facultative treaties

(a) No premiums were payable on a facultative basis to a reinsurer that was unauthorised to carry on insurance business in the UK.

(b) No premiums were payable to a connected company reinsurer that was unauthorised to carry on insurance business in the UK.

(2) Reinsurance Treaties

The required details of the reinsurance treaties in force at the valuation date are set out below.

For Policies previously written in PLL

(d) Swiss Life Insurance and Pension Company.

(e) A block of single premium compulsory purchase annuity contracts are reinsured on original terms.

(f) No premiums were payable by the company under the treaty during the year.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £17.9m.

(k) As (e)

(d) UNUM Provident.

(e) Claims resulting from Group PHI contracts are 100% reinsured

(f) No premiums were payable by the company under the treaty during the year.

(g) There are no deposit back arrangements.

(h) The treaty is open to new business.

(i) There are no undischarged obligations

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £146.5m.

(k) As (e)

(d)	**Swiss Re**
(e)	Group PHI, excluding schemes written under multinational pooling, is reinsured on a 50% quota share basis with a maximum retention on any one life of £75,000 p.a. All individual claim benefits greater than the maximum retention are 100% reinsured with Swiss Re.
(f)	The premiums payable by the company under the treaty during the year were £0.6m.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	The amount of mathematical reserves ceded under the treaty at the valuation date was £47.8m.
(k)	As (e)

(d)	**Swiss Re**
(e)	PHI policies are reinsured on a 50% quota share basis with a maximum retention of £25,000p.a.
(f)	The premiums payable by the company under the treaty during the year were £6.7m.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	See Note 1
(k)	As (e)

(d)	**Swiss Re.**
(e)	Term, Term & TPD and waiver of premium policies are reinsured on a 90% quota share basis with a maximum retention of £50,000 / £300 p.a. (or $75,000 / $450 p.a.). Advance commission is also provided.
(f)	The premiums payable by the company under the treaty during the year were £6.0m.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	See Note 2
(k)	As (e)

(d) **GE Frankona.**

(e) Certain Critical illness, TPD and Term & CI policies are reinsured on an 85% quota share basis with a maximum retention of £50,000. The business covered is the same as the treaty withGen Re and Kolnische Ruck described below. Certain other policies of the same types are reinsured on a 90% quota share basis with a maximum retention of £50,000, and for these policies. Advance commission is also provided.

(f) The premiums payable by the company under the treaty during the year were £1.4m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 2

(k) As (e)

(d) **GE Frankona.**

(e) The treaty covers PHI reinsurance business accepted by the company. Where the P.H.I. reinsurance exceeds £25,000p.a. the excess is reinsured.

(f) The premiums payable by the company under the treaty during the year were £0.8m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 1

(k) As (e)

(d) **Munich Re**

(e) Term and Term & TPD policies are reinsured on a 90% quota share basis with a maximum retention of £50,000 (or $75,000). Advance commission is also provided.

(f) The premiums payable by the company under the treaty during the year were £11.7m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 2

(k) As (e)

(d) Gen Re. And Kolnische Ruck

(e) Critical Illness, TPD and Term CI policies are reinsured on a 75% quota share basis (90% prior to 7 July 2003) with a maximum retention of £100,000 (£50,000) prior to 7 July 2003). Advance commission was also provided until 26th January 2003. The treaty is a co-reinsurance arrangement, 5% of the reinsured business being underwritten by Gen Re and 95% by Kolnische Ruck.

(f) The premiums payable by the company under the treaty during the year were £12.0m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 2

(k) As (e)

(d) GE Frankona

(e) PHI policies are reinsured on an 85% quota share basis with a maximum retention of £25,000pa. With effect from 1 January 2003, reinsurance is on a risk premium basis.

(f) The premiums payable by the company under the treaty during the year were £13.7m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 1

(k) As (e)

(d) Legal and General

(e) A 50% quota share of Fair Share Whole Life business written between 1.9.74 and 30.9.80.

(f) No premiums were payable by the company under the treaty during the year.

(g) £ nil

(h) The treaty is closed to new business.

(i) £ nil

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £10.7m.

(k) The treaty is a 50% quota share arrangement.

(l) All reinsurers included are authorised to carry on insurance business in the UK.

(m) None of the above reinsurers is a connected company of the insurer.

(n) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(o) Under each treaty consideration has been given to the overall position in the event of contracts lapsing. Where the commission refund due to the reinsurer is proportionate to the commission refund due to the company on the original contract, then taking into account the reserves released on the retained benefits, and the refunds of commission expected to be received by the company in respect of the original contracts, it has not been considered necessary to hold any additional reserve. Where the commission refund due to the reinsurer is more than an amount proportionate to the commission refund due to the company on the original contract, then a reserve has been set up to cover the expected shortfall.

(p) There are no financing reassurance treaties.

Note 1 The total reserves ceded in respect of treaties covering individual PHI business previously written by SLUK are £22.8m.

Note 2 The total reserves ceded in respect of treaties covering TA, CI and TPD business previously written by SLUK are £26.0m.

For Policies previously written in Alba

Not applicable

For Policies previously written in Century

(d)	**XL Re**
(e)	100% of the benefits under the company's ex-OMLA non linked immediate annuity business that was in force at the end of 16 December 1999.
(f)	No premiums were payable by the company under the treaty during the year.
(g)	There is no deposit back arrangement
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	The amount of mathematical reserves ceded under the treaty at the valuation date was £361.2m.
(k)	As (e)
(l)	XL Re is not authorised to carry on insurance business in the United Kingdom
(m)	The reinsurer is not a connected company of the insurer.
(n)	The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.
(o)	No provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract.
(p)	This is not a financing reassurance treaty

For policies previously written in BULA

Not applicable.

For policies previously written in BA

(d) **SCOR Global Life Reinsurance UK Limited**

(e) The treaty covers mortality and critical illness benefits on a quota share basis.

(f) The premiums payable by the company under the treaty during the year were £1.5m.

(g) There are no deposit back arrangements

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £0.1m.

(k) The insurer retains 10% of the risk.

(l) SCOR Global Life Reinsurance UK Limited is authorised to carry on insurance business in the United Kingdom

(m) The reinsurer is not a connected company of the insurer.

(n) There are no material contingencies, such as credit risk or legal risk, to which the treaty is subject.

(o) There is no reinsurance commission payable under the contract.

(p) This is not a financing reassurance treaty

Non-profit immediate annuities, non-profit conventional deferred annuities and non-profit deposit administration deferred annuities not reinsured externally.

(d) **Phoenix Pensions Limited**

(e) The treaty covers non profit immediate annuities, non-profit conventional deferred annuities and non-profit deposit administration deferred annuities. The liabilities are 100% reinsured.

(f) The premiums payable by the company under the treaty during the year were £2491.7m.

(g) There are no deposit back arrangements

(h) The treaty is open to new business.

(i) There are no undischarged obligations

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £2741.7m.

(k) As (e)

(l) Phoenix Pensions Limited is authorised to carry on insurance business in the United Kingdom

(m) The reinsurer is a connected company of the insurer.

(n) There are no material contingencies, such as credit risk or legal risk, to which the treaty is subject.

(o) There is no reinsurance commission payable under the contract.

(p) This is not a financing reassurance treaty

10. REVERSIONARY (OR ANNUAL) BONUS

Not applicable

APPENDIX 9.4A

PHOENIX LIFE LIMITED

Abstract of Valuation Report for Realistic Valuation

1. INTRODUCTION

(1) Valuation Date

The valuation date is 31 December 2007.

(2) Previous Valuation

The previous valuation date was 31 December 2006.

(3) Interim valuations

No interim valuations have been carried out.

Alba With-Profits Fund

2. ASSETS

(1) Economic Assumptions For Valuing Non-profit Business

The economic assumptions used to calculate the value of future profits on non-profit business are as follows:

	Current Valuation	Previous Valuation
Fixed Interest Investment return	4.65%	4.72%
Risk discount rate	4.65%	4.72%
RPI Inflation	3.50%	3.30%
Expense inflation	4.50%	4.30%

For the first 8 years the inflation assumption for individual business is 9.5% to reflect the terms of the management services agreement.

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable

(5) De Minimis Limit

Not applicable – the assumptions in (1) relate to all non-profit business within the With-Profits Fund.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
Unitised With-Profits 0% guarantee	On an individual policy basis the face value of units has been multiplied by a factor representing the ratio of units to asset shares calculated retrospectively for representative policies of similar duration and premium paying type (i.e. single or recurring).	46.9	0.2
Unitised With-Profits 4% guarantee		20.8	0.1
Deposit Administration		131.7	3.5
Unitised Capital Guarantee Fund		25.5	0.1
Paid up policies without guaranteed annuity options for which premium history is insufficient to calculate retrospective asset shares.	The present value of future benefits less expenses. The mathematical reserve was calculated using the published statutory basis.	60.2	1.4
As above but with guaranteed annuity options.		9.9	5.6
Other policies without guaranteed annuity options	Individual asset shares calculated using actual premiums received, fund performance and expenses incurred in accordance with the PPFM.	657.6	113.7
Other policies with guaranteed annuity options.		143.0	108.3
Adjustments			8.1
Total		1,095.7	240.9
Form 19 Line 31		1,095.7	
Form 19 Line 49			240.9

(2) Correspondence With Form 19

The above reconcile to lines 31 and 49 of Form 19.

The adjustments consists of £6.7m provision to repay part of the contingent loan (see paragraph 7), plus the £2.1m future transfer of BL pre 1990 business (see paragraph 8) less £26.0m of expected future profits. Furthermore, a GN45 adjustment of £25.3m is included in Line 34.

(3) With-Profits Benefits Reserves Below De Minimis Limit

Not applicable as all products have been disclosed.

(4) Types Of Products

The main class of guarantees are minimum annuity rate options and these have been separately identified in the table above. The only significant bonus guarantees are on unitised with-profits 4% guarantee policies.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a) All contracts have been calculated on an individual policy basis.

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant Changes To Valuation Method

(a) There have been no significant changes in the method of calculating the with-profits benefits reserve.

(b) No policies were valued using approaches more approximate than used for the previous valuation.

(3) Expense allocation

(a) The previous expense investigation was carried out in December of the current financial year.

(b) Expense investigations are carried out annually.

(c) A specific investigation was carried out for this valuation.

(i) Being closed to new business, all expenses were identified as maintenance expenses.

(ii) Maintenance expenses for the with-profits business for the year to the valuation date were:

	£m
Life - individual	5.9
Pensions - individual	1.7
Pensions - corporate	3.5
Total	11.1

(iii) Expenses incurred in the year are allocated to specific classes of business, e.g. life / pensions and individual / corporate. The individual corporate pensions split represents the business administered by Resolution Management Services and Capita respectively. These are then apportioned using the number of policies per category.

(iv) The following expenses were charged to non-profit business for the year to the valuation date:

	£m
Life - individual	1.7
Pensions - individual	2.4
Pensions - corporate	2.5
Total	6.5

(4) Significant Charges

The PPFM sets out the rules for allocating charges to asset shares. This takes into account the requirement to treat policyholders fairly. Overall a 1.7% charge was applied to asset shares in the valuation year. This consists of 0.7% in respect of guaranteed annuity option costs and 1.0% in respect of non-guaranteed annuity option costs. This compares to zero overall charge made to asset shares in the previous year.

(5) Charges For Non-Insurance Risk

Not applicable

(6) Ratio Of Claims To Reserves

Average ratio of total claims to asset shares:

Year	Ratio of claims to asset shares
Previous year -1	103.2%
Previous year	106.1%
Current year	102.2%

(7) Allocated Return

Unsmoothed yields for the full year (gross of tax), applied to the with-profits benefits reserve:

Life policies (gross)	-0.22%
Pensions policies (Low guarantee)	-0.22%
Pensions policies (High guarantee)	1.62%

The asset allocation for Life policies and pensions low guarantee was 25% property and 75% fixed interest. For pensions high guarantee it was 10% property and 90% fixed interest.

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

(a) As described in paragraph 3 (1), the prospective method uses the statutory reserves. These are detailed in Appendix 9.4 paragraph 4 (2) except for certain valuation interest rates which are set out below. These comply with the regulatory rules and hence differ from the risk free rates required by paragraph 6 (4) (a) (iii).

	Current Valuation	Previous Valuation
Life Assurance Fund		
With-Profits	3.55%	3.50%
Non Profit	3.95%	3.80%
General Annuity Fund		
With-profits Deferred Annuities	4.45%	4.55%
Non profit Deferred Annuities	4.75%	4.95%
Immediate Annuities	5.30%	5.05%
Pension Business Fund		
New With-Profits AP Deferred Annuities	4.25%	4.20%
New With-Profits SP Deferred Annuities	4.25%	4.20%
Old With-Profits AP Deferred Annuities	4.45%	4.55%
Old With-Profits SP Deferred Annuities	4.55%	4.70%
Non Profit AP Deferred Annuities	4.75%	4.95%
Non Profit SP Deferred Annuities	5.75%	5.10%
Immediate Annuities	5.30%	5.05%
Laserplan	4.55%	4.70%
Group Pension Plan	4.00%	3.90%
PHI Fund		
Non-claims	4.00%	4.00%
Claims in Payment	5.30%	5.05%

(b) Not applicable as future bonus rates are not projected.

(c) Expense inflation of 4.5% was used, except for the first 8 years of the business administered by Resolution Management Services where the inflation assumption was 9.5% to reflect the terms of the administration agreement;

(d) No future reversionary or terminal bonuses were assumed;

(e) The following expenses were used:

Product Type	Current Valuation	Previous Valuation
	£	£
Individual		
Annuities	37.90	36.67
RP WP & Unitised WP Life	63.16	61.12
RP WP & Unitised WP Pensions	105.27	101.87
SP/PUP WP & Unitised WP	31.58	30.56
Corporate		
Buyouts	35.71	27.58
Group money purchase & Group personal plans	71.40	55.15
Group deferred annuity & Executive pension plan	107.10	82.73

(f) No lapses were assumed in calculating the prospective reserves except that the expense assumptions do make an implicit allowance for the effect of expected future lapses.

(2) Different Sets Of Assumptions

Not applicable

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

The cost of smoothing is £0m as all benefits are based on unsmoothed asset shares.

(2) Valuation method for guarantees etc.

(a) The company uses a stochastic model to place a value on the costs of guarantees and options for with-profits contracts.

(b) (i) In the stochastic model, no projections are carried out on individual policy data.

(ii) The model uses grouped policy data. However, the values for the with-profits benefits reserve are calculated on an individual basis and added to the data file before the data is grouped.

(iii) Policies are grouped according to product type, premium status, year of maturity, year of entry, individual / corporate business and expense group (as per the management service agreement). For certain endowment assurance classes, policies are also grouped by premium size (in bands of <£500, £500-1000, >£1000).

For some product types, policies are grouped according to maturity date more frequently than yearly (e.g. quarterly for first 10 years and yearly thereafter). The year of entry grouping is carried out in 5 year bands.

Within each group, simple averages are taken. Gender is assumed to be that of the majority within any particular group.

Model Points

The following table shows the number of model points that result from applying the grouping criteria, when compared to the number of individual with-profits records.

Individual Records	Model Points
163,407	11,067

Grouping Validations

It is impractical to attempt to validate, using the stochastic model, projections that use grouped data against projections that use individual data. Instead, comparisons are carried out using deterministic projections.

Comparison is made of the present value of key variables as well as progression of these variables over a period of up to 40 years. The comparison includes items such as asset shares, mathematical reserves, claims outgo and premium income, split by product type as necessary. Where material discrepancies arise, these may result in grouping being revisited.

(c) No significant approximation methods were used for any residual types of products or classes.

(3) Significant Changes

There have been no significant changes since the previous valuation.

(4) Further Information On Stochastic Approach

(a) (i) The stochastic model is used to value the following guarantees and options:

- No negative terminal bonus guarantees at maturity and death within conventional with-profits contracts,
- Market value reduction-free spot maturity guarantees within unitised with-profits and deposit administration contracts,
- Guaranteed annuity options on conventional with-profits contracts,
- Surrender guarantees on flexible endowments.

Of these, the guarantees and options which are strongly "in the money" at the valuation date are the guaranteed annuity options and maturity guarantees on conventional with-profits pensions policies.

An indication of the extent of these guarantees is given in (vi) below.

(ii) The asset returns in the stochastic model were generated by a proprietary model purchased from Barrie & Hibbert. The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

Interest Rate

UK gilt returns are modelled using gilts + 10bps calibration in an Annual LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

The calibration at the valuation date was as follows:

Term	Govt. + 10bp	Model	Difference (Model - Market bp)
1	4.55%	4.55%	0
2	4.50%	4.50%	0
3	4.54%	4.54%	0
4	4.59%	4.59%	0
5	4.63%	4.63%	0
6	4.65%	4.65%	0
7	4.67%	4.67%	0
8	4.68%	4.68%	0
9	4.69%	4.69%	0
10	4.69%	4.69%	0
12	4.68%	4.68%	0
15	4.65%	4.65%	0
20	4.57%	4.57%	0
25	4.47%	4.47%	0

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps). The calibration at the valuation date is as follows:

Term	Market Implied Volatility	Model	Difference (Model - Market bp)
1	12.40	11.71	-69
2	11.70	11.57	-13
3	11.30	11.45	15
4	11.10	11.41	31
5	10.90	10.94	4
7	10.90	11.50	60
10	10.80	11.25	45
15	10.90	11.08	18
20	10.90	11.37	47
25	11.00	10.50	-50
30	10.80	10.42	-38

Equities

Not applicable since the Alba With-Profits Fund has zero equity exposure.

Property

Excess returns over risk free on property are modelled using a separate (but correlated) lognormal model.

There are no tests against market traded instruments for properties since there are no such instruments. A best estimate has therefore been used of 15% constant volatility.

Corporate bond

Corporate bond returns are modelled using the extended Jarrow-Lando Turnbull model. This describes bond prices in terms of a real-world transition matrix, which gives the probability of a transition to each credit rating over one year. Risk neutral transition probabilities are assumed to vary stochastically. The transition matrix is consistent with best estimates based on historic data of long term transition probabilities and spread volatilities and corporate bond prices. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

	Output Correlations @ Year 10							
	Cash	Property	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1	0.12	0.35	-0.63	0.17	-0.51	0.51	0.18
Property		1	0.10	0.01	0.10	0.02	0.15	0.14
5yr Govt ZCB			1	0.37	0.59	0.32	0.21	0.08
15yr Govt ZCB				1	0.26	0.81	-0.26	-0.01
5yr Corp ZCB					1	0.64	0.18	0.12
15yr Corp ZCB						1	-0.16	0.04
5yr Index Linked ZCB							1	0.83
15yr Index Linked ZCB								1

(iii) The table below is based on 1,000 scenarios:

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	4.62%	4.65%	4.48%	4.30%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	797,836	505,598	334,111	229,128	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	100,456	241,983	322,633	396,071	212,236	389,874	495,428	581,773	562,582	746,016	884,325	983,823
3		FTSE All Share Index (p=0.8)	88,865	192,058	233,046	266,202	189,820	313,212	359,983	394,942	509,136	603,977	652,421	677,372
4		Property (p=1)	29,740	105,685	163,296	230,123	130,917	238,141	311,319	391,827	523,380	601,410	686,614	775,302
5		Property (p=0.8)	22,653	70,332	95,741	126,621	107,261	165,298	193,134	229,189	464,058	453,801	460,053	480,024
6		15 year risk free zero coupon bond (p=1)	3,008	7,597	7,774	11,926	55,656	63,237	72,139	110,353	499,405	500,146	499,383	528,309
7		15 year risk free zero coupon bond (p=0.8)	1,763	2,849	2,097	1,144	37,444	24,210	12,782	11,691	434,317	312,396	224,586	197,571
8		15 year risk free bonds (p=1)	4,803	16,152	21,861	36,567	63,904	86,045	100,435	138,565	498,137	499,000	498,646	532,699
9		15 year risk free bonds (p=0.8)	3,159	7,043	7,267	8,308	45,210	40,109	31,986	36,214	433,147	315,664	236,939	217,668
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	51,489	150,460	214,435	280,337	153,297	286,686	368,831	447,463	525,860	643,930	743,082	834,357
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	42,929	109,594	139,000	170,305	130,835	213,524	247,028	279,353	468,344	499,645	516,457	536,917
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	47,330	141,749	197,000	255,470	144,326	271,879	343,478	414,761	517,610	619,186	709,826	789,471
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	38,919	101,726	126,159	151,618	123,147	202,681	227,280	254,541	458,936	475,532	486,383	499,939
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	17,461	70,917	106,915	154,582	99,581	184,795	234,544	294,725	503,427	548,409	599,718	663,959
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	12,518	42,836	55,586	74,824	78,882	121,425	131,296	153,832	440,810	394,440	372,961	376,315
				L=15				L=20				L=25		
16		Receiver swaptions	6.63%	7.45%	6.47%	5.04%	8.47%	9.32%	7.99%	6.19%	10.16%	10.93%	9.27%	7.13%

Notes:

1. The above option prices were produced by the economic scenario generator used to calibrate the Alba With-Profits Fund stochastic model. As the Alba With-Profits Fund has no exposure to equities, rows 2 and 3 are not relevant. The prices in rows 10 – 15 show the impact of correlations between different asset classes – note that this is based on the defined asset allocations which differ from those of Alba With-Profits Fund which in particular has zero equity exposure.
2. For the purposes of this table, all bonds are zero coupon and property income is reinvested.

(iv) UK initial property rental yield: 4.30%

(v) The asset model is not calibrated to any risk free rates other than those derived from UK assets. There is no calibration to risk-free rates from overseas territories.

(vi) The table below shows the outstanding durations of significant guarantees and options within material types of product and classes of with-profits contracts. The table shows the proportion of the total present value of cost of guarantees and options split by policy maturity year.

Maturity year	WP endowments	WP mortgage endowments	WP pensions funding for cash (no GAO)	WP pensions funding for annuity	WP funding for cash (with GAO)
2008	0.07%	0.21%	0.09%	2.56%	1.21%
2009	0.05%	0.32%	0.09%	4.49%	1.65%
2010	0.04%	0.24%	0.42%	6.58%	1.86%
2011	0.01%	0.23%	0.31%	3.49%	2.00%
2012	0.02%	0.13%	0.06%	2.88%	2.07%
2013	0.03%	0.12%	0.06%	2.01%	2.03%
2014	0.03%	0.05%	0.12%	2.35%	2.35%
2015	0.03%	0.09%	0.34%	4.80%	2.11%
2016	0.02%	0.06%	0.12%	2.23%	2.05%
2017	0.01%	0.06%	0.04%	1.54%	2.52%
2018	0.01%	0.05%	0.04%	1.39%	2.37%
2019	0.03%	0.05%	0.05%	2.15%	2.84%
2020	0.04%	0.00%	0.45%	2.77%	2.84%
2021	0.06%	0.00%	0.03%	0.98%	2.29%
2022	0.01%	0.00%	0.02%	0.59%	2.64%
2023	0.01%	0.00%	0.03%	0.43%	2.08%
2024	0.04%	0.00%	0.08%	1.03%	2.21%
2025	0.02%	0.00%	0.38%	2.24%	1.84%
2026	0.00%	0.00%	0.01%	0.19%	1.36%
2027	0.00%	0.00%	0.01%	0.13%	0.96%
2028	0.00%	0.00%	0.03%	0.17%	1.10%
2029	0.00%	0.00%	0.08%	0.84%	1.03%
2030	0.04%	0.00%	0.20%	0.53%	0.65%
2031	0.01%	0.00%	0.01%	0.06%	0.75%
2032	0.00%	0.00%	0.01%	0.03%	0.59%
2033	0.00%	0.00%	0.03%	0.21%	0.47%
2034	0.01%	0.00%	0.02%	0.24%	0.37%
2035	0.02%	0.00%	0.06%	0.08%	0.25%
2036	0.01%	0.00%	0.00%	0.01%	0.17%
2037	0.00%	0.00%	0.00%	0.00%	0.25%

Calibration of the asset model to market data is shown, where available, in paragraph 6 (4) (a) (ii) above.

(vii) We carry out comprehensive tests on the output produced by Barrie & Hibbert asset model as follows:

For UK property we have verified that the ratio of the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) to the original asset value are acceptably close to unity - the martingale property.

The same test has been undertaken for gilts and bonds with terms of 1, 3, 5, 10, 15, 20, 30 and 40 years. Departures from unity in the average discounted present values have not been significant.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

We have also verified, within acceptable limits, that implied volatility calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

(viii) The stochastic model is run on 1,000 investment scenarios generated by the asset model.

The scenario generation process incorporates variance reduction techniques (antithetic variables) to ensure that the scenarios selected pass the tests described in (vii) to a close tolerance.

Reasonable convergence of the model result was validated by analysing the valuation result in 50 scenario batches in order to determine the maximum sampling error.

(b) Not applicable

(c) Not applicable

(5) Management Actions

(a) No management actions were assumed in calculating the working capital.

(b) No exposure to equities is assumed in the future and non guaranteed reversionary bonus rates are assumed to be zero throughout.

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	5%	5%	5%	5%
CWP target cash endowment	Surrender	5%	5%	5%	5%
UWP savings endowment	Surrender	12%	12%	12%	12%
UWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP bond	Surrender	N/A	N/A	N/A	N/A
UWP bond	Automatic withdrawals	N/A	N/A	N/A	N/A
CWP pension regular premium	PUP	0%	0%	0%	0%
CWP pension regular premium	Surrender	2%	2%	2%	2%
CWP pension single premium	Surrender	2%	2%	2%	2%
UWP individual pension regular premium	PUP	0%	0%	0%	0%
UWP individual pension regular premium	Surrender	2%	2%	2%	2%
UWP individual pension single premium	Surrender	8%	8%	8%	8%

A take up rate of 75% for guaranteed annuity options is assumed. This is consistent with the terms of the agreement with the Britannic With-Profits Fund where any deviation from this assumption is met by that fund.

(7) Policyholders' Actions

No such assumptions were made.

7. FINANCING COSTS

A contingent loan has been provided by the Non Profit Fund investment reserve to Alba With-Profits Fund (the borrower). The purpose is to maintain a regulatory surplus pursuant to both INSPRU 1.1.27(R) and INSPRU 1.1.28(R). The loan is subordinate to policyholders' interests insofar as repayment will not take place if treating policyholders fairly cannot be maintained.

The face value outstanding as at the valuation date was £6.7m. Interest payable is the interest received by the borrower on the Memorandum Account. Fees are payable by the borrower.

Any amount not required to maintain a surplus for the purposes of INSPRU 1.1.27(R) and INSPRU 1.1.28(R) can be repaid.

Following the conditions of the agreement, a provision for repayment of the full £6.7m of the contingent loan has been included in the realistic balance sheet as this is not required to maintain realistic solvency and would therefore ultimately be repaid.

8. OTHER LONG-TERM INSURANCE LIABILITIES

For BL pre 1990 business it is necessary to calculate the present value of future shareholder transfers to be generated from this class of business as these will not be deducted from the with-profits benefits reserve. This amount is shown on line 47 of Form 19.

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities of £43.5m consist of regulatory current liabilities consistent with Form 14 Line 49.

10. RISK CAPITAL MARGIN

(a) The risk capital margin amounted to £64.6m.

(i) No equities are held in the fund hence no equity stress was required. A fall in properties of 12.5% was assumed. A property fall was the most onerous.

(ii) A yield fall of 17.5% of the annualised 15 year gilt yield (of 4.55%), i.e. 0.80% was assumed for UK fixed interest stocks. For foreign stocks the yield fall was calculated as 17.5% of the yield on 10 year government bonds of the relevant country. On average, this was 0.8%. (The foreign investments were all European apart from a small holding, £3m, of US Treasury bonds.) The interest rate fall was the most onerous.

(iii) The average change in spread for bonds (weighted by value) was 0.62%, and the total change in asset value for bonds was 5.55%. Items (b) debts, (d) analogous non-reinsurance financing agreements and (e) other assets do not apply. Furthermore (c) does not apply as all of our reassurance arrangements have preferential access to the reassurer's assets in the event of default.

(iv) The impact of the persistency risk scenario is that the realistic value of liabilities increases by £22.4m or 1.9% of basic asset shares prior to any management action being taken.

(v) These were assumed to be materially independent.

(b) The effects of management actions are as follows.

(i) The PPFM details the procedure to restate the asset share yields to target payouts at 100% on the new basis. On the pre adjusted basis, maturity payouts are targeted at 90% of asset share. Under the stress scenarios, the target ratio is unchanged at 90% of asset share. The provision to repay the contingent loan of £6.7m was excluded.

We assume that the data contingency reserve will be increased from £5m to £10m.

(ii) No management action has been assumed under the stress scenarios except that no provision has been made to repay the contingent loan of £6.7m in Form 19 Line 45 and there is no GN45 planned benefit enhancements to the with-profits benefit reserve in Form 19 Line 34.

(iii) No exposure to equities is assumed in the future and non guaranteed bonus rates are assumed to be zero throughout.

(iv) The requirements of INSPRU 1.3.188(R) would be met if the management action described in (i) had in fact taken place.

(c)

(i) The assets covering the risk capital margin are held in the Alba With-Profits Fund and the Non Profit Fund. They consist of approved and other fixed interest securities and other assets.

(ii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

(i) The investment returns used in the calculation of the with-profits benefits reserve are net of policyholder tax, where appropriate. The calculation of the net rate allows for tax on income and gains, split by asset class and using assumed rates appropriate to those assets.

Expenses attributed to the with-profits benefits reserve are reduced to reflect tax relief where appropriate, based on assumed rates.

(ii) In calculating the value of future policy related liabilities, tax is allowed for as follows.

Asset shares (or proxies to asset shares) are projected by the stochastic model used to determine the value of guarantees, and this allows for policyholder tax as described in (i).

(iii) The realistic value of the current liabilities is taken to be equal to the regulatory value. The value of any tax provisions resulting from the company's tax computation is included here.

12. DERIVATIVES

The fund has a portfolio of European-style receiver swaptions, to mitigate the effect that falls in interest rates have on the value of contracts written with a guaranteed annuity option. At as the valuation date, the fund held swaptions valued at £13m with an aggregate nominal value of £141m.

The option dates for swaptions range from the current year until 2035, with swap tenors of between 16 and 25 years. The majority of contracts are for a strike rate of interest of 5%. In recognition of an agreement with the Britannic With-Profits Fund (referred to in paragraph 6 (6)), the relevant policies were modelled assuming a 75% take-up rate for the option.

13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0.0**
Write back provision to repay contingent loan	18.2
Write back planned benefit enhancements to zeroise working capital	51.9
Revised opening working capital ignoring loan	**70.1**
Opening adjustments	21.1
Restated Opening Working Capital ignoring loan	**91.2**
Interest Return on working capital	1.6
Investment Markets	2.9
Contingent Loan Repayment	-11.5
Economic Assumption Changes	-5.8
Non-Economic Assumption Changes	-29.9
Policyholder Actions Assumption Changes	0.0
Change in provisions	-16.1
Pension Fund Contribution	-8.6
Unexplained	8.1
Closing position ignoring loan	**32.0**
Provision to repay contingent loan	6.7
Planned benefit enhancements to zeroise working capital	25.3
Closing working capital	**0.0**

A reconciliation of Form 19 Line 51 follows:

	£m
Opening Form 19 Line 51	40.6
Movements	
Claims Outstanding – Gross	-0.5
Claims Outstanding - Reinsurers' Share	2.5
Provision for Deferred Tax	0.4
Provisions - Other risks and charges	3.2
Creditors - Direct insurance business	3.5
Creditors - Reinsurance ceded	-4.2
Taxation	-6.2
Other creditors	7.5
Accruals and deferred income	-3.2
Form 19 Line 51 at the valuation date	43.5

Line 47 of Form 19 changed from £2.7m to £2.1m over the year. Further detail on this liability can be found in paragraph 8.

14. OPTIONAL DISCLOSURE

None made.

Britannic With-Profits Fund

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

The following table shows the principal economic assumptions that have been used to determine the value of future profits arising from non-profit business written in the fund. The assumptions vary under the scenario of events assumed to occur when determining the risk capital margin and these are shown separately from the base scenario.

Economic Assumption*		Current Valuation		Previous Valuation	
		Base	RCM	Base	RCM
Valuation interest rate p.a.	Pensions				
	Pre vesting	3.75%	3.50%	3.75%	3.00%
	Post vesting	3.75%	3.50%	3.75%	3.60%
	Life	3.00%	2.25%	3.00%	2.25%
Experience interest rate p.a.	Pensions	4.51%	3.70%	4.59%	3.76%
	Life	3.98%	3.26%	4.08%	3.34%
Risk discount rate p.a.		4.65%	3.84%	4.72%	3.90%
Expense inflation p.a.		4.50%	4.50%	4.30%	4.30%

* Investment rates are shown net of investment expenses of 0.12% gross per annum.

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Insurance Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable.

(5) De Minimis Limit

Not applicable – the assumptions in (1) relate to all non-profit business within the With-Profits Fund.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

In determining the with-profits benefits reserve shown in Line 31 of Form 19, the fund uses several methods. The methods can be summarised as:

(i) Asset Share Calculations

Asset shares are a roll up, at historic achieved investment returns, of premiums, less expenses, charges and tax, adjusted for the profit or loss on providing death benefits and the profit or loss from contracts that terminated early.

For the former Century business, the with profits benefits reserve is the amount transferred from the former Century Life With Profit fund as at 31 December 2006 in respect of this business (excluding the value of future profits and loss transfers). The amount transferred was determined using a bonus reserve valuation approach with future bonuses set so as to equal the amount available for transfer. This amount transferred became the opening asset share as at 31 December 2006 in the Phoenix Life Limited Britannic With-Profits Fund in respect of this business. This opening asset share has been rolled up with the actual historic experience as described above.

(ii) Prospective Method

This method takes the basic policy reserve, including the long term insurance capital requirement, and deducts the present value of retained earnings. The present value of retained earnings is the present value of the surplus or deficit compared to the reserve, after taking into account all future policy-related income and outgo.

(iii) Shadow Funds

For most unitised with-profits contracts the with-profits benefits reserve is taken as the shadow fund available from the company's mainframe systems. The shadow fund is the result of accumulating premiums less policy charges at the earned investment rate.

(iv) Regulatory Reserves

For some small classes of business it is not practical to apply any of the methods in (i) to (iii). In these cases the realistic reserve is taken as the regulatory reserve, excluding the long term insurance capital requirement (and, in the case of the Insurance ISA, the sterling reserves).

The table below shows the breakdown of the with-profits benefits reserve into these methods.

Class	Product Type	Method	With-profits benefits reserve	Future policy related liabilities
			£m	£m
Conventional	Premium-Paying Regular Premium Endowments	Asset Share	699	78
	Channel Islands Regular Premium Pensions (Premium Paying)	Asset Share	6	1
	Regular Premium, Premium Paying Pensions	Asset Share	51	51
	Whole of Life	Asset Share	14	0
	Whole of Life	Prospective Method	11	1
	Other Endowments	Prospective Method	4	0
	Other Channel Islands Pensions	Prospective Method	1	0
	Other Pensions	Prospective Method	2	0
	Miscellaneous pensions & With-profits annuity	Regulatory Reserve	15	0
	Claims Pending	Regulatory Reserve	7	0
Unitised With-Profits	Insurance ISA	Regulatory Reserve	19	1
	Other UWP products	Shadow Funds	3,620	358
Additional				9
Total			4,449	499
Form 19 Line 31			4,449	
Form 19 Line 49				499

In the table above, the split of the future policy related liabilities into the same detail as the with-profits benefits reserve is approximated. This is partly because the assessment of prospective items such as the costs of guarantees and smoothing rely on grouped data, and partly because certain realistic future liabilities are not calculated at product level.

(2) Correspondence With Form 19

The amounts in (1) above reconciles directly to Form 19.

(3) With-Profits Benefits Reserves Below De Minimis Limit

Not applicable as all products have been disclosed.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective methods

(a) All contracts have been calculated on an individual policy basis.

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant Changes To Valuation Method

There have been no significant changes to the valuation method for any types of product or classes of with-profits contracts compared to the previous valuation.

(3) Expense Allocation

For each with profits fund, the basis of allocating expenses to that fund during the financial year in question is described in note 4006 to Form 40.

(a) The previous expense investigation was carried out in respect of the current financial year.

(b) Expense investigations are carried out in respect of each financial year. Interim investigations are carried out during financial years for use in interim valuations.

(c) The method by which expenses are charged to the with-profits benefits reserve in respect of individual contracts depends on the type of business and the method of determining asset shares:

- Conventional business asset shares are charged expenses based on the expenses charged by the outsourcers in respect of this business. The expenses are an amount per policy which varies by product type and by premium paying status. The amount charged to asset shares is subject to an uplift to cover direct costs and an element of project costs. Additional one off project costs are not charged to asset shares. Investment expenses are charged to asset shares by reducing the investment return allocated.

- Unitised with-profits business asset shares are charged expenses using product charges, rather than actual expenses. The product charges cover acquisition, maintenance and investment expenses.

- Smoothed return business that is with-profits annuity business, overseas with-profits bond business and with-profits bond business, asset shares are charged expenses using product charges, rather than actual expenses. The product charges cover acquisition, maintenance and investment expenses.

The expenses charged to asset shares are all charged as maintenance expenses as the fund is no longer actively seeking new business and, for the purposes of this expense investigation all expenses have been treated as maintenance and consequently the subsequent analysis does not identify any initial expenses.

The expenses charged to the With-Profits Fund in addition to those allocated to the with-profits benefits reserve comprise:

- One off costs not charged to asset shares;
- The difference between the expenses charged to the fund in respect of unitised with-profits business and smoothed business compared to the product charges charged to the associated asset shares;

- Expenses in respect of with-profits contracts that were in force at the previous financial year end and no longer in force at the current financial year end;
- The expenses incurred in respect of non profit business in the fund;
- The investment expenses reduction not charged to asset shares;
- Investment expenses associated with the investments backing other with-profits reserves and the estate;
- Wythall Green costs are netted off against the rental income when assessing the investment return on Wythall Green to be credited to asset shares and are thus only indirectly charged to asset shares;
- Pension scheme costs;
- Prior year adjustments; and
- Balance between aggregation of the amounts charged to assets shares and the items identified above and the aggregate amount allocated to the fund.

The expenses allocated to the with-profits benefits reserve and the residual balance charged to the fund during the financial year were:

	Item		£m
(i)	Expenses charged to with profits benefits reserve	Conventional business	5.0
		Unitised with-profits business	19.6
		Smoothed return business	1.4
(ii)	Other expenses charged to fund	Other project costs	1.8
		Excess product charges	-6.4
		Exiting with-profits contracts	0.6
		Non profit contracts	1.0
		Investment expenses	2.7
		Wythall Green Costs	4.2
		Pension scheme costs	10.9
		Prior year adjustments	-0.2
		Balance	-0.4
(iii)	Total expenses		40.2

(4) Significant Charges

Charges for cost of guarantees, cost of capital are not charged to conventional business or unitised with-profits business with-profits benefits reserves. Charges for cost of guarantees and cost of capital are included in the product charges for smoothed return business and hence are charged to the with-profits benefits reserves. The cost of capital funds the shareholder profit and loss transfer and associated tax in respect of this business. The amounts charged to the with-profits benefits reserves are:

Policies previously written in	During financial year		Preceding financial year	
	cost of guarantees	cost of capital	cost of guarantees	cost of capital
	£m	£m	£m	£m
BA	0.2	0.4	0.2	0.5

(5) Charges For Non-Insurance Risk

No charges were deducted from the With-Profits Fund for non insurance risk.

(6) Ratio Of Claims To Reserve

The average percentage of the ratio of total claims paid on with-profits contracts compared to the sum of the with-profits benefits reserve for those claims plus any past miscellaneous surplus attributed to the with-profits benefits reserve less any miscellaneous deficit attributed to the with-profits benefits reserves in respect of those claims, for the three preceding financial years is:

Year	Average total with profits claim ratio for financial year
Previous year -1	102.0%
Previous year	100.0%
Current year	100.0%

(7) Allocated Return

The investment return before tax and expenses allocated to the with-profits benefits reserve in respect of the financial year in question is as follows:

Type of business	Investment Return
Policies previously written in BA other than Euro denominated business	2.51%
Policies previously written in BA - Euro denominated business (return in sterling terms)	11.49%
Policies previously written in Century	4.32%

The assets backing sterling and euro with-profits business asset shares and those backing former Century business are different and hence the investment returns in the above table are correspondingly different.

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

Prospective methods of valuation are used in determining a proxy for an asset share calculation in respect of certain contracts. These methods are used where a retrospective asset share calculation may be inappropriate or impractical.

The prospective method was described in paragraph 3 (1) (ii).

The following table sets out the main assumptions used. There are no explicit risk adjustments made to assets.

Policies previously written in BA		
Economic Assumptions*		
Valuation interest rate p.a.	Pensions	
	pre vesting	3.75%
	post vesting	3.75%
	Life	3.00%
Experience interest rate p.a.	Pensions	4.51%
	Life	3.98%
Discount rate p.a.**		4.65%
Expense Assumptions		
Investment Expense p.a.		0.12%
Per policy Expenses p.a.	Valuation	£38.21
	Experience	£37.95
Expense Inflation p.a.		4.50%

* Investment rates are shown net of the investment expenses of 0.12% gross per annum.

** This discount rate is the 15 year gilt yield + 10 basis points which is consistent with the risk free rates in paragraph 6 (4) (a) (iii) which are derived from the proprietary economic scenario generator model as described in paragraph 6 (4) (a) (ii) using the gilt yield curve + 10 basis points.

No future reversionary bonus is assumed in the projections. Sample terminal bonus rates are:

Policies previously written in BA					
Sample Terminal Bonus Rates * - %					
	Policy Term				
Year of Maturity	**5**	**10**	**15**	**20**	**25**
2010	0.0	26.5	10.5	18.0	51.5
2015	0.0	25.0	39.5	34.0	43.0
2020	0.0	0.0	48.5	60.5	50.5
2025	0.0	0.0	0.0	54.5	74.0
2030	0.0	0.0	0.0	0.0	81.0

* Other than deferred annuities, for which the projected rates are zero.

For deferred annuity products valued on a prospective basis, lapses are not modelled. Sample lapse rates for other products valued on a prospective basis, which are based on historic experience, are:

Policies previously written in BA					
Sample Lapse Rates - %					
	Policy Term				
Year of Maturity	**5**	**10**	**15**	**20**	**25**
Whole of Life	2.90	2.40	1.00	1.00	0.70
Endowment	6.00	2.00	0.00	0.00	0.00

* The range arises because lapse rates vary by the original term of policy as well as duration.

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Methods For Guarantees etc.

(a) The company uses a stochastic model to place a value on the costs of guarantees, options and smoothing for with-profits contracts.

(b) (i) In the stochastic model, no projections are carried out on individual policy data.

(ii) The model uses grouped policy data. However, the values for the with-profits benefits reserve are calculated on an individual basis and added to the data file before the data is grouped.

(iii) The stochastic model uses three grouped policy data files: one for formerly Britannic conventional with-profits contracts, another one formerly Century conventional with-profits contracts and one for unitised with-profits contracts.

Conventional Business Grouping

Policies are grouped chiefly according to product type, premium status, premium mode, year of maturity, year of entry, premium term, age and joint life status. For single life policies, all are assumed to be male lives.

Years of maturity are grouped into one or two year bands up to and including 14 years after the valuation date. Policies maturing from 15 to 20 years after the valuation date are grouped, as are policies maturing after that time.

For the 5 years preceding the valuation date, the year of entry is not grouped. Before that, years of entry are banded into 2-3 year intervals up to 22 years preceding the valuation date. Policies that were taken out from 23 to 37 years before the valuation date are grouped, as are any taken out earlier than that.

Within each group, weights are applied to certain key policy features before averaging. For example, the elapsed duration is weighted by the sum assured, as is the premium term. For other data, such as sums assured and premiums, a simple average is taken.

Former Century Business Grouping

Policies are grouped chiefly according to product type, premium status, year of maturity, policy term, entry age and joint life status. For single life policies, all are assumed to be male lives.

Years of maturity are grouped into one year bands up to and including 20 years after the valuation date. Policies maturing after 20 years after the valuation date are grouped together.

Policy terms are grouped into 5 year bands around terms of 10, 15 and twenty years. Policies of longer terms are grouped together.

Entry ages are grouped depending on whether greater than or less than age 40.

Within each group, weights are applied to certain key policy features before averaging. For example, the elapsed duration is weighted by the sum assured, as is the premium term. For other data, such as sums assured and premiums, a simple average is taken.

Groups which contain very small subsets of the business are grouped together.

Unitised With-Profits Grouping

Policies are grouped chiefly according to product type, series number (this being relevant for bonds that have different dates at which benefits can be taken without reduction), premium status, premium mode, year of maturity (where relevant), policy size (by units) and the ratio of the shadow fund to the value of policy units.

For policies other than whole of life bonds, the maturity year is taken as the earliest year in which benefits can be taken without reduction. The grouping by maturity year is carried out in ten year bands, excluding policies due to mature in the next year.

For the ratio of the shadow fund to the value policy units, banding is normally carried out in 5% intervals. However, individual bands may be sub-divided where it is felt that there would otherwise be a bunching of policies.

Within each group, simple averages are taken to determine a representative policy.

Model Points

The following table shows the number of model points that result from applying the grouping criteria, when compared to the number of individual with-profits records.

Type	Individual Records	Model Points
Conventional policies previously written in BA	141,979	812
UWP policies previously written in BA	501,213	631
Conventional policies	6,662	489

Grouping Validations

It is impractical to attempt to validate, using the stochastic model, projections that use grouped data against projections that use individual data. Instead, comparisons are carried out using deterministic projections.

Comparison is made of the present value of key variables as well as progression of these variables over a period of up to 40 years. The comparison includes items such as reserve run off, claims outgo and premium income, split by product type as necessary. Where material discrepancies arise, these may result in grouping being revisited.

For unitised with-profits business a closed form model is used to compare the results from individual policy data and grouped data.

(3) Significant Changes

The method used to allow for the inherited estate distribution bonus declared in 1996 in the cost of options and guarantees calculation has been changed to ensure that we do not understate the cost of options and guarantees on traditional with profit business.

(4) Further Information On Stochastic Approach

(a) (i) The stochastic model is used to place a value on:

- Maturity guarantees on conventional endowments
- Guarantees on vesting of deferred annuity contracts
- Guarantees on maturity or retirement for unitised with-profits contracts
- Nil-penalty guarantees on the surrender of with profit bonds at certain durations
- The impact of bonus smoothing

Of these, the guarantees which are strongly "in the money" at the valuation date are the maturity guarantees on conventional endowments and the guarantees on the vesting of deferred annuities.

As at 31 December, for a significant proportion of the with-profits business maturity payouts (including retirements) exceed asset shares. It is intended to reduce this overpayment in line with the company's smoothing policy subject to the level of guarantees. The impact of bonus smoothing is shown in Line 44 of Form 19.

An indication of the combined impact of guarantees and smoothing is provided in (vi), below.

(ii) The asset returns in the stochastic model were generated by a proprietary model purchased from Barrie & Hibbert. The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

Interest Rate

UK gilt returns are modelled using gilts + 10bps calibration in a Monthly LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

The calibration at the valuation date was as follows:

Term	Govt. + 10bp	Model	Difference (Model - Market bp)
1	4.55%	4.55%	0
2	4.50%	4.50%	0
3	4.54%	4.54%	0
4	4.59%	4.58%	-1
5	4.63%	4.62%	-1
6	4.65%	4.65%	-1
7	4.67%	4.67%	-1
8	4.68%	4.68%	0
9	4.69%	4.69%	0
10	4.69%	4.69%	0
12	4.68%	4.68%	0
15	4.65%	4.65%	0
20	4.57%	4.57%	1
25	4.47%	4.48%	1

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps). The calibration at the valuation date was as follows:

Term	Market Implied Volatility	Model	Difference (Model - Market bp)
1	12.40	11.71	69
2	11.70	11.57	13
3	11.30	11.45	-15
4	11.10	11.41	-31
5	10.90	10.94	-4
7	10.90	11.50	-60
10	10.80	11.25	-45
15	10.90	11.08	-18
20	10.90	11.37	-47
25	11.00	10.50	50
30	10.80	10.42	38

Equities and Property

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The equity model uses a volatility surface calibrated to market implied volatilities for a range of strikes and maturities. Volatilities are assumed to be constant beyond quoted strikes and maturities.

The UK equities asset model was calibrated by reference to the implied volatility of FTSE100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

Implied volatility data at the valuation date is shown below:

Market

Term	Strike				
	0.8	0.9	1	1.1	1.2
	%	%	%	%	%
1	27.31	24.31	21.04	18.53	17.23
3	26.16	24.38	22.50	21.03	19.73
5	25.95	24.59	23.56	22.17	21.20
10	27.14	26.33	25.48	24.69	24.01

Model

Term	Strike				
	0.8	0.9	1	1.1	1.2
	%	%	%	%	%
1	26.45	24.26	21.72	19.59	18.54
3	25.04	23.72	22.34	21.12	20.17
5	25.09	24.18	23.30	22.52	21.95
10	26.12	25.65	25.19	24.77	24.41

Beyond 10 years the estimated volatility implied by the model calibration rises as follows:

Term	Strike				
	0.8	0.9	1	1.1	1.2
	%	%	%	%	%
15	31.43	30.64	29.92	29.29	28.81
20	27.96	27.64	27.35	27.12	26.94
25	29.83	29.45	29.16	28.92	28.72
30	28.23	28.07	27.93	27.82	27.71
35	26.24	26.17	26.10	26.04	25.98
40	28.74	28.55	28.42	28.33	28.28

Difference (Model – Market) %

Term	Strike				
	0.8	0.9	1	1.1	1.2
	%	%	%	%	%
1	-0.86	-0.05	0.68	1.06	1.31
3	-1.12	-0.66	-0.16	0.09	0.44
5	-0.86	-0.41	-0.26	0.35	0.75
10	-1.02	-0.68	-0.29	0.08	0.40

There are no tests against market traded instruments for properties since there are no such instruments. A best estimate has therefore been used of 15% constant volatility

Corporate bond

Corporate bond returns are modelled using the extended Jarrow-Lando Turnbull model. This describes bond prices in terms of a real-world transition matrix, which gives the probability of a transition to each credit rating over one year. Risk neutral transition probabilities are assumed to vary stochastically.

The transition matrix is consistent with best estimates based on historic data of long term transition probabilities and spread volatilities and corporate bond prices. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

	Output Correlations @ Year 10									
	Cash	Equities	Property	Overseas Equities	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1	-0.09	0.12	-0.01	0.35	-0.63	0.17	-0.51	0.51	0.18
Equities		1	0.12	0.22	0.00	0.12	0.26	0.24	0.15	0.21
Property			1	0.03	0.10	0.01	0.10	0.02	0.15	0.14
Overseas equities				1	0.08	0.12	0.12	0.13	0.22	0.26
5yr Govt ZCB					1	0.37	0.59	0.32	0.21	0.08
15yr Govt ZCB						1	0.26	0.81	-0.26	-0.01
5yr Corp ZCB							1	0.64	0.18	0.12
15yr Corp ZCB								1	-0.16	0.04
5yr Index Linked ZCB									1	0.83
15yr Index Linked ZCB										1

(iii) The table below is based on 1,000 scenarios:

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	4.62%	4.65%	4.48%	4.30%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	797,836	505,598	334,111	229,128	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	100,456	241,983	322,633	396,071	212,236	389,874	495,428	581,773	562,582	746,016	884,325	983,823
3		FTSE All Share Index (p=0.8)	88,865	192,058	233,046	266,202	189,820	313,212	359,983	394,942	509,136	603,977	652,421	677,372
4		Property (p=1)	29,740	105,685	163,296	230,123	130,917	238,141	311,319	391,827	523,380	601,410	686,614	775,302
5		Property (p=0.8)	22,653	70,332	95,741	126,621	107,261	165,298	193,134	229,189	464,058	453,801	460,053	480,024
6		15 year risk free zero coupon bond (p=1)	3,008	7,597	7,774	11,926	55,656	63,237	72,139	110,353	499,405	500,146	499,383	528,309
7		15 year risk free zero coupon bond (p=0.8)	1,763	2,849	2,097	1,144	37,444	24,210	12,782	11,691	434,317	312,396	224,586	197,571
8		15 year risk free bonds (p=1)	4,803	16,152	21,861	36,567	63,904	86,045	100,435	138,565	498,137	499,000	498,646	532,699
9		15 year risk free bonds (p=0.8)	3,159	7,043	7,267	8,308	45,210	40,109	31,986	36,214	433,147	315,664	236,939	217,668
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	51,489	150,460	214,435	280,337	153,297	286,686	368,831	447,463	525,860	643,930	743,082	834,357
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	42,929	109,594	139,000	170,305	130,835	213,524	247,028	279,353	468,344	499,645	516,457	536,917
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	47,330	141,749	197,000	255,470	144,326	271,879	343,478	414,761	517,610	619,186	709,826	789,471
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	38,919	101,726	126,159	151,618	123,147	202,681	227,280	254,541	458,936	475,532	486,383	499,939
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	17,461	70,917	106,915	154,582	99,581	184,795	234,544	294,725	503,427	548,409	599,718	663,959
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	12,518	42,836	55,586	74,824	78,882	121,425	131,296	153,832	440,810	394,440	372,961	376,315
			L=15				L=20				L=25			
16		Receiver swaptions	6.63%	7.45%	6.47%	5.04%	8.47%	9.32%	7.99%	6.19%	10.16%	10.93%	9.27%	7.13%

(iv) In all investment scenarios the initial equity dividend yield is set to 3.69% and the initial property rental yield to 4.30% p.a.

(v) The asset model is not calibrated to any risk free rates other than those derived from UK assets. There is no calibration to risk-free rates from overseas territories, even where Britannic has significant investments in those territories.

(vi) The following table shows the approximate percentage of the total present value of guarantees and smoothing by duration, as projected by the stochastic model. It is based on the average overpayment across all projected investment scenarios using the base assumptions.

	Conventional		Unitised With-Profits	
Year	Endowments	Whole Life	Endowments	Pensions
2008	1%	0%	0%	1%
2009	3%	0%	0%	0%
2010	6%	0%	0%	3%
2011	3%	0%	0%	4%
2012	1%	0%	0%	0%
2013	2%	0%	0%	0%
2014	0%	0%	0%	1%
2015	5%	0%	0%	8%
2016	2%	0%	0%	0%
2017	0%	0%	0%	0%
2018	1%	0%	0%	0%
2019	0%	0%	0%	1%
2020	3%	0%	0%	9%
2021	0%	0%	0%	0%
2022	0%	0%	0%	0%
2023	0%	0%	0%	0%
2024	1%	0%	0%	1%
2025	2%	0%	0%	11%
2026	1%	0%	0%	0%
2027	0%	0%	0%	0%
2028	0%	0%	0%	0%
2029	1%	0%	0%	0%
2030	1%	0%	0%	12%
2031	0%	0%	0%	0%
2032	0%	0%	0%	0%
2033	0%	0%	0%	0%
2034	0%	0%	0%	1%
2035	0%	0%	0%	6%
2036	0%	0%	0%	0%
2037	0%	0%	0%	0%
2038	0%	0%	0%	0%
2039	0%	0%	0%	1%
2040	0%	0%	0%	0%
2041	0%	0%	0%	0%

Calibration of the asset model to market data is shown, where available, in paragraph 6 (4) (a) (ii) above.

(vii) We carry out comprehensive tests on the output produced by Barrie & Hibbert asset model as follows:

For UK and Overseas equities and for UK property we have verified that the ratio of the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) to the original asset value are acceptably close to unity - the martingale property.

The same test has been undertaken for gilts and bonds with terms of 5, 10, 15, 20, 25, 30, 35 and 40 years. Departures from unity in the average discounted present values have not had a significant impact on the valuation result.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

For UK equity options we have verified, within acceptable limits, that the option prices calculated from the model output and converted into implied volatilities using Black-Scholes formula reproduce the expected volatility surface.

We have also verified, within acceptable limits, that implied volatility calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

(viii) The stochastic model is run on 1,000 investment scenarios generated by the asset model.

The scenario generation process incorporates variance reduction techniques (antithetic variables) to ensure that the scenarios selected pass the tests described in (vii) to a close tolerance.

A test to demonstrate the effectiveness of the sampling method was done by running the stochastic model on 3,000 investment scenarios and the difference of the results to a 1,000 scenarios run were not material.

(b) Not applicable

(c) Not applicable

(5) Management actions

(a) The stochastic model does not take into account the possibility of actions taken by management in the projected investment scenarios, other than to the extent as described below.

Bonus Policy – Conventional With-Profits Business

Future reversionary bonus rates are assumed to be zero except for business formerly written in Century. For business formerly written in Century, the reversionary bonuses are those declared at the valuation data and are kept constant over the projections period. The cost of guarantees on business formerly written in Century is immaterial.

Maturity payouts are targeted to be 100% of asset share, subject to the company's smoothing policy. To achieve this, the model compares policies

maturing in one year against similar policies maturing in the previous year and derives a scale of terminal bonus rates such that:

(i) The maximum change in payout from year to year is 10%

(ii) This change is increased by up to 20% in order to achieve a payout ratio of between 90% and 110%

(iii) The maximum change is unlimited in order to ensure that the payout ratio is not above 125% or below 75%

Bonus Policy – Unitised With-Profits Business

The reversionary bonus rate is zero for unitised with-profits life business. For pensions business, no reversionary bonus is paid unless the ratio (in aggregate) of the shadow fund to the unit fund (including bonus units) exceeds 105%. In this case a 3% bonus is paid.

Terminal bonus rates are calculated based on a vintage unit method, by month of purchase. The bonus smoothing logic as described for conventional business is then applied to each monthly payout. Terminal bonus rates for each calendar year are taken as an average of the calculated monthly values.

Investment Mix

Appropriate allowance is made for the expectation that the exposure of the fund to real assets will reduce as the portfolios reach maturity. For policies previously written in BA the proportion of real assets is assumed to reduce by 0.125% per month from 50% at the middle of 2009 to 20% after 20 years. For policies previously written in Century the proportion of real assets is assumed to reduce by 1.00% per annum from 30% at the mid of 2011 to 12% after 17 years.

(b) For the management actions assumed to determine the costs in paragraph 6.(4), the best estimates as to the future proportions of the asset backing the with-profits benefits reserve which would consist of equities and as the future reversionary bonus rates for significant accumulating with-profits business as at the end of the financial year in question, in 5 years time and 10 years time, based on the 5 year gilt yield plus 10 basis points of 4.62%, that yield increased by 17.5% of the long term gilt yield, i.e. 5.42% and that yield decreased by 17.5% of the long term gilt yield, i.e. 3.82% are shown in the following tables.

Policies previously written in BA						
Yield = 4.62%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	In 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	40%	39%	33%	n/a	n/a	n/a
UWP life regular premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP life single premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP pensions	40%	39%	33%	3.00%	3.00%	3.00%

Policies previously written in BA						
Yield = 5.42%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	In 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	40%	39%	33%	n/a	n/a	n/a
UWP life regular premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP life single premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP pensions	40%	39%	33%	3.00%	3.00%	3.00%

Policies previously written in BA						
Yield = 3.82%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	In 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	40%	39%	33%	n/a	n/a	n/a
UWP life regular premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP life single premium	40%	39%	33%	0.00%	0.00%	0.00%
UWP pensions	40%	39%	33%	3.00%	3.00%	3.00%

Policies previously written in Century						
Yield = 4.62%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	in 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	12%	24%	20%	n/a	n/a	n/a

Policies previously written in Century						
Yield = 5.42%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	in 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	12%	24%	20%	n/a	n/a	n/a

Policies previously written in Century						
Yield = 3.82%	Equity Proportion of assets backing with-profits benefits reserve			Future Reversionary Bonus Rate for accumulating with-profits business		
Type of business	at end of financial year	in 5 years time	in 10 years time	at end of financial year	in 5 years time	in 10 years time
Conventional business	12%	24%	20%	n/a	n/a	n/a

(6) Persistency assumptions

The surrender and paid-up assumptions are:

Product		**Average surrender / paid-up rate for the policy years**			
		1-5	**6-10**	**11-15**	**16-20**
CWP savings endowment	Surrender	3.82%	4.88%	2.56%	1.68%
CWP target cash endowment	Surrender	n/a	n/a	n/a	n/a
UWP savings endowment	Surrender	6.28%	7.62%	6.98%	7.40%
UWP target cash endowment	Surrender	n/a	n/a	n/a	n/a
UWP bond	Surrender	5.40%	13.72%	12.52%	11.20%
UWP bond	Automatic withdrawals	n/a	n/a	n/a	n/a
CWP pension regular premium	PUP	n/a	n/a	n/a	n/a
CWP pension regular premium	Surrender	0.00%	0.00%	3.52%	1.56%
CWP pension single premium	Surrender	0.00%	0.00%	3.52%	1.56%
UWP individual pension regular premium	PUP	9.76%	7.98%	5.96%	5.30%
UWP individual pension regular premium	Surrender	0.70%	0.70%	0.70%	0.70%
UWP individual pension single premium	Surrender	0.70%	0.70%	0.70%	0.70%

There is an exposure to guaranteed annuity options in respect of an agreement with the Alba With-Profits Fund. In summary the agreement is such that the Alba With-Profits Fund pays the Britannic With-Profits Fund 75% of the potential guaranteed annuity cost which could arise when a customer retires and the Britannic With-Profits Fund pays the actual cost. Thus the Britannic With-Profits Fund bears the cost (and takes the profits) if the take up rate is more (less) than 75%. The current take-up rate is below 75% and no provision has been made for this liability under the "base" scenario, but a provision has been made under the "risk capital margin" scenarios.

(7) Policyholders' Actions

The model adds an extra 10% to the underlying rates shown in the table in paragraph 6 (6) above on no market value reduction dates for unitised with-profits whole life bonds when the guarantees are in the money.

7. FINANCING COSTS

There are no financing arrangements currently in place for the fund.

8. OTHER LONG TERM INSURANCE LIABILITIES

No amounts have been included in Line 46 of Form 19. The amount shown in Line 47 of Form 19 is made up as follows:

£m	Current Valuation
Pensions Review Reserve	23.0
Mortgage Endowment Reserve	5.4
Expense Overrun Reserve	0.3
Value of future charges less expenses on UWP contracts	-40.2
Additional provision for tax*	85.0
Investment Expense Rebate credited to future asset shares	3.0
Data/modelling/unknown mis-selling	4.8
Litigation	7.3
SERPS mis-selling	2.0
Treating Customers Fairly	1.4
Ex-Century future shareholder transfers	8.0
Total	99.9

* Consisting of: Tax on future shareholder transfers, CGT reserve, deferred relief on acquisition expenses, and any adjustments in respect of amounts included in current liabilities.

9. REALISTIC CURRENT LIABILITIES

The realistic current value of liabilities, shown at line 51 of Form 19, is taken to be equal to the value assessed on a regulatory basis, this being £65m. The figure includes creditors (including outstanding claims), provisions (including taxation), accruals and deferred income.

10. RISK CAPITAL MARGIN

(a) The risk capital margin for the fund was calculated to be zero at the valuation date.

(i) The risk capital margin allows for a fall in equity values of 20%. This was compared to a rise in equity values of the same amount and found to be more onerous for the fund.

A fall of 12.5% was allowed for in the value of property assets, and again this was found to be more onerous than a rise in property values of the same amount.

(ii) The scenario of a fall in fixed interest yields of 17.5% of the long-term gilt yield was compared against a rise in yields of the same amount. The more onerous result was assumed and represented a fall in yields. The nominal rise and fall in the (annualised) yields was 80 basis points.

There are no significant overseas territories. Overseas stocks were subjected to the same basis point adjustment as for UK stocks.

(iii) The risk capital margin allows for a widening of the yields available on bonds, where the change in yields depends on the credit rating. The average change in the spread for bonds subject to the test, weighted by market value, was 94 basis points for the fund. This change in yields resulted in a fall in the value of these bonds by an average of 7.46% for the fund.

(iv) Persistency rates were assumed to improve by 32.5%. This was allowed for in the projections by multiplying the assumed lapse, paid-up and surrender rates at each duration by 67.5%, excluding in respect of unitised with-profits contracts the amount of any surrender rate attributable to dates where market value reductions cannot be applied.

Applying the persistency test, on top of the tests already described in (i) to (iii) results in an increase in the value of realistic liabilities of £19m but this is offset by a corresponding reduction in planned enhancements as described below.

(v) Not applicable

(b) In the stress scenarios, we further assume that the data contingency reserve will be increased from £7.5m to £15.0m.

The working capital takes into account planned enhancements which reflect the intention to distribute to policyholders excess assets within the With-Profits Fund. These enhancements are assumed to be removed in the risk capital margin conditions to the extent that they would not be payable due to reductions in the excess assets. This action has a value of £56m in the fund.

Some policies have been granted discretionary enhancements to investment returns attributed to asset shares or shadow units. These enhancements will be removed if the estate of the With-Profits Fund is insufficient to finance them. No removal of enhancements has been assumed for the fund in the risk capital margin conditions.

For the fund, the effect of the above management actions would be to leave a working capital of zero in the risk capital margin conditions.

(c) (i) The risk capital margin is zero.

(ii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non Profit Fund or the Shareholders Fund to the extent that the Board

determines there are assets in those funds available to make such a loan.

11. TAX

(i) The investment returns used in the calculation of the with-profits benefits reserve are net of policyholder tax, where appropriate. The calculation of the net rate allows for tax on income and gains, split by asset class and using assumed rates appropriate to those assets. For unrealised gains, a reduced rate is used in order to reflect deferral of the gain.

Expenses attributed to the with-profits benefits reserve are reduced to reflect tax relief where appropriate, based on assumed rates.

Where asset share calculations are used, the value of outstanding tax relief arising on acquisition expenses is not capitalised. This asset is reflected in Line 47 of Form 19.

Additional tax arising on shareholder transfers is met from the estate and is not chargeable to asset shares.

(ii) In calculating the value of future policy related liabilities, tax is allowed for in a number of ways.

Asset shares (or proxies to asset shares) are projected by the stochastic model used to determine the value of guarantees and smoothing, and this allows for policyholder tax as described in (ii).

Additional tax on shareholder transfers, which is payable from the estate, is reflected in Line 47 of Form 19 and is derived from the stochastic model results.

The accrued amount of any unrealised capital gains is included in Line 47 of Form 19. This is based on the actual unrealised gains on the valuation date multiplied by a tax rate that does not allow for deferral of the gain being realised.

Outstanding tax relief on acquisition expenses is allowed for in Line 47 of Form 19 and is based on outstanding amounts from the company's tax computation, discounted at a risk-free rate.

The tax relief from any deferred expenses from the company's tax computation is assumed to be recovered after one year, and the discounted value (at a risk free rate) is included in Line 47 of Form 19.

In Line 47 of Form 19, adjustments are made in respect of any amounts already included as current liabilities.

(iii) The realistic value of the current liabilities is taken to be equal to the regulatory value. The value of any tax provisions resulting from the company's tax computation is included here.

12. DERIVATIVES

Not applicable

13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0.0**
Write back opening zeroisation of working capital	**227.7**
Opening adjustment	-24.2
Revised opening working capital	**203.4**
Modelling changes	0.0
Retrospective changes to asset shares	-8.2
Investment return on revised working capital	10.9
Investment mis-match	1.8
Economic assumption changes	9.2
Non-economic assumption changes	-3.0
Experience deviations on charges	14.3
Other	-47.7
Unexplained	3.6
Closing working capital before zeroisation	**184.2**
Planned benefit enhancements to zeroise working capital	-184.2
Closing working capital	**0.0**

The change in the other long-term insurance liabilities Line 47 Form 19 is shown in the following table.

£m	Current Valuation	Previous Valuation
Pensions Review Reserve	23.0	19.0
Mortgage Endowment Reserve	5.4	9.0
Expense Overrun Reserve	0.3	1.0
Value of future charges less expenses on UWP contracts	-40.2	-43.0
Additional provision for tax*	85.0	98.0
Investment Expense Rebate credited to future asset shares	3.0	3.0
Data/modelling/unknown mis-selling	4.8	8.0
Litigation	7.3	11.0
SERPS mis-selling	2.0	2.0
Treating Customers Fairly	1.4	0.0
Ex-Century future shareholder transfers	8.0	0.0
Total	99.9	108.0

The change in the realistic current liabilities of the fund Line 51 Form 19 is shown in the following table.

	Current Valuation £m	Previous Valuation £m
Regulatory current liabilities	39.7	65.1
Total	39.7	65.1

14. OPTIONAL DISCLOSURE

None made.

Britannic Industrial Branch Fund

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

The following table shows the principal economic assumptions that have been used to determine the value of future profits arising from non-profit business written in the fund. The assumptions vary under the scenario of events assumed to occur when determining the risk capital margin and these are shown separately from the base scenario.

Economic Assumption*		Current Valuation		Previous Valuation	
		Base	RCM	Base	RCM
Valuation interest rate p.a.	Pensions				
	Pre vesting	n/a	n/a	3.75%	3.25%
	Post vesting	n/a	n/a	3.75%	3.25%
	Life	3.00%	2.25%	3.00%	2.50%
Experience interest rate p.a.	Pensions	n/a	n/a	4.10%	3.40%
	Life	3.92%	3.21%	3.59%	2.72%
Risk discount rate p.a.		4.65%	3.84%	4.22%	3.48%
Expense inflation p.a.		4.50%	4.50%	4.00%	4.00%

* Investment rates are shown net of investment expenses of 0.12% gross per annum.

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Insurance Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable

(5) De Minimis Limit

Not applicable – the assumptions in (1) relate to all non-profit business within the fund.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

In determining the with-profits benefits reserve shown in Line 31 of Form 19, the company uses several methods. The methods can be summarised as:

(i) Asset Share Calculations

Asset shares are a roll up, at historic achieved investment returns, of premiums, less expenses, charges and tax, adjusted for the profit or loss on providing death benefits and the profit or loss from contracts that terminated early.

(ii) Prospective Method

This method takes the basic policy reserve, including the long term insurance capital requirement, and deducts the present value of retained earnings. The present value of retained earnings is the present value of the surplus or deficit compared to the reserve, after taking into account all future policy-related income and outgo.

(iii) Regulatory Reserves

For some small classes of business it is not practical to apply any of the methods in (i) to (iii). In these cases the realistic reserve is taken as the regulatory reserve, excluding the long term insurance capital requirement.

The table below shows the breakdown of the with-profits benefits reserve into these methods.

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
Endowment	Asset Share	336	135
Whole of Life	Prospective Method	149	23
Miscellaneous adjustments	Regulatory Reserve	3	0
Claims Pending	Regulatory Reserve	6	0
Total		494	158
Form 19 Line 31		494	
Form 19 Line 49			158

In the table above, the future policy related liabilities' split into the same detail as the with-profits benefits reserve is approximated. This is partly because the assessment of prospective items such as the costs of guarantees and smoothing rely on grouped data, and partly because certain realistic future liabilities are not calculated at product level.

(2) Correspondence With Form 19

The amounts in (1) above reconciles directly to Form 19.

(3) With-Profits Benefits Reserves Below De Minimis Limit

Not applicable

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a) All contracts have been calculated on an individual policy basis.

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant changes to valuation method

There have been no significant changes to the valuation method for any types of product or classes of with-profits contracts compared to the previous valuation.

(3) Expense allocation

For each with-profits fund, the basis of allocating expenses to that fund during the financial year in question is described in note 4006 to Form 40.

(a) The previous expense investigation was carried out in respect of the current financial year.

(b) Expense investigations are carried out in respect of each financial year. Interim investigations are carried out during financial years for use in interim valuations.

(c) The method by which expenses are charged to the with-profits benefits reserve in respect of individual contracts depends on the type of business and the method of determining asset shares:

- Conventional business asset shares are charged expenses based on the expenses charged by the outsourcers in respect of this business. The expenses are an amount per policy which varies by product type and by premium paying status. The amount charged to asset shares is subject to an uplift to cover direct costs and an element of project costs. Additional one off project costs are not charged to asset shares. Investment expenses are charged to asset shares by reducing the investment return allocated.

The expenses charged to asset shares are all charged as maintenance expenses as the fund is no longer actively seeking new business and, for the purposes of this expense investigation all expenses have been treated as maintenance and consequently the subsequent analysis does not identify any initial expenses.

The expenses charged to With-Profits Fund in addition to those allocated to the with-profits benefits reserve comprise:

- One off costs not charged to asset shares;

- Expenses in respect of with-profits contracts that were in force at the previous financial year end and no longer in force at the current financial year end;
- The expenses incurred in respect of non profit business in the fund;
- The investment expenses reduction not charged to asset shares;
- Investment expenses associated with the investments backing other with profits reserves and the estate;
- Prior year adjustments; and
- Balance between aggregation of the amounts charged to assets shares and the items identified above and the aggregate amount allocated to the fund.

The expenses allocated to the with-profits benefits reserve and the residual balance charged to the fund during the financial year were:

	Item		£m
(i)	Expenses charged to with profits benefits reserve	Conventional business	11.2
(ii)	Other expenses charged to fund	Other project costs	0.0
		Excess product charges	0.0
		Exiting with-profits contracts	1.2
		Non profit contracts	3.1
		Investment expenses	0.3
		Prior year adjustments	-0.5
		Balance	-0.1
(iii)	Total expenses		15.3

(4) Significant Charges

There were no significant charges deducted in the year or the preceding year.

(5) Charges For Non-Insurance Risk

No charges were deducted from the With-Profits Fund for non insurance risk.

(6) Ratio Of Claims To Reserve

The average percentage of the ratio of total claims paid on with-profits contracts compared to the sum of the with-profits benefits reserve for those claims plus any past miscellaneous surplus attributed to the with-profits benefits reserve less any miscellaneous deficit attributed to the with-profits benefits reserves in respect of those claims, for the three preceding financial years is:

Previous year -1	137.0%
Previous year	102.0%
Current year	99.0%

(7) Allocated Return

The investment return before tax and expenses allocated to the with-profits benefits reserve in respect of the financial year in question was 3.62%.

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

Prospective methods of valuation are used in determining a proxy for an asset share calculation in respect of certain contracts. These methods are used where a retrospective asset share calculation may be inappropriate or impractical.

The prospective method was described in paragraph 3 (1) (ii).

The following table sets out the main assumptions used. There are no explicit risk adjustments made to assets.

Economic Assumptions*		
Valuation interest rate p.a.		3.00%
Experience interest rate p.a.		3.92%
Discount rate p.a.**		4.65%
Expense Assumptions		
Investment Expense p.a.		0.12%
Per policy Expenses p.a.	Valuation	£34.95
	Experience	£34.87
Expense Inflation p.a.		4.50%

* Investment rates are shown net of the investment expenses of 0.12% gross per annum.

** This discount rate is the 15 year gilt yield + 10 basis points which is consistent with the risk free rates in paragraph 6 (4) (a) (iii) which are derived from the proprietary economic scenario generator model as described in paragraph 6 (4) (a) (ii) using the gilt yield curve + 10 basis points.

No future reversionary bonus is assumed in the projections. Sample terminal bonus rates are:

Sample Terminal Bonus Rates - %					
	Policy Term				
Year of Maturity	**5**	**10**	**15**	**20**	**25**
2010	0.0	44.0	32.0	29.5	91.0
2015	0.0	41.0	44.0	32.0	39.0
2020	0.0	0.0	45.0	51.0	56.5
2025	0.0	0.0	0.0	51.5	57.0
2030	0.0	0.0	0.0	0.0	61.5

Sample lapse rates for other products valued on a prospective basis, which are based on historic experience, are:

Sample Lapse Rates - %					
	Policy Term				
Year of Maturity	**5**	**10**	**15**	**20**	**25**
Whole of Life	2.40	1.80	1.70	1.70	1.70

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Methods For Guarantees etc.

(a) The company uses a stochastic model to place a value on the costs of guarantees, options and smoothing for with-profits contracts.

(b) (i) In the stochastic model, no projections are carried out on individual policy data.

(ii) The model uses grouped policy data. However, the values for the with-profits benefits reserve are calculated on an individual basis and added to the data file before the data is grouped.

(iii) The stochastic model uses a grouped policy data file.

Policies are grouped according to product type, premium status, year of maturity, year of entry, age and premium term. All policies are assumed to be male lives.

There are separate groups for each year of maturity up to and including 11 years after the valuation date. Policies maturing from 12 to 14 years after the valuation date are grouped, as are policies maturing after that time.

The year of entry grouping is carried out in 5 year bands.

Within each group, weights are applied to certain key policy features before averaging. For example, the elapsed duration is weighted by the total of the sum assured and attaching bonuses. For other data, such as premium term, a simple average is taken.

Model Points

The following table shows the number of model points that result from applying the grouping criteria, when compared to the number of individual with-profits records.

Individual Records	Model Points
533,610	491

Grouping Validations

It is impractical to attempt to validate, using the stochastic model, projections that use grouped data against projections that use individual data. Instead, comparisons are carried out using deterministic projections.

Comparison is made of the present value of key variables as well as progression of these variables over a period of up to 40 years. The comparison includes items such as reserve run off, claims outgo and

premium income, split by product type as necessary. Where material discrepancies arise, these may result in grouping being revisited.

(3) Significant Changes

The method used to allow for the inherited estate distribution bonus declared in 1996 in the cost of options and guarantees calculation has been changed to ensure that we do not understate the cost of options and guarantees on traditional with profit business.

(4) Further Information On Stochastic Approach

(a) (i) The stochastic model is used to place a value on:

- Maturity guarantees on conventional endowments
- The impact of bonus smoothing

Of these, the guarantees which are strongly "in the money" at the valuation date include the maturity guarantees on conventional endowments.

As at 31 December, for a significant proportion of the with-profits business maturity payouts exceed asset shares. It is intended to reduce this overpayment in line with the company's smoothing policy subject to the level of guarantees. The impact of bonus smoothing is shown in Line 44 of Form 19.

An indication of the combined impact of guarantees and smoothing is provided in (vi), below.

(ii) As for the Britannic With-Profits Fund.

(iii) As for the Britannic With-Profits Fund.

(iv) As for the Britannic With-Profits Fund.

(v) The asset model is not calibrated to any risk free rates other than those derived from UK assets. There is no calibration to risk-free rates from overseas territories.

(vi) The following table shows the approximate percentage of the total present value of guarantees and smoothing by duration, as projected by the stochastic model. It is based on the average overpayment across all projected investment scenarios using the base assumptions.

Year	Endowments	Whole Life
2008	21%	4%
2009	26%	4%
2010	12%	3%
2011	11%	3%
2012	-2%	3%
2013	0%	2%
2014	-3%	2%
2015	-2%	2%
2016	-1%	2%
2017	-1%	1%
2018	0%	1%
2019	0%	1%
2020	0%	1%
2021	0%	1%
2022	0%	1%
2023	0%	1%
2024	0%	1%
2025	0%	0%
2026	0%	0%
2027	0%	0%
2028	0%	0%
2029	0%	0%
2030	0%	0%
2031	0%	0%
2032	0%	0%
2033	0%	0%
2034	0%	0%
2035	0%	0%
2036	0%	0%
2037	0%	0%
2038	0%	0%
2039	0%	0%
2040	0%	0%
2041	0%	0%

Calibration of the asset model to market data is shown, where available, in paragraph 6 (4) (a) (ii) above.

(vii) We carry out comprehensive tests on the output produced by Barrie & Hibbert asset model as described for the Britannic With-Profits Fund.

(viii) The stochastic model is run on 1,000 investment scenarios generated by the asset model.

The scenario generation process incorporates variance reduction techniques (antithetic variables) to ensure that the scenarios selected pass the tests described in (vii) to a close tolerance.

A test to demonstrate the effectiveness of the sampling method was done by running the stochastic model on 3,000 investment scenarios and the difference of the results to a 1,000 scenarios run were not material.

(b) Not applicable

(c) Not applicable

(5) Management actions

(a) The stochastic model does not take into account the possibility of actions taken by management in the projected investment scenarios, other than to the extent as described below.

Bonus Policy

Future reversionary bonus rates are assumed to be zero.

Maturity payouts are targeted to be 100% of asset share, subject to the company's smoothing policy. To achieve this, the model compares policies maturing in one year against similar policies maturing in the previous year and derives a scale of terminal bonus rates such that:

(i) The maximum change in payout from year to year is 10%

(ii) This change is increased by up to 20% in order to achieve a payout ratio of between 90% and 110%

(iii) The maximum change is unlimited in order to ensure that the payout ratio is not above 125% or below 75%

Investment Mix

Appropriate allowance is made for the expectation that the exposure of the fund to real assets will reduce as the portfolios reach maturity. The proportion of real assets (UK equities, overseas equities and property) is assumed to reduce by 1.00% per month from 50 % at the end of 2007 to 20% after 6 months.

(b) For the management actions assumed to determine the costs in paragraph 6.(4), the best estimates as to the future proportions of the asset backing the with-profits benefits reserve which would consist of equities are shown in the following tables. There is no accumulating with-profits business in the Industrial Branch Fund.

Yield = 4.62%	Equity Proportion of assets backing with-profits benefits reserve		
Type of business	at end of financial year	in 5 years time	in 10 years time
Conventional business	31%	17%	17%

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		**Average surrender / paid-up rate for the policy years**			
		1-5	**6-10**	**11-15**	**16-20**
CWP savings endowment	Surrender	1.46%	2.45%	2.17%	1.97%

The fund has no exposure to guaranteed annuity options.

(7) Policyholders' Actions

Not applicable

7. FINANCING COSTS

There are no financing arrangements currently in place for the fund.

8. OTHER LONG TERM INSURANCE LIABILITIES

No amounts have been included in Line 46 of Form 19. The amount shown in Line 47 of Form 19 is made up as follows:

	Current Valuation
	£m
Additional provision for tax*	2.5
Investment Expense Rebate credited to future asset shares	2.0
Data/modelling/unknown mis-selling	2.5
Litigation	3.8
MSC expense contingency / RMS SLA review	0.1
Treating Customers Fairly	1.1

* Consisting of: Tax on future shareholder transfers, CGT reserve, deferred relief on acquisition expenses, and any adjustments in respect of amounts included in current liabilities.

9. REALISTIC CURRENT LIABILITIES

The realistic current value of liabilities, shown at line 51 of Form 19, is taken to be equal to the value assessed on a regulatory basis, this being £10m. The figure includes creditors (including outstanding claims), provisions (including taxation), accruals and deferred income.

10. RISK CAPITAL MARGIN

(a) The risk capital margin for the fund was calculated to be zero at the valuation date.

(i) The risk capital margin allows for a fall in equity values of 20%. This was compared to a rise in equity values of the same amount and found to be more onerous for the fund.

A fall of 12.5% was allowed for in the value of property assets, and again this was found to be more onerous than a rise in property values of the same amount.

(ii) The scenario of a rise in fixed interest yields of 17.5% of the long-term gilt yield was compared against a fall in yields of the same amount. The more onerous result was assumed and represented a rise in yields. The nominal rise and fall in the (annualised) yields was 80 basis points.

There are no significant overseas territories. Overseas stocks were subjected to the same basis point adjustment as for UK stocks.

(iii) The risk capital margin allows for a widening of the yields available on bonds, where the change in yields depends on the credit rating. The average change in the spread for bonds subject to the test, weighted by market value, was 77 basis points for the fund. This change in yields resulted in a fall in the value of these bonds by an average of 5.26% for the fund.

(iv) Persistency rates were assumed to improve by 32.5%. This was allowed for in the projections by multiplying the assumed lapse, paid-up and surrender rates at each duration by 67.5%.

Applying the persistency test, on top of the tests already described in (i) to (iii) results in an decrease in the value of realistic liabilities of £0.4m but this is offset by a corresponding increase in planned enhancements as described below.

(v) Not applicable

(b) In the stress, scenarios we further assume that the data contingency reserve will be increased from £2.5m to £5.0m.

The working capital takes into account planned enhancements which reflect the intention to distribute to policyholders excess assets within the fund. These enhancements are assumed to be removed in the risk capital margin conditions to the extent that they would not be payable due to reductions in the excess assets. This action has a value of £18m in the fund.

Some policies have been granted discretionary enhancements to investment returns attributed to asset shares. These enhancements will be removed if the estate of the fund is insufficient to finance them. No removal of enhancements has been assumed for the fund in the risk capital margin conditions.

(c) (i) The risk capital margin is zero.

(ii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

(i) The investment returns used in the calculation of the with-profits benefits reserve are net of policyholder tax, where appropriate. The calculation of the net rate allows for tax on income and gains, split by asset class and using assumed rates appropriate to those assets. For unrealised gains, a reduced rate is used in order to reflect deferral of the gain.

Expenses attributed to the with-profits benefits reserve are reduced to reflect tax relief where appropriate, based on assumed rates.

Where asset share calculations are used, the value of outstanding tax relief arising on acquisition expenses is not capitalised. This asset is reflected in Line 47 of Form 19.

Additional tax arising on shareholder transfers is met from the estate and is not chargeable to asset shares.

(ii) In calculating the value of future policy related liabilities, tax is allowed for in a number of ways.

Asset shares (or proxies to asset shares) are projected by the stochastic model used to determine the value of guarantees and smoothing, and this allows for policyholder tax as described in (ii).

Additional tax on shareholder transfers, which is payable from the estate, is reflected in Line 47 of Form 19 and is derived from the stochastic model results.

The accrued amount of any unrealised capital gains is included in Line 47 of Form 19. This is based on the actual unrealised gains on the valuation date multiplied by a tax rate that does not allow for deferral of the gain being realised.

Outstanding tax relief on acquisition expenses is allowed for in Line 47 of Form 19 and is based on outstanding amounts from the company's tax computation, discounted at a risk-free rate.

The tax relief from any deferred expenses from the company's tax computation is assumed to be recovered after one year, and the discounted value (at a risk free rate) is included in Line 47 of Form 19.

In Line 47 of Form 19, adjustments are made in respect of any amounts already included as current liabilities.

(iii) The realistic value of the current liabilities is taken to be equal to the regulatory value. The value of any tax provisions resulting from the company's tax computation is included here.

12. DERIVATIVES

On the valuation date, the fund held futures contracts to sell indices as described in the table below:

Index	Units	Price on the valuation date	Settlement Price	Unit Multiple for Settlement	Settlement Date
FTSE 100	312	6,453.00 GBP	6,311.00 GBP	10	March 2008

13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0.0**
Write back opening zeroisation of working capital	**78.1**
Opening adjustment	-20.8
Revised opening working capital	**57.3**
Modelling changes	0.0
Retrospective changes to asset shares	-29.8
Investment return on revised working capital	1.9
Investment mis-match	0.5
Economic assumption changes	1.0
Non-economic assumption changes	-4.1
Other	0.9
Unexplained	6.5
Closing working capital before zeroisation	**34.2**
Planned benefit enhancements to zeroise working capital	-34.2
Closing working capital	**0.0**

The change in the other long-term insurance liabilities Line 47 Form 19 is shown in the following table.

	Current Valuation	Previous Valuation
	£m	£m
Additional provision for tax*	2.5	3.7
Investment Expense Rebate credited to future asset shares	2.0	2.0
Data/modelling/unknown mis-selling	2.5	2.5
Litigation	3.8	3.8
MSC expense contingency / RMS SLA review	0.1	0.1
Treating Customers Fairly	1.1	0.0
Total	12.0	12.0

The change in the realistic current liabilities of the fund Line 51 Form 19 is shown in the following table.

	Current Valuation £m	Previous Valuation £m
Regulatory current liabilities	15.0	9.6
Total	15.0	9.6

14. OPTIONAL DISCLOSURE

None made.

PHOENIX WITH-PROFITS FUND

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

The economic assumptions for non-profit products are as follows:

	Current Valuation	Previous Valuation
Gross Investment return	See below	See below
Risk discount rate	See below	See below
RPI Inflation	3.50%	3.30%
Expense inflation	7.30%	7.10%

The value of future profits on non-profit contracts was calculated by assuming risk free rates of investment return and discount rates. These were based on a zero coupon gilt yield curve plus 10 basis points as at the valuation date.

Earned rates of return were assumed to be annual forward yields derived from the curve, net of tax and investment expenses.

Discount rates used were spot yields taken from the curve, net of tax and investment expenses.

The risk free yields (gilt yield curve plus 10 basis points) were:

	Risk Free Rate	
Term (years)	Current Valuation	Previous Valuation
1	4.55%	5.38%
2	4.50%	5.31%
3	4.54%	5.25%
4	4.59%	5.19%
5	4.63%	5.13%
6	4.65%	5.07%
7	4.67%	5.01%
8	4.68%	4.96%
9	4.69%	4.91%
10	4.69%	4.86%
12	4.68%	4.76%
15	4.65%	4.63%
20	4.57%	4.45%
25	4.47%	4.29%

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable

(5) De Minimis Limit

Not applicable – the assumptions in (1) relate to all non-profit business within the With-Profits Fund.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
With-profits – Whole Life	Prospective	126	6
With-profits – Other Life	Retrospective	2,374	105
With-profits – Pensions (Regular and Single Premium)	Retrospective	377	113
With-profits – Pensions (Paid-Up)	Prospective	316	95
UWP Life (including Whole Life With-Profits Bond)	Retrospective	961	115
UWP Pensions	Retrospective	720	55
Other		14	
Total		4,888	489
Form 19 Line 31		4,888	
Form 19 Line 49			489

In the table above, the future policy related liabilities for with-profits life business and with-profits pensions business have been split in proportion to the with-profits benefits reserves.

(2) Correspondence With Form 19

Not applicable

(3) With-Profits Benefits Reserves Below De Minimis Limit

The amount categorised as "Other" above falls within the de minimis limit.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a) All contracts have been calculated on an individual policy basis. Whilst the asset shares have been calculated using individual data in all cases, the method used for unitised with-profits (including Whole Life With-Profits Bond) has been the application, to the individual data, of a factor (the ratio of asset share to face value of units) which has been calculated by reference to grouped / sample data. This is consistent with the way the business is operated in practice

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant Changes To Valuation Method

(a) There have been no significant changes in the method of calculating the with-profits benefits reserve.

(b) No policies were valued using approaches more approximate than used for the previous valuation.

(3) Expense Allocation

(a) The previous expense investigation was carried out in the fourth quarter of the current financial year.

(b) Expense investigations are carried out twice annually.

(c)

	Item	£m
(i)	Initial Expenses	Nil[1]
(ii)	Maintenance Expenses	11.2
(iii)	Investment Expenses	6.5
(iv)	Method	Average expense charge deducted
(iv)	Expenses charged other than to with-profits benefits reserve	16.2

[1] Since the company is closed to new business (apart from contractual increments etc.), there are no material acquisition expenses.

Investment expenses were deducted from the with-profits benefits reserve at a rate of 0.125% p.a.

(4) Significant Charges

The charges deducted from the with-profits benefits reserve in the year to the valuation date and the preceding year were:

	Current Valuation	Previous Valuation
	£m	£m
Charges for guarantees and smoothing	4.6	7.3
Net losses on non-profit business	-6.2	-9.4
Proportion of up-front outsourcing costs attributable to the period	4.4	4.4
Write-off of initial spreads on derivative contracts	0.9	3.8

(5) Charges For Non-Insurance Risk

Not applicable

(6) Ratio Of Claims To Reserve

Terminal bonus rates are set in advance for conventional with-profits policies. The terminal bonus rate is set based on assumptions about future investment returns. Terminal bonus rates on maturing endowment life policies and pension policies vesting at the intended retirement date were set to give the following percentages of the with-profits benefits reserve plus any past miscellaneous surplus less any

miscellaneous deficit attributed to the with-profits benefits reserve, for the following specimen products and terms:

	Endowment Policies	Regular Premium Personal Retirement Plan	Single Premium Personal Retirement Plan	Regular Premium Retirement Plan	Single Premium Retirement Plan
1/1/2005 to 30/4/2005					
10 year term	103	100	101	109	104
15 year term	100	108	101	105	106
20 year term	102	105	104	107	111
25 year term	104	106	102	100	104
1/5/2005 to 31/8/2005					
10 year term	102	100	100	108	104
15 year term	100	102	100	100	100
20 year term	100	100	100	102	107
25 year term	100	102	100	100	103
1/9/2005 to 31/12/2005					
10 year term	102	100	103	106	108
15 year term	100	100	100	100	99
20 year term	100	100	100	100	103
25 year term	100	100	102	100	103
1/1/2006 to 30/4/2006					
10 year term	100	100	100	103	110
15 year term	102	101	100	114	100
20 year term	100	100	101	101	103
25 year term	100	100	101	100	101
1/5/2006 to 31/8/2006					
10 year term	100	100	103	103	114
15 year term	100	101	100	109	101
20 year term	101	100	101	101	102
25 year term	100	100	100	100	100
1/9/2006 to 31/12/2006					
10 year term	100	100	100	100	117
15 year term	100	100	100	102	100
20 year term	100	100	112	100	103
25 year term	100	100	102	100	100

	Endowment Policies	Regular Premium Personal Retirement Plan	Single Premium Personal Retirement Plan	Regular Premium Retirement Plan	Single Premium Retirement Plan
1/1/2007 to 30/4/2007					
10 year term	100	100	108	100	118
15 year term	100	100	100	102	100
20 year term	100	100	102	100	106
25 year term	101	100	104	102	109
1/5/2007 to 31/8/2007					
10 year term	100	100	113	100	123
15 year term	100	100	100	100	100
20 year term	100	100	100	100	103
25 year term	100	100	105	100	109
1/9/2007 to 31/12/2007					
10 year term	100	100	118	100	129
15 year term	100	100	100	100	100
20 year term	100	100	100	100	100
25 year term	100	100	106	100	112

Payouts on surrenders will generally have been based on a lower percentage of the with-profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with-profits benefits reserve.

Payouts on surrenders of unitised with-profits bonds have been set to the following percentages of the with-profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with-profits benefits reserve but not less any exit charge:

Year	
2005	100.00%
2006	100.00%
2007	100.00%

(7) Allocated Return

The rate of investment return attributed to the with-profits benefits reserve of a policy depends on the asset mix for it. The asset mix depends on the outstanding term and the level of guarantees under the policy (see PPFM for more details).

The average rates of investment return (before tax) added are:

Product Type	Investment Return
Conventional Life	1.17%
Conventional Pensions	0.56%
UWP Bonds	1.67%
UWP Pensions	-0.63%
Profit Plus Fund	-1.17%

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

A prospective method has been used for with-profits whole life business and for paid-up with-profits pensions business.

Bonus rates on with-profits whole life business and paid-up pensions contracts are the same as the bonus rates on endowments and regular premium pension contracts respectively for the same term. A bonus reserve valuation is used to determine the with-profits benefits reserve, where:

- The bonus rates are the supportable bonus rates determined from the relevant product, and
- The economic assumptions are consistent with the supportable bonus rates

The supportable bonus rates are determined using one of the sets of economic assumptions that the company uses for illustrative projections on the business. Hence, the risk free rates are not directly relevant to the calculation of the prospective with-profits benefits reserves.

The assumptions underlying this method are as follows:

With-Profits Whole Life Business

The discount rate is the same as the investment return assumption. These rates together with the assumed rate for expense inflation are consistent with the assumed supportable bonus rates.

Economic Assumptions	
Discount Rate p.a. (net of investment expense)	5.40%
Investment Return p.a. (net of investment expense)	5.40%
Expense Assumptions	
Investment Expense p.a.	0.10%
Per Policy Expenses p.a.	£30.15
Expense Inflation p.a.	7.30%
Bonus Assumptions	
Reversionary Bonuses	
On Basic Sum Assured	0.25%
On Accrued Bonuses	0.25%

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

Elapsed Term in Years	2008	2013	2018	2023	2028	2033	2038	2043	2048
5	2.7%	5.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	5.4%	10.0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15	4.9%	21.2%	52.5%	51.1%	n/a	n/a	n/a	n/a	n/a
20	17.0%	26.3%	42.2%	78.5%	75.7%	n/a	n/a	n/a	n/a
25	29.8%	40.5%	47.9%	67.0%	111.4%	104.8%	n/a	n/a	n/a
30	59.1%	63.6%	69.0%	70.5%	97.6%	134.0%	123.9%	n/a	n/a
35	132.3%	90.7%	98.2%	79.8%	0.0%	75.3%	88.5%	20.8%	n/a
40	172.5%	182.6%	121.2%	151.3%	144.0%	58.0%	175.0%	211.3%	162.0%

There are no lapses.

Paid-Up With-Profits Pensions Business

The discount rate is the same as the investment return assumption. These rates together with the assumed rate for expense inflation are consistent with the assumed supportable bonus rates.

Economic Assumptions	
Discount Rate p.a. (net of investment expense)	5.88%
Investment Return p.a. (net of investment expense)	5.88%
Expense Assumptions	
Investment Expense p.a.	0.13%
Per Policy Expenses p.a.	£30.15
Expense Inflation p.a.	7.30%
Bonus Assumptions	
Reversionary Bonuses	
On Basic Sum Assured	0.20%
On Accrued Bonuses	0.20%

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

Personal Retirement Plan

Elapsed Term in Years	2008	2013	2018	2023	2028	2033	2038	2043	2048
5	13.1%	10.7%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	7.6%	19.8%	14.3%	n/a	n/a	n/a	n/a	n/a	n/a
15	15.0%	21.8%	24.1%	17.1%	n/a	n/a	n/a	n/a	n/a
20	38.4%	32.6%	45.0%	47.7%	47.2%	n/a	n/a	n/a	n/a
25	35.8%	55.7%	47.0%	59.1%	59.7%	55.7%	n/a	n/a	n/a
30	57.4%	55.3%	73.2%	66.3%	83.1%	82.7%	77.9%	n/a	n/a
35		99.8%	75.9%	93.9%	94.6%	100.1%	90.8%	79.0%	n/a
40			118.7%	100.0%	117.4%	132.7%	144.5%	136.8%	132.2%

Retirement Plan

Elapsed Term in Years	2008	2013	2018	2023	2028	2033	2038	2043	2048
5	10.9%	11.6%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	3.2%	18.7%	18.3%	n/a	n/a	n/a	n/a	n/a	n/a
15	5.5%	12.1%	21.1%	20.7%	n/a	n/a	n/a	n/a	n/a
20	24.5%	19.5%	24.0%	31.2%	31.4%	n/a	n/a	n/a	n/a
25	45.4%	35.6%	30.7%	33.6%	41.1%	38.5%	n/a	n/a	n/a
30	70.0%	66.8%	48.8%	46.7%	49.6%	57.1%	49.8%	n/a	n/a
35		90.6%	88.4%	60.6%	73.0%	80.4%	87.7%	84.8%	n/a
40			99.5%	110.1%	81.8%	107.0%	121.5%	126.0%	125.0%

There are no lapses.

(2) Different Sets Of Assumptions

Not applicable

6. COST OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Methods For Guarantees etc.

	Cost of Guarantees & Options	Smoothing Cost	Extent of Grouping	No of Individual policies	No of model points
All Business	Stochastic model	Deterministic calculation	All business	354,002	4,946

(a) Cost of Guarantees & Options

The costs of guarantees are determined using a stochastic model, with the asset returns being generated by a proprietary model. The following items were calculated stochastically:

(i) Guaranteed annuity option reserves
(ii) The reserves required in addition to asset share to meet guaranteed benefits
(iii) Future retentions at maturity where payouts of less than 100% of asset share are being targeted (this applies to the risk capital margin only)
(iv) Future profits and losses where amounts payable upon surrender are less or more than asset share
(v) The value of future guarantee charges deducted from asset share

The calculations were carried out using a risk neutral approach.

Early Retirements

For Personal Retirement Policies the stochastic model does not allow for lapses in the period from the earliest possible retirement age up to normal retirement date.

Such contracts allow benefits to be taken, with a guaranteed annuity rate at any age after 50 (60 for some earlier series). The use of a nil lapse rate after age 50 is considered to make suitable allowance for this early retirement option. For Retirement Plans a guaranteed annuity rate is not available on early retirements.

Our calculations allow for the assumed expenses of paying the annuity.

We assume that policyholders elect to take a proportion of their benefits as cash where permitted.

Cost of Smoothing

The small amount of smoothing cost was determined deterministically as the excess of the projected actual payouts over the projected target payouts.

For pensions policies the smoothing cost allows for any guaranteed annuity rates that will be provided on the overpayment.

We compare actual payouts at the valuation date with target payouts.

Where there is currently an overpayment relative to the target we assume that payouts will be cut at 4 monthly intervals, the first cut being 4 months after the valuation date. We assume that payouts can be cut by up to 5% at any one change and 15% over 12 months until the target is reached. Projected maturity payouts are obtained for this calculation.

(b) (i) None

(ii) All of the contracts are valued on a grouped basis.

(iii) For each product type we initially create separate model points for each combination of year of commencement and year of maturity. For unitised with-profits bonds we split by commencement month.

This grouping allows for the asset mix associated with each cohort of business. It is aligned with the way in which we declare bonus rates on our business (our actual terminal bonus rate calculation are based on specimen policies split out in the same way i.e. product type, year of commencement and year of maturity although at quinquennial rather than annual intervals with monthly cohorts for unitised with-profits bonds).

The initial model point files outlined above are then more heavily grouped to improve the run times in the stochastic model by amalgamating some of the smaller model points that were not making a significant contribution to the overall results. In order to test that this heavier grouping did not materially affect the results 3,000 simulations were run at both levels of grouping and the results differed by less than 1.0% for the guaranteed annuity rate & non guaranteed annuity rate reserves.

One class of group unitised with-profits pensions business representing approximately 3% of with-profits liabilities is modelled as if it was an equivalent amount of similar individual pensions business.

Guaranteed annuity option liabilities were calculated assuming that all lives are male. This approach is conservative given the mortality tables used in the valuation and the nature of the guarantees given.

(3) Significant changes

None

(4) Further information on stochastic approach

(a) (i) The guarantees and options being valued using a full stochastic approach are described in paragraph 6 (2) (a) above. The following tables give an indication of the extent to which the guarantees are in or out of the money at the valuation date. The table shows the percentage of the with-profits benefits reserve (including miscellaneous profits and losses) for each product that falls within each band (the bands are defined below).

% Asset Share	Band A	Band B	Band C	Band D
Endowments & Whole Life	0.0%	0.0%	0.0%	99.9%
Direct Written Pre 1997 Bonds	0.0%	0.0%	0.0%	100.0%
Conventional Pensions	0.4%	0.1%	0.2%	99.4%
Unitised With Profit Pensions	0.1%	0.0%	0.4%	99.4%
UWPB – Strong Guarantee	92.8%	0.0%	0.0%	7.2%
– Weak Guarantee	0.0%	0.0%	0.0%	100.0%

Where:

Band A	Contracts would need to earn >10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee
Band B	Contracts need to earn between 7.5% and 10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee
Band C	Contracts need to earn between 5% and 7.5%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee
Band D	Contracts need to earn <5%p.a. on the equities & property backing their asset share to meet the maturity guarantee

(ii) The asset returns in the stochastic model were generated by a proprietary model licensed from Barrie & Hibbert. The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

UK gilt returns are modelled using a gilts + 10bps calibration in an Annual LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The equity model uses a local volatility surface calibrated to market implied volatilities for a range of strikes and maturities. Volatilities are assumed to be constant beyond quoted strikes and maturities.

The volatilities used for UK equities are set out in paragraph 6 (4) (a) (vi). The split between UK and overseas equities was 70%/30%.

Corporate bond returns are modelled using the extended Jarrow-Lando-Turnbull model. This describes bond prices in terms of a real-world transition matrix, which gives the probability of a transition to each credit rating over one year. Risk neutral transition probabilities are assumed to vary stochastically. The transition matrix is consistent with best estimates based on historic data of long term transition probabilities and spread volatilities and corporate bond prices. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

	Output Correlations @ Year 10									
	Cash	Equities	Property	Overseas Equities	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1	-0.03	0.16	0.00	0.58	-0.56	0.26	-0.41	0.57	0.27
Equities		1	0.19	0.36	0.08	0.18	0.48	0.38	0.17	0.27
Property			1	0.13	0.08	-0.06	0.12	0.00	0.18	0.15
Overseas equities				1	0.07	0.14	0.19	0.20	0.21	0.27
5yr Govt ZCB					1	0.25	0.52	0.19	0.42	0.24
15yr Govt ZCB						1	0.22	0.77	-0.20	0.01
5yr Corp ZCB							1	0.65	0.28	0.25
15yr Corp ZCB								1	-0.09	0.11
5yr Index Linked ZCB									1	0.82
15yr Index Linked ZCB										1

(a) (iii) The table below is based on 3,000 scenarios:

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to tw o decimal places)	4.63%	4.65%	4.47%	4.30%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	797,522	505,557	334,820	229,356	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	93,965	238,850	325,446	393,201	209,090	387,706	495,753	580,023	570,846	750,592	881,537	984,852
3		FTSE All Share Index (p=0.8)	82,609	189,461	236,267	263,369	185,617	309,974	362,077	392,181	516,107	605,678	652,221	675,718
4		Property (p=1)	33,266	101,914	159,235	219,956	135,896	233,491	306,698	380,035	520,921	607,095	684,614	761,543
5		Property (p=0.8)	25,560	66,215	91,878	119,120	112,527	161,255	189,524	219,120	462,503	454,497	454,338	467,286
6		15 year risk free zero coupon bond (p=1)	3,564	6,163	5,919	10,829	56,605	58,470	67,835	107,100	500,377	499,301	502,366	522,200
7		15 year risk free zero coupon bond (p=0.8)	2,152	2,199	1,471	1,011	38,291	20,530	10,540	10,637	435,180	311,445	224,492	193,262
8		15 year risk free bonds (p=1)	8,258	19,025	26,984	38,908	71,610	91,374	108,145	135,217	497,492	495,714	502,752	529,357
9		15 year risk free bonds (p=0.8)	5,663	8,426	8,551	9,794	52,692	45,070	38,879	38,569	432,394	313,318	242,851	213,111
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	50,700	153,369	220,464	277,924	154,579	288,703	373,726	444,429	531,123	645,130	741,029	824,613
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	42,013	111,686	145,348	168,194	131,620	216,710	252,736	277,036	473,214	499,770	519,768	532,874
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	44,736	140,016	200,349	249,987	143,842	270,040	347,051	411,221	524,369	623,596	710,720	786,957
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	36,579	99,803	129,170	147,093	121,629	200,731	231,124	249,140	465,292	477,750	489,740	498,165
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	19,214	73,555	114,555	152,944	103,462	189,127	243,594	294,523	506,728	551,431	603,413	660,395
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	14,193	44,489	60,868	73,342	82,514	124,849	139,819	152,243	444,393	397,574	381,307	376,280
			L=15				L=20				L=25			
16		Receiver sw aptions	6.23%	7.05%	6.20%	4.99%	7.96%	8.81%	7.66%	6.14%	9.55%	10.32%	8.88%	7.10%

(iv) UK initial equity yield: 3.69%
UK initial property rental yield: 4.30%

(v) Not applicable – there are no significant territories other than the UK.

(vi) The following table shows the outstanding guarantees analysed by term. In addition, the guarantees in column B have a guaranteed annuity rate at vesting at various strike rates as shown below.

Year	Guaranteed Benefit (Policies with no GAR)	Guaranteed Benefit (Policies with GAR)	No MVA Guarantee
	A	B	C
2008	312	39	203
2008	267	35	364
2010	226	33	218
2011	288	37	41
2012	319	40	0
2013	325	41	0
2014	171	40	0
2015	89	38	0
2016	113	31	0
2017	117	33	0
2018	108	29	0
2019	92	25	0
2020	83	26	0
2021	78	26	0
2022	97	31	0
2023	101	27	0
2024	106	17	0
2025	58	14	0
2026	54	11	0
2027	56	11	0
2028	59	10	0
2029	62	9	0
2030	55	8	0
2031	53	6	0
2032	48	6	0
2033	44	5	0
2034	35	4	0
2035	28	3	0
2036	24	2	0
2037	15	1	0
2038	8	0	0
2039	6	0	0
2040	3	0	0
2041	10	0	0

Specimen cash option rates per £100 p.a. pension for annuities guaranteed five years and payable monthly in advance:

		Cash Option £	
	Retirement Age	Male	Female
Retirement Plan	60	1,000	1,100
	65	900	1,000
	70	800	900

Specimen minimum rates per £1,000 cash for annuities with no guarantee period and payable yearly in arrears:

		Annuity £ p.a.	
	Retirement Age	**Male**	**Female**
Personal Retirement Plan	60	77.24	67.77
	65	89.98	76.79
	70	108.28	89.64
	75	128.88	104.03

UK Equities

The asset model was calibrated by reference to the implied volatility of FTSE100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

Implied volatility data (%) at the valuation date is shown below:

Market

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	27.31	24.31	21.04	18.53	17.23
2	26.24	24.05	21.70	19.97	18.48
3	26.16	24.38	22.50	21.03	19.73
5	25.95	24.59	23.56	22.17	21.20
10	27.14	26.33	25.48	24.69	24.01

Model

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	27.31	24.31	21.19	18.53	17.23
2	26.24	24.05	21.88	19.97	18.48
3	26.16	24.38	22.62	21.03	19.73
5	25.95	24.59	23.31	22.17	21.20
10	26.14	25.33	24.48	23.69	23.01

Beyond 10 years the estimated volatility implied by the model calibration rises as follows:

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
15	29.89	29.21	28.66	28.20	27.85
20	30.05	29.50	29.06	28.69	28.40
25	28.31	27.98	27.72	27.52	27.35
30	30.27	29.89	29.54	29.26	29.00

Difference (Model – Market) %

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	0.00	0.00	0.15	0.00	0.00
2	0.00	0.00	0.18	0.00	0.00
3	0.00	0.00	0.12	0.00	0.00
5	0.00	0.00	-0.25	0.00	0.00
10	-1.00	-1.00	-1.00	-1.00	-1.00

Property

There are no tests against market traded instruments for properties since there are no such instruments. A best estimate has therefore been used of 15% constant volatility.

Fixed Interest

A LIBOR Market Model calibrated to Gilts + 10 basis points is used. The calibration at the valuation date was as follows:

Term	Govt. + 10bp	Model	Difference (Model - Market bp)
1	4.55%	4.55%	0
2	4.50%	4.50%	0
3	4.54%	4.54%	0
4	4.59%	4.59%	0
5	4.63%	4.63%	0
7	4.67%	4.68%	1
10	4.69%	4.69%	0
15	4.65%	4.65%	0
20	4.57%	4.57%	0
25	4.47%	4.47%	0

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps). The calibration at the valuation date is as follows:

Term	Market Implied Volatility	Model	Difference (Model - Market bp)
1	12.40	11.58	-82
2	11.70	11.49	-21
3	11.30	11.39	9
4	11.10	11.30	20
5	10.90	11.22	32
7	10.90	11.08	18
10	10.80	10.93	13
15	10.90	10.83	-7
20	10.90	10.83	-7
25	11.00	10.87	-13
30	10.80	10.91	11

Credit (Corporate Bonds)

The asset model uses a credit transition matrix. The fit of the model is targeted to the market spread on a 7 year A rated bond only. Credit derivatives are not used to derive market implied transition probabilities.

(vii) We carry out comprehensive tests on the output produced by the Barrie & Hibbert asset model as follows:

For UK and Overseas equities and for UK property we have verified that the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) are acceptably close to unity - the martingale property.

The same test has been undertaken for 15-year zero-coupon gilts and for 4 classes of zero-coupon corporate bonds with terms of 1, 5, 10, 15, 20, 25 and 30 years. Departures from unity in the average discounted present values have not had a significant impact on the valuation result.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

For UK equity options we have verified, within acceptable limits, that the option prices calculated from the model output and converted into implied volatilities using the Black-Scholes formula reproduce the expected volatility surface.

We have also verified, within acceptable limits, that implied volatilities calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

(viii) The assets and liabilities have been computed using 3,000 (1,500 antithetic pairs of) simulated scenarios. This results in standard errors in the calculated yield curve of less than 1 basis point for terms 1- 30 years.

For a 10-year at the money (based on the forward price) UK equity put option at a strike of 1.0, the standard error of the estimated option price represents 3.7% of its calculated value.

Similarly, for a range of swaptions with maturities between 5 and 25 years on underlying 20 year swaps the standard errors in the calculated prices represent, typically, 1.7% of these prices.

(b) Not applicable

(c) Not applicable

(5) Management Actions

(a) We do not assume that any scenario specific management actions take place in the stochastic model. However the model allows for our investment strategy as follows:

a) Sales of property and equity during the next valuation year to bring the actual asset mix into balance with the strategic target.

b) Close matching by outstanding term of fixed interest assets to liabilities by means of a swap overlay.

c) An internal delta-hedge for equities and property which has an effect in the stress scenario.

d) Reduction in equity/property backing as policies near guarantee date for all products except the weak guarantee Unitised With-Profits Bonds.

e) We assume that policy classes do not move from the guarantee-related asset mix band to which they are allocated at the valuation date, although in practice some changes will occur in more extreme stochastic scenarios.

We will continue to apply existing market value adjustment policy i.e. we allow for market value adjustment's on surrender of unitised with-profits business (but with a "floor" based on a discounted value of the no market value adjustment guarantee).

Reversionary bonus rates will remain at current levels in future years.

Future miscellaneous surplus will be nil.

Charges made to asset shares for guarantees will continue in the future at the levels for the next valuation year.

(b) The following table shows the equity backing ratio at the valuation date and best estimate equity backing ratio in 5 years and 10 years time for the following scenarios, together with the reversionary bonus rates for the accumulating with-profits business:

(i) The investment return on all assets over the relevant period is based on the forward rates derived from the risk-free interest rate curve as calibrated to at the valuation date;

(ii) As for (i) but with the risk free interest rate curve increased across the period by 17.5% of the long-term gilt yield;

(iii) As for (i) but with the risk free interest rate curve decreased across the period by 17.5% of the long-term gilt yield;

		Current Valuation Date	Current Valuation Date Plus 5 years	Current Valuation Date Plus 10 years
% UK & Overseas Equities	i	31%	32%	32%
	ii	Unchanged	Unchanged	Unchanged
	iii	Unchanged	Unchanged	Unchanged
Reversionary bonus rates on accumulating with-profits				
Unitised With-Profits Bond	i	Strong Guarantee 0.5% p.a. Weak Guarantee 1% p.a.	Strong Guarantee 0.5% p.a. Weak Guarantee 1% p.a.	Strong Guarantee 0.5% p.a. Weak Guarantee 1% p.a.
	ii	Nil	Nil	Nil
	iii	Nil	Nil	Nil
Unitised With-Profits Pensions	i	1% p.a.	1% p.a.	1% p.a.
	ii	Nil	Nil	Nil
	iii	Nil	Nil	Nil
PPF	i	0.1% p.a.	0.1% p.a.	0.1% p.a.
	ii	Nil	Nil	Nil
	iii	Nil	Nil	Nil

Derivative contracts do not have any significant impact on the figures shown.

(6) Persistency Assumptions

The surrender and paid-up rates are:

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	10.40%	11.80%	6.00%	6.00%
CWP target cash endowment	Surrender	10.40%	11.80%	6.00%	6.00%
UWP savings endowment	Surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP bond	Surrender	3.60%	12.20%	10.00%	10.00%
UWP bond	Automatic withdrawals				
CWP pension regular premium	PUP	3.00%	4.80%	4.00%	4.00%
CWP pension regular premium	Surrender	12.20%	8.00%	5.00%	5.00%
CWP pension single premium	Surrender	6.00%	6.00%	6.00%	6.00%
UWP individual pension regular premium	PUP	11.00%	11.00%	11.00%	11.00%
UWP individual pension regular premium	Surrender	9.00%	9.00%	9.00%	9.00%
UWP individual pension single premium	Surrender	1.00%	1.00%	1.00%	1.00%

For Personal Retirement Plans we assume that there will be no surrenders after age 50 on the grounds that they would then be able to take their retirement benefits.

We assume that policies that are taking automatic withdrawals will continue to do so at the current rates.

We assume that current and future paid-up policies will lapse at the same rate as premium paying policies.

For Personal Retirement Plans we assume that lives under age 65 at the valuation date will retire at age 65; otherwise they will retire at 75 (or the maximum retirement age under the contract, if earlier).

We do not make any other allowance for early retirements.

Take up Rates of Guaranteed Annuity Options

The assumed proportion of cash in each scenario is dynamic according to the following formula:

$$Cash = Min(L,(Max(10\%,(CxF)))x(1-Min(t,T)/SxT))$$

where

$$F = R^{k(j)x100} x R^{(i-j-k(j))x100x(ABS(i-j)>semirange)}$$

and

$$k(j) = i - Min(Max(j, i-semirange), i+semirange)$$

where

L	Overall limit on cash proportion - set it to 1.25 x C
C	Current experience assumption
F	Overall reduction factor comprising R and R' components (see below) to reflect decline in cash as interest rates decline and guaranteed annuity rates become more valuable.
R	Reduction factor that applies outside of central "plateau" range (R=2/3)
R'	Reduction factor that applies within central "plateau" range (R'=0.9)
$k(j)$	Interim calculation variable depending on i,j, and semirange
$semirange$	Central "plateau" assumed to apply over a range from (i-semirange) to (i + semirange). Set at 1%.
t	Time in years from the valuation date
T	Period over which we recognise a decline in cash due to longevity making guaranteed annuity rates more valuable (T=30)
S	Amount of longevity decline (S=3 so that cash declines by 1/3 over T years)
i	Average 20 year interest rate over the period used to set the current experience assumption. This is 4.39% at the valuation date
j	20 year gilt rate at maturity for the particular scenario

Annuitant Mortality

Deferred pension contracts (post vesting) including guaranteed annuity options.

The mortality assumption for annuities in possession arising from the exercising of guaranteed annuity options is 10% higher than that described in Appendix 9.4, paragraph 4 (4).

(7) Policyholders' Actions

Modelled policyholder behaviour is static i.e. it does not vary between the different stochastic simulations apart from guaranteed annuity rate take up rates, which vary according to the formula in paragraph 6 (6) above.

7. FINANCING COSTS

The fund has no financing costs as at the valuation date.

8. OTHER LONG-TERM INSURANCE LIABILITIES

No amounts have been included in Line 46 of Form 19. The amount shown in Line 47 of Form 19 is made up as follows:

	£m
Mortgage Endowment Reserve	8.5
Additional Guaranteed Annuity Option Reserve	6.6
Data/modelling/unknown mis-selling	10.0
Litigation	15.0
GAO Project - Analysis of Claims Values	25.0
Other	8.7
Total	73.7

(a) Endowment Compensation Reserve

Some policyholders have been given non-compliant advice to take out an endowment policy to repay a mortgage.

A realistic amount to cover the cost of providing compensation to them has been assessed from the number of complaints expected to be received, the proportion anticipated to be valid and the expected amount of compensation per case payable, account being taken of the FSA guidelines on determination of compensation. Provision has also been made for the cost of handling complaints received.

(b) Additional Guaranteed Annuity Option Reserve

Additional realistic reserves are held in respect of expected additional payments on with-profits pensions claims in 1999, 2000, 2001 and 2002. Terminal bonus on the claim amounts had been calculated by deducting an amount for the expected cost of providing the guaranteed annuity option on those claims. Subsequent legal advice has indicated that this was not in accordance with the House of Lords judgement in Hyman v Equitable Life Assurance Society.

(c) Data/Modelling/Unknown Mis-selling

A realistic reserve is held in respect of future data, modelling and mis-selling issues that may arise in the future but are not currently known.

(d) Litigation

Additional realistic reserves are held in respect of future litigation costs.

(e) GAO Project – Analysis of Claims Values

A provision is held to cover the incorrect claim payments that have been made to a with-profits pension policyholders due to errors on the administration system where the policies were held.

(f) Other Liabilities

An allowance is made for other liabilities that may arise in respect of with-profits life business.

9. REALISTIC CURRENT LIABILITIES

(a) Future Tax Adjustment

The realistic balance sheet calculations assume that tax will be payable in relation to the realistic proportion of life business. In reality the tax is calculated by reference to statutory liabilities. An approximate adjustment is made to allow for the fact that future tax will be based on the statutory life proportion rather than the realistic life proportion.

This adjustment as at the valuation date amounted to an asset of £12.5m.

Within this figure was an adjustment to value the deferred tax liability on a realistic basis compared with the basis used for the regulatory basis. This reduced the liability by £0.2m.

(b) Additional Tax on Shareholder Transfers

An allowance is made for the additional tax arising on transfers to shareholders in respect of life business. This is calculated as a percentage of the present value of future transfers to shareholders in respect of life business.

The liability as at the valuation date amounted to £9.0m.

The reconciliation of the realistic current liabilities to the regulatory current liabilities is:

	£m
Regulatory current liabilities	380.5
+ Future tax adjustment	-12.5
+ Additional tax on shareholder transfers	9.0
Realistic current liabilities	377.0

10. RISK CAPITAL MARGIN

(a) The risk capital margin is nil.

(i) The market risk scenario assumes that equities fall by 20% and real estate falls by 12.5%. The equity fall and the property fall were the most onerous scenarios.

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.80%. This is consistent with a rise, or fall of 17.5% in the long term gilt yield. A fall in yields is the most onerous scenario.

(iii) The average change in spread is 0.70%. The change in the market value of bonds is:

(a) -5.38%
(b) Not applicable
(c) Not applicable
(d) Not applicable
(e) The change in the market value of swaps is 15%.

(iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency risk is -0.01%.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) (i) In the stress scenarios we further assume that:

Reversionary bonus rates will be reduced to nil

We assume that the data contingency reserve will be increased from £10m to £20m.

The impact of the combined stress will be partially offset by increasing guarantee charges. We assume an introduction of an exit charge of 1% of asset share on terminations.

Furthermore, it is assumed that the planned benefit enhancements will be reduced by £49.9m, resulting in £nil working capital under the stressed conditions.

These actions are consistent with our PPFM and investment strategy.

The effect on the risk capital margin of assuming reduced reversionary bonuses is a reduction of £15m and of introducing a 1% exit charge is a reduction of £28.2m.

(iii) No changes would apply to the table in paragraph 6 (5) (b) if the management actions were taken

(iv) The requirements of INSPRU 1.3.188(R) would be met if the actions described in paragraph 10 (b) (i) were integrated into the projection of assets and liabilities.

(c)

(i) The risk capital margin is covered by the assets of the long-term fund and the value of future profits on non-profit business.

(ii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non-Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

An approximate adjustment is made to allow for any differences between the tax calculated as described and the tax expected on a corporate basis. The adjustment is calculated within the stochastic model.

12. DERIVATIVES

At the valuation date the fund had a number of significant positions in interest rate swaps and swaptions.

The interest rate swaps are held in connection with the fixed interest portfolio and are used to improve the matching between the assets and the liabilities against changes in the yield curve for the long-term fund as a whole.

The interest rate swaptions are held in respect of the guaranteed annuity rate liabilities. Receiver swaptions are held to cover part of the guaranteed annuity rate liability where the with-profits benefits reserve is invested in equities or property. Payer swaptions are held where the with-profits benefits reserve is invested in fixed interest assets and the expected annuity benefit arising is matched by fixed interest investments. The quantum of swaptions held is based on a prudent assessment of future guaranteed annuity rate liabilities taking account of expected future lapse rates and take up rates. The duration and tenor of the swaptions corresponds broadly with the liabilities. The strike rates for the receiver swaptions are 5%. The strike rates for the payer swaptions vary according to the rate at which it is expected the cash option will become more valuable than the guaranteed annuity rate allowing for future improvements in mortality.

Both the swaps and swaptions are wholly sterling denominated. As at the valuation date, the swaps had a value of £-54m and the swaptions had a value of £34m.

The counterparties to the swaps and swaptions are approved credit institutions. Variation margin (collateral) arrangements are in place under both the swaps and swaptions. In addition the swaps provide for initial margins by both parties.

13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0.0**
Write back opening zeroisation of working capital	144.5
Revised opening working capital	**144.5**
Modelling and Data changes	23.2
Economic Assumption Changes	-4.7
Non Economic Assumption Changes	-31.7
Policyholder Actions	19.0
Other Variances - Non Economic	-6.6
New Provisions	15.0
Investment Return on Surplus	3.9
Unexplained	4.0
Closing working capital before zeroisation	**166.6**
Planned benefit enhancements to zeroise working capital	-166.6
Closing working capital	**0.0**

The following table shows a breakdown of the liabilities shown on line 47 Form 19 at the start and end of the year:

£m	Previous Valuation £m	Current Valuation £m
Compensation costs	71.4	15.0
Other	40.3	58.7
Total	111.7	73.7

The effect of the change in provisions for compensation costs together with the amounts paid are shown as "new provisions" in the analysis of change table.

The following table shows a breakdown of the liabilities shown on line 51 Form 19 at the start and end of the year:

£m	Previous Valuation £m	Current Valuation £m
Accounting Liabilities	213.5	380.5
Future Tax Profit	-18.1	-12.5
Additional Tax on Shareholders' Transfers	14.0	9.0
Total	209.4	377.0

14. OPTIONAL DISCLOSURE

None made

100% WITH-PROFITS FUND

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

Not applicable as there is no non-profit business valued in the 100% With-Profits Fund.

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable

(5) De Minimis Limit

Not applicable

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
Premium Paying Endowments (PAL)	Retrospective	16.5	123.8
Paid Up Endowment (PAL)	Retrospective	1.7	11.2
Whole Life Premium Paying (PAL)	Prospective	4.7	31.2
Whole Life - Paid Up (PAL)	Prospective	0.9	6.1
UWP Group Pensions (PAL)	Retrospective	41.8	1.6
UWP Pensions (SLUK)	Retrospective	48.3	2.5
Other		4.6	8.3
Total		118.6	184.6
Form 19 Line 31		118.6	
Form 19 Line 49			184.6

(2) Correspondence With Form 19

The above reconcile to lines 31 and 49 of Form 19.

(3) With-Profits Benefits Reserves Below De Minimis Limit

The amount categorised as "Other" above falls within the de minimis limit.

(4) Division Of Portfolio

In the above table, the following classes have similar bonus declaration characteristics:

- Premium Paying Endowments (PAL)
- Paid Up Endowment (PAL)
- Whole Life Premium Paying (PAL)
- Whole Life - Paid Up (PAL)

All other classes are distinct from each other.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a) All contracts have been calculated on an individual policy basis.

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant changes to valuation method

(a) There are no significant changes.

(b) Not applicable.

(3) Expense allocation

(a) The previous expense investigation was carried out in December of the current financial year.

(b) Expense investigations are carried out annually.

(c)

	Item	£m
(i)	Initial Expenses	£Nil[1]
(ii)	Maintenance Expenses	£0.45m
(iii)	Method	Average expense charge deducted
(iv)	Expenses charged other than to with-profits benefits reserve	£Nil

[1] Since the company is closed to new business (apart from contractual increments etc.), there are no material acquisition expenses.

Investment expenses are allowed for by deducting the fees payable to the company's investment manager for managing the assets from the investment return credited to asset shares.

(4) Significant Charges

There are currently no guarantee charges taken from asset shares for these funds.

(5) Charges For Non-Insurance Risk

Not applicable

(6) Ratio Of Claims To Reserves

Average ratio of total claims to asset shares is different for ex-PAL and ex-SLUK business:

Year	Ratio of claims to asset shares (ex-PAL)	Ratio of claims to asset shares (ex-SLUK)
Previous year -1	475%	100%
Previous year	660%	100%
Current year	735%	100%

(7) Allocated Return

The average rates of investment return (before tax) added for the year to the valuation date are:

Type of business	Investment Return
Premium Paying Endowments (PAL)	1.60%
Paid Up Endowment (PAL)	1.60%
UWP Group Pensions (PAL)	0.30%
UWP Pensions (SLUK)	3.89%

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

The discount rate used is consistent with the investment return used in determining supportable bonus rates. Hence, the risk free rates are not directly relevant to the calculation of the prospective with-profits benefits reserves.

The rates are shown in the table below:

	Premium Paying	Paid Up
Discount Rate p.a.	3.00%	3.00%
Investment Return p.a.	3.00%	3.00%
Expense Assumptions		
Investment Expense p.a.	0.10%	0.10%
Per Policy Expenses p.a.	£55.41	£55.41
Expense Inflation p.a.	8.30%	8.30%
Bonus Assumptions		
Reversionary Bonuses		
On Basic Sum Assured	5.00%	5.00%
On Accrued Bonuses	8.00%	8.00%

Future terminal bonus rates vary by duration in force at time of payment. Sample terminal bonus rates are as follows:

Elapsed Term in Years	Terminal Bonus Rate
10	933%
15	1152%
20	1642%
25	2220%
30	3398%
35	6450%
40	7524%

There are no assumed lapse rates.

(2) Different Sets Of Assumptions

Not applicable

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Method Used To Calculate The Costs Of Guarantees

(a) Cost of Guarantees & Options

The costs of guarantees on maturity for ex-SLUK unitised with-profits pensions are determined using a variation of the Black-Scholes formula.

Cost of Smoothing

There is no significant cost of smoothing and this has been taken to be zero. All business has been modelled assuming future payouts of 100% of asset share.

(b) (i) All of the contracts are valued on an individual basis.

(ii) None.

(iii) Not applicable

(3) Significant Changes

None.

(4) Further Information On The Approach Used To Calculate The Cost Of Guarantees

(a) Not applicable

(b) (i) The date at which the option can be exercised is taken to be the maturity date of the pension and this varies between policies. It is provided for each policy in the model point data file.

The expected guaranteed benefits at maturity are calculated using separate methods for regular premium and single premium unitised with-profits pension contracts.

Single Premium Unitised With-Profits Pensions

For single premium contracts, this is calculated by rolling up the current guaranteed fund value to the maturity date at the guaranteed bonus rate of 4% p.a.

Regular Premium Unitised With-Profits Pensions

For regular premium contracts, the capital and accumulation funds need to be projected separately and the future premiums have to be considered. The calculations are detailed below.

Accumulation Unit funds

The current accumulation unit fund value is rolled up to the maturity date at the guaranteed bonus rate of 4% p.a.

Future premiums payable are also rolled up at 4% p.a., with allowance for premium escalation and all fees and charges. There is an initial charge of 5% assumed for all contracts, whereas policy fee, unit allocation rate and rate of premium escalation are all provided in the model point data file. For hybrid contracts, only the unitised with-profits proportion of the premium is included in the calculation and this is also provided in the model point data file.

We also deduct the accumulated value as at maturity of the 50% proportion of each premium that is fed into asset share. This is calculated by firstly obtaining the present value using a yield that incorporates the risk free rate, premium escalation rate and 0.875% p.a. management charge. This present value is then rolled up to the maturity date at the risk free rate.

The risk free rate is taken from the zero coupon gilt yield curve plus 10 basis points:

	Risk Free Rate	
Term (years)	**Current Valuation**	**Previous Valuation**
1	4.55%	5.38%
2	4.50%	5.31%
3	4.54%	5.25%
4	4.59%	5.19%
5	4.63%	5.13%
6	4.65%	5.07%
7	4.67%	5.01%
8	4.68%	4.96%
9	4.69%	4.91%
10	4.69%	4.86%
12	4.68%	4.76%
15	4.65%	4.63%
20	4.57%	4.45%
25	4.47%	4.29%

Capital Unit funds

The current capital unit fund value is rolled up to the maturity date in a similar way to the accumulation unit fund value. The difference is that while the capital fund is still in its initial unit period, the bonus rate is -

1.875% p.a. and 4% p.a. applies thereafter. The length of the initial unit period is given in the model point data file.

Future premiums payable are projected in a similar way to those in the accumulated unit fund, except that the bonus rate applicable is -1.875% p.a.

Also, the deduction of asset share proportion of premiums is calculated in a similar way to that for the accumulated unit fund, except that the management charge is 6.75% p.a.

(ii) The implied put options and hence cost of underlying guarantees are valued using the Black-Scholes formulae:

$$p = xe^{-rt}\Phi(-d_2) - s\Phi(-d_1)$$

where

$$d_1 = \frac{\log(s/x) + (r + \sigma^2/2)t}{\sigma\sqrt{t}}$$

$$d_2 = d_1 - \sigma\sqrt{t}$$

and

x is the expected guaranteed benefit as described in paragraph 6 (4) (b) (i)
r is the risk free rate taken from the gilt yield curve plus 10 basis points
t is the term in years until maturity
s is the current asset share, plus the present value of the proportion of future premiums that are fed into asset share as described in paragraph 6 (4) (b) (i)
σ is the (constant) volatility of the asset portfolio assuming 60% equities and 40% bonds

σ is derived using the formula:

σ = [(equity proportion)^2(equity volatility)^2 +
(bond proportion)^2(bond volatility)^2 +
2 x (equity proportion) x (bond proportion) x
(equity volatility) x (bond volatility)]$^{1/2}$

= (equity proportion) x (equity volatility), since bond volatility is assumed to be zero

= 60% x 0.258

= 15.48%

The equity volatility is taken from the LIBOR market model, with 15 years considered as an appropriate outstanding term to maturity.

The value of the put option is multiplied by the following factor to allow for future surrenders

$(1 - \text{surrender rate})^{(\text{outstanding term})}$

Surrender rates are shown in paragraph 6 (6). A zero mortality assumption is used in the calculation.

(iii) The table below is based on the Black-Scholes formula described above. There are no swaptions or property held by the 100% With-Profits Fund so some of the entries in the table are not applicable.

		Asset type (all UK assets)	**K=0.75**				**K=1**				**K=1.5**			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	4.63%	4.65%	4.47%	4.30%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	797,522	505,557	334,820	229,356	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	95,345	215,583	293,030	350,684	223,831	371,899	463,361	530,606	591,627	744,336	846,647	923,535
3		FTSE All Share Index (p=0.8)	82,428	164,507	204,290	226,551	198,100	290,200	329,790	349,424	537,984	597,196	618,614	623,305
4		Property (p=1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
5		Property (p=0.8)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6		15 year risk free zero coupon bond (p=1)	0	0	0	0	0	0	0	0	492,231	476,570	463,976	453,436
7		15 year risk free zero coupon bond (p=0.8)	0	0	0	0	0	0	0	0	427,396	291,462	180,654	87,414
8		15 year risk free bonds (p=1)	0	0	0	0	0	0	0	0	492,231	476,570	463,976	453,436
9		15 year risk free bonds (p=0.8)	0	0	0	0	0	0	0	0	427,396	291,462	180,654	87,414
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	39,843	113,133	165,388	206,909	145,766	244,902	309,183	358,902	525,362	605,970	670,110	722,760
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	31,505	75,733	98,864	112,845	122,179	173,450	194,942	205,899	468,045	458,882	451,158	441,774
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
			L=15				L=20				L=25			
16		Receiver swaptions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

(iv) UK initial equity yield: 3.69% (There is no property in this fund and no significant territories other than the UK)

(v) The following table shows the outstanding guarantees analysed by term.

Year	Guaranteed benefit
	£000s
2008	3,495
2009	1,754
2010	1,240
2011	1,195
2012	1,569
2013	1,411
2014	1,716
2015	1,332
2016	1,316
2017	1,728
2018	1,725
2019	1,451
2020	1,431
2021	1,364
2022	1,562
2023	1,883
2024	1,454
2025	1,573
2026	1,539
2027	1,454
2028	1,420
2029	1,216
2030	1,365
2031	991
2032	777
2033	614
2034	672
2035	398
2036	182
2037	72
2038	28
2039	26
2040	7

(c) Not applicable

(5) Management Actions

We do not assume any specific management actions take place during the projection of assets and liabilities used to determine costs in paragraph 4 (b).

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		Average surrender / paid-up rate			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	N/A	N/A	N/A	N/A
CWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP savings endowment	Surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP bond	Surrender	N/A	N/A	N/A	N/A
UWP bond	Automatic withdrawals				
CWP pension regular premium	PUP	N/A	N/A	N/A	N/A
CWP pension regular premium	Surrender	N/A	N/A	N/A	N/A
CWP pension single premium	Surrender	N/A	N/A	N/A	N/A
UWP individual pension regular premium	PUP	3.0%	3.0%	3.0%	3.0%
UWP individual pension regular premium	Surrender	3.0%	3.0%	3.0%	3.0%
UWP individual pension single premium	Surrender	2.0%	2.0%	2.0%	2.0%

(7) Policyholders' Actions

No such assumptions were made.

7. FINANCING COSTS

There are no financing arrangements.

8. OTHER LONG-TERM INSURANCE LIABILITIES

The amount shown in Line 47 of Form 19 is made up as follows:

	£m
Potential future tax liabilities	8.3
Commission costs on unitised with-profits pensions policies	1.4
Total	9.7

A reserve has been established to cover potential future tax charges in excess of that assumed in the calculation of realistic liabilities.

A further reserve has been established to meet the future cost of commission payable to the ceding insurer on ex-PAL unitised with-profits pensions policies.

This total of these additional reserves is the value in line 47 of Form 19. Line 46 is zero.

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities are set equal to the regulatory current liabilities.

10. RISK CAPITAL MARGIN

(a) The risk capital margin is nil.

(i) The market risk scenario assumes that equities fall by 20% and real estate falls by 12.5%. The equity fall and the property fall were the most onerous scenarios.

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.80%. This is consistent with a rise, or fall of 17.5% in the long term gilt yield. An increase in yields is the most onerous scenario.

(iii) The average change in spread is 0.88%. The change in the market value of bonds is:

(a) -6.65%
(b) not applicable
(c) not applicable
(d) not applicable
(e) not applicable

(iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency risk is -0.26%.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) (i) In the stress scenarios we further assume that:

Terminal bonus rates are changed such that the revised estate is extinguished.

(ii) Under the most onerous stress, the risk capital margin is reduced by £16.6m by changing the terminal bonus rates.

(iii) No changes would apply to the table in paragraph 6 (5) (b) if the management actions were taken.

(iv) The requirements of INSPRU 1.3.188(R) would be met if the actions described in paragraph 10 (b) (i) were integrated into the projection of assets and liabilities.

(c) (i) The risk capital margin is covered by the assets of the long-term fund.

(ii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

12. DERIVATIVES

Not applicable

13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0**
Plus planned enhancements at 31/12/2006	192
Investment return on surplus	5
Claim payouts above asset share	-26
Change in guarantee costs	1
Surrender profit	0
Payments to PALAL	0
Tax charge/reserve for future tax	0
Unexplained	1
Less planned enhancements at 31/12/2007	-172
Closing working capital	0

The following table shows a breakdown of the liabilities shown on lines 47 and 51 of Form 19 at the start and end of the year:

£m	Previous Valuation £m	Current Valuation £m
Potential future tax charges	10.0	8.3
Other	1.6	1.4
Form 19 Line 47 total	**11.6**	**9.7**
Claims outstanding	9.6	20.0
Deferred tax provision	2.9	1.9
Creditors reinsurance ceded	3.6	0.0
Creditors taxation	8.8	9.0
Creditors other	0.1	0.0
Form 19 Line 51 total	**25.1**	**30.9**

14. OPTIONAL DISCLOSURE

None made.

90% WITH-PROFITS FUND

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

The economic assumptions used to calculate the value of future profits in non-profit business are as follows:

	Current Valuation	Previous Valuation
Fixed Interest Investment return	4.65%	4.67%
Risk discount rate	4.65%	4.67%
RPI Inflation	3.50%	3.30%
Expense inflation	5.90%	5.20%

(2) Amount Determined Under INSPRU 1.3.33(2)(R)

Not applicable

(3) Valuation Of Contracts Written Outside The Fund

Not applicable

(4) Different Sets Of Assumptions

Not applicable

(5) De Minimis Limit

Not applicable

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
SLUK Industrial Branch business conventional WL and EA	Prospective	23.4	5.6
SLUK Ordinary Branch business conventional WL and EA	Retrospective	84.8	16.1
BULA conventional life business	Retrospective	56.7	3.6
BULA pension contracts with guaranteed annuity rate option	Retrospective	2.1	2.2
Total		166.9	27.6
Form 19 Line 31		166.9	
Form 19 Line 49			27.6

(2) Correspondence With Form 19

The above reconcile to lines 31 and 49 of Form 19.

(3) With-Profits Benefits Reserves Below De Minimis Limit

All with-profits benefits reserves shown in the table above.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a) All contracts have been calculated on an individual policy basis.

(b) No contracts have been valued on a grouped basis.

(c) Not applicable as no contracts have been valued on a grouped basis.

(2) Significant Changes To Valuation Method

(a) There are no significant changes.

(b) Not applicable.

(3) Expense Allocation

(a) The previous expense investigation was carried out in December of the current financial year.

(b) Expense investigations are carried out annually.

(c)

	Item	£m
(i)	Initial Expenses	Nil[1]
(ii)	Maintenance Expenses	0.4
(iii)	Method	Average expense charge deducted
(iv)	Expenses charged other than to with-profits benefits reserve	0.2

[1] Since the company is closed to new business (apart from contractual increments etc.), there are no material acquisition expenses.

Investment expenses are allowed for by deducting the fees payable to the company's investment manager for managing the assets from the investment return credited to asset shares. The exception to this is the ex-BULA business where the investment expenses are not charged to asset shares and are shown in the above table.

(4) Charges For Insurance Risk

Not applicable

(5) Charges For Non-Insurance Risk

Not applicable

(6) Ratio Of Claims To Reserves

Average ratio of total claims to asset shares:

Year	SLUK IB	SLUK OB	BULA
Previous year -1	115%	136%	96%
Previous year	107%	107%	99%
Current year	113%	113%	101%

The above ratios reflect the target payout as a percentage of asset share used in the calculation of the terminal bonus rates.

(7) Allocated Return

The average rates of investment return (before tax) added for the year to the valuation date are:

Type of business	Investment Return
SLUK IB	3.89%
SLUK OB	3.89%
BULA	3.49%

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

A prospective method has been used for ex-SLUK Industrial branch with-profits whole life business.

Bonus rates on with-profits whole life business are the same as the bonus rates on endowments for the same term. A bonus reserve valuation is used to determine the with-profits benefits reserve, where:

- The bonus rates are the supportable bonus rates determined from the relevant product, and
- The economic assumptions are consistent with the supportable bonus rates

The assumptions underlying this method are as follows:

	Ex SLUK IB excl Pioneer Mutual and Stamford	Pioneer Mutual with cash bonuses	Stamford with cash bonuses
Discount Rate p.a.	6.13%	6.13%	6.13%
Investment Return p.a.			
Fixed Interest	5.60%	5.60%	5.60%
Equities	6.50%	6.50%	6.50%
Expense Assumptions			
Investment Expense p.a.	0.10%	0.10%	0.10%
Per policy Expenses			
Per Annum	£0.37	£0.37	£0.37
Per Premium	30.00%	30.00%	30.00%
Expense Inflation p.a.	4.90%	4.90%	4.90%
Bonus Assumptions			
Reversionary Bonuses			
On Basic Sum Assured	4.50%	9.00%	2.25%

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

There are no lapses.

(2) Different Sets Of Assumptions

Not applicable

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Method For Guarantees etc.

	Cost of Guarantees & Options	Smoothing Cost	Extent of Grouping	No of Individual policies	No of model points
All Business	Stochastic model	See below	All business	148,163	6,313

(a) Cost of Guarantees & Options

The costs of guarantees are determined using a stochastic model, with the asset returns being generated by a proprietary model. The following items were calculated stochastically:

- The reserves required in addition to asset share to meet guaranteed benefits.
- Future profits where amounts payable upon surrender are less than asset share.

The calculations were carried out using a risk neutral approach.

Cost of Smoothing

There is no significant cost of smoothing and this has been taken to be zero. All business has been modelled assuming future payouts of 100% of asset share.

(b) (i) None

(ii) All of the contracts are valued on a grouped basis.

(iii) For each product type we split the data initially by bonus series. We then create separate model points for each combination of year of commencement and year of maturity.

This grouping is aligned with the way in which we declare bonus rates on our business (our actual terminal bonus rate calculation are based on specimen policies split out in the same way i.e. product type, year of commencement and year of maturity although at quinquennial rather than annual intervals).

No significant attributes of the contracts should be lost with this low level of grouping.

(c) Guaranteed annuity option liabilities for the ex-BULA pension contracts were calculated on a prudent deterministic basis, given the low volume of these. In addition, when calculating the cost of guarantees stochastically, the initial guaranteed sum assured has been increased to reflect the presence of the guaranteed annuity option.

The stochastic model assumes compound bonus only. The majority of the ex-SLUK business participates in simple bonus only so the guarantee cost is overstated. This is not significant given the small guarantee cost overall.

(3) Significant Changes

There are no significant changes.

(4) Further Information On Stochastic Approach

(a) (i) The guarantees and options being valued using a full stochastic approach are described in paragraph 6 (2) (a) above.

The following table gives an indication of the extent to which the guarantees are in or out of the money at the valuation date. For the various product types the with-profits benefits reserve is shown along with the guaranteed sum assured plus bonuses payable on death/maturity and the sum of the difference where the guarantees are higher.

Product type	With-profits benefit reserve (A) £m	Sum assured plus bonuses (B) £m	Sum of positive B-A
SLUK IB	23.4	6.5	0.00
SLUK OB	84.8	66.7	0.20
BULA Life	56.7	51.0	1.50
BULA pensions	2.1	3.5	1.40

(ii) The asset returns in the stochastic model were generated by a proprietary model licensed from Barrie & Hibbert. The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

UK gilt returns are modelled using a gilts + 10bps calibration in an Annual LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The equity model uses a local volatility surface calibrated to market implied volatilities for a range of strikes and maturities. Volatilities are assumed to be constant beyond quoted strikes and maturities.

The volatilities used for UK equities are set out in paragraph 6 (4) (a) (vi). The split between UK and overseas equities was 74%/26%.

Corporate bond returns are modelled using the extended Jarrow-Lando-Turnbull model. This describes bond prices in terms of a real-world transition matrix, which gives the probability of a transition to each credit rating over one year. Risk neutral transition probabilities are assumed to vary stochastically. The transition matrix is consistent with best estimates based on historic data of long term transition probabilities and spread volatilities and corporate bond prices. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

	Output Correlations @ Year 10									
	Cash	Equities	Property	Overseas Equities	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1	-0.03	0.16	0.00	0.58	-0.56	0.26	-0.41	0.57	0.27
Equities		1	0.19	0.36	0.08	0.18	0.48	0.38	0.17	0.27
Property			1	0.13	0.08	-0.06	0.12	0.00	0.18	0.15
Overseas equities				1	0.07	0.14	0.19	0.20	0.21	0.27
5yr Govt ZCB					1	0.25	0.52	0.19	0.42	0.24
15yr Govt ZCB						1	0.22	0.77	-0.20	0.01
5yr Corp ZCB							1	0.65	0.28	0.25
15yr Corp ZCB								1	-0.09	0.11
5yr Index Linked ZCB									1	0.82
15yr Index Linked ZCB										1

(iii) The table below is based on 3,000 scenarios:

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	4.63%	4.65%	4.47%	4.30%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	797,522	505,557	334,820	229,356	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	93,965	238,850	325,446	393,201	209,090	387,706	495,753	580,023	570,846	750,592	881,537	984,852
3		FTSE All Share Index (p=0.8)	82,609	189,461	236,267	263,369	185,617	309,974	362,077	392,181	516,107	605,678	652,221	675,718
4		Property (p=1)	33,266	101,914	159,235	219,956	135,896	233,491	306,698	380,035	520,921	607,095	684,614	761,543
5		Property (p=0.8)	25,560	66,215	91,878	119,120	112,527	161,255	189,524	219,120	462,503	454,497	454,338	467,286
6		15 year risk free zero coupon bond (p=1)	3,564	6,163	5,919	10,829	56,605	58,470	67,835	107,100	500,377	499,301	502,366	522,200
7		15 year risk free zero coupon bond (p=0.8)	2,152	2,199	1,471	1,011	38,291	20,530	10,540	10,637	435,180	311,445	224,492	193,262
8		15 year risk free bonds (p=1)	8,258	19,025	26,984	38,908	71,610	91,374	108,145	135,217	497,492	495,714	502,752	529,357
9		15 year risk free bonds (p=0.8)	5,663	8,426	8,551	9,794	52,692	45,070	38,879	38,569	432,394	313,318	242,851	213,111
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	50,700	153,369	220,464	277,924	154,579	288,703	373,726	444,429	531,123	645,130	741,029	824,613
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	42,013	111,686	145,348	168,194	131,620	216,710	252,736	277,036	473,214	499,770	519,768	532,874
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	44,736	140,016	200,349	249,987	143,842	270,040	347,051	411,221	524,369	623,596	710,720	786,957
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	36,579	99,803	129,170	147,093	121,629	200,731	231,124	249,140	465,292	477,750	489,740	498,165
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	19,214	73,555	114,555	152,944	103,462	189,127	243,594	294,523	506,728	551,431	603,413	660,395
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	14,193	44,489	60,868	73,342	82,514	124,849	139,819	152,243	444,393	397,574	381,307	376,280
			L=15				L=20				L=25			
16		Receiver swaptions	6.23%	7.05%	6.20%	4.99%	7.96%	8.81%	7.66%	6.14%	9.55%	10.32%	8.88%	7.10%

(iv) UK initial equity yield: 3.69%
UK initial property rental yield: 4.30%

(v) Not applicable – there are no significant territories other than the UK. 0.3% of the guaranteed benefit is in relation to Eire policies.

(vi) The following table shows the outstanding guarantees analysed by term. The SLUK IB business is nearly all whole life and the term has been taken as the term to age 110.

Guaranteed benefit	SLUK IB	SLUK OB	BULA Life	BULA Pensions
	£m	£m	£m	£m
2008	0.0	10.8	5.9	0.6
2009	0.0	7.9	6.7	0.2
2010	0.0	7.4	9.4	0.6
2011	0.0	10.5	13.2	0.3
2012	0.0	9.4	6.8	0.2
2013	0.0	9.5	2.4	0.3
2014	0.0	5.0	0.5	0.3
2015	0.1	2.3	0.3	0.1
2016	0.1	1.3	0.4	0.3
2017	0.1	0.5	0.2	0.0
2018	0.1	0.0	0.2	0.0
2019	0.1	0.1	0.2	0.0
2020	0.1	0.1	0.4	0.2
2021+	6.3	2.1	4.4	0.4

UK Equities

The asset model was calibrated by reference to the implied volatility of FTSE100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

Implied volatility data (%) at the valuation date is shown below:

Market

	Strike				
Term	0.8	0.9	1	1.1	1.2
1	27.31	24.31	21.04	18.53	17.23
2	26.24	24.05	21.70	19.97	18.48
3	26.16	24.38	22.50	21.03	19.73
5	25.95	24.59	23.56	22.17	21.20
10	27.14	26.33	25.48	24.69	24.01

Model

	Strike				
Term	0.8	0.9	1	1.1	1.2
1	27.31	24.31	21.19	18.53	17.23
2	26.24	24.05	21.88	19.97	18.48
3	26.16	24.38	22.62	21.03	19.73
5	25.95	24.59	23.31	22.17	21.20
10	26.14	25.33	24.48	23.69	23.01

Beyond 10 years the estimated volatility implied by the model calibration rises as follows:

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
15	29.89	29.21	28.66	28.20	27.85
20	30.05	29.50	29.06	28.69	28.40
25	28.31	27.98	27.72	27.52	27.35
30	30.27	29.89	29.54	29.26	29.00

Difference (Model – Market) %

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	0.00	0.00	0.15	0.00	0.00
2	0.00	0.00	0.18	0.00	0.00
3	0.00	0.00	0.12	0.00	0.00
5	0.00	0.00	-0.25	0.00	0.00
10	-1.00	-1.00	-1.00	-1.00	-1.00

Property

There are no tests against market traded instruments for properties since there are no such instruments. A best estimate has therefore been used of 15% constant volatility.

Fixed Interest

A LIBOR Market Model calibrated to Gilts + 10 basis points is used. The calibration at the valuation date was as follows:

Term	**Govt. + 10bp**	**Model**	**Difference (Model - Market bp)**
1	4.55%	4.55%	0
2	4.50%	4.50%	0
3	4.54%	4.54%	0
4	4.59%	4.59%	0
5	4.63%	4.63%	0
7	4.67%	4.68%	1
10	4.69%	4.69%	0
15	4.65%	4.65%	0
20	4.57%	4.57%	0
25	4.47%	4.47%	0

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps).

The calibration at the valuation date is as follows:

Term	Market Implied Volatility	Model	Difference (Model - Market bp)
1	12.40	11.58	-82
2	11.70	11.49	-21
3	11.30	11.39	9
4	11.10	11.30	20
5	10.90	11.22	32
7	10.90	11.08	18
10	10.80	10.93	13
15	10.90	10.83	-7
20	10.90	10.83	-7
25	11.00	10.87	-13
30	10.80	10.91	11

Credit (Corporate Bonds)

The asset model uses a credit transition matrix. The fit of the model is targeted to the market spread on a 7 year A rated bond only. Credit derivatives are not used to derive market implied transition probabilities.

(vii) We carry out comprehensive tests on the output produced by the Barrie & Hibbert asset model as follows:

For UK and Overseas equities and for UK property we have verified that the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) are acceptably close to unity– the martingale property.

The same test has been undertaken for 15-year zero-coupon gilts and for 4 classes of zero-coupon corporate bonds with terms of 1, 5, 10, 15, 20, 25 and 30 years. Departures from unity in the average discounted present values have not had a significant impact on the valuation result.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

For UK equity options we have verified, within acceptable limits, that the option prices calculated from the model output and converted into implied volatilities using the Black-Scholes formula reproduce the expected volatility surface.

We have also verified, within acceptable limits, that implied volatilities calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

(viii) The assets and liabilities have been computed using 3,000 (1,500 antithetic pairs of) simulated scenarios. This results in standard errors in the calculated yield curve of less than 1 basis point for terms 1- 30 years.

For a 10-year at the money (based on the forward price) UK equity put option at a strike of 1.0, the standard error of the estimated option price represents 3.7% of its calculated value.

Similarly, for a range of swaptions with maturities between 5 and 25 years on underlying 20 year swaps the standard errors in the calculated prices represent, typically, 1.7% of these prices.

(b) Not applicable

(c) Not applicable

(5) Management Actions

We do not assume that any scenario specific management actions take place in the stochastic model.

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	3.0%	3.0%	3.0%	3.0%
CWP target cash endowment	Surrender	4.0%	4.0%	4.0%	4.0%
UWP savings endowment	Surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP bond	Surrender	N/A	N/A	N/A	N/A
UWP bond	Automatic withdrawals				
CWP pension regular premium	PUP	0.0%	0.0%	0.0%	0.0%
CWP pension regular premium	Surrender	0.0%	0.0%	0.0%	0.0%
CWP pension single premium	Surrender	N/A	N/A	N/A	N/A
UWP individual pension regular premium	PUP	N/A	N/A	N/A	N/A
UWP individual pension regular premium	Surrender	N/A	N/A	N/A	N/A
UWP individual pension single premium	Surrender	N/A	N/A	N/A	N/A

(7) Policyholders' Actions

No such assumptions were made.

7. FINANCING COSTS

There are no financing arrangements.

8. OTHER LONG-TERM INSURANCE LIABILITIES

No amounts have been included in Line 46 of Form 19. The amount shown in Line 47 of Form 19 is made up as follows:

	£m
Future shareholder transfers not deducted from asset share	4.8
Future shareholder transfers from planned enhancements to with profits benefit reserve	1.9
Additional provision for tax on shareholder transfers	0.7
Future investment expenses not deducted from asset share	0.2
Future tax adjustment	-0.1
Total	7.4

For ex-SLUK business, for all but a small group of policies, the PPFM states that shareholder transfers are not deducted from asset share. A liability is therefore included in the balance sheet for this amount, calculated within the stochastic model. For simplicity we assume that this applies to all ex-Swiss policies.

Shareholders will be entitled to transfers of 10% of the future bonuses added through planned enhancements to the with-profits benefits reserve.

An allowance is made for the additional tax arising on transfers to shareholders in respect of life business. This is calculated as a percentage of the present value of future transfers to shareholders in respect of life business.

For ex-BULA, the PPFM states that investment expenses are not deducted from asset share. A liability is therefore included in the balance sheet for this amount, calculated within the stochastic model.

The realistic balance sheet calculations assume that tax will be payable in relation to the realistic proportion of life business. In reality the tax is calculated by reference to statutory liabilities. An approximate adjustment is made to allow for the fact that future tax will be based on the statutory life proportion rather than the realistic life proportion.

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities are taken to be the same as the regulatory current liabilities.

10. RISK CAPITAL MARGIN

(a) The risk capital margin is nil.

(i) The market risk scenario assumes that equities fall by 20% and real estate falls by 12.5%. The equity fall and the property fall were the most onerous scenarios.

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.80%. This is consistent with a rise, or fall of 17.5% in the long term gilt yield. A fall in yields is the most onerous scenario.

(iii) The average change in spread is 0.83%. The change in the market value of bonds is:

(a) -4.93%
(b) Not applicable
(c) Not applicable
(d) Not applicable
(e) Not applicable

(iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency risk is 0.04%.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) (i) In the stress scenarios we further assume that:

Reversionary bonus rates will be reduced to nil in stages over the next two years.

(ii) The effect on the risk capital margin of assuming reduced reversionary bonuses is a reduction of £1.9m.

(iii) Not applicable

(iv) Not applicable

(c) (i) The risk capital margin is covered by the assets of the long-term fund and the value of future profits on non-profit business.

(iii) The scheme for the funds merger as at 31 December 2006 included a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non-Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

An approximate adjustment is made to allow for any differences between the tax calculated as described and the tax expected on a corporate basis. The adjustment is calculated within the stochastic model.

12. DERIVATIVES

Not applicable

13. ANALYSIS OF WORKING CAPITAL

The movement in the working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening Working capital	0.0
Write back opening zeroisation of working capital	17.9
Revised Opening Working capital	17.9
Investment return on revised working capital	0.3
Claim payouts above asset share	-0.3
Change in guarantee costs	-0.6
Surrender profit	0.2
Data Correction	-0.2
Change in Provisions	-0.8
Unexplained	2.3
Closing Working Capital before Zeroisation	18.9
Planned benefit enhancements to zeroise working capital	18.9
Closing Working capital	0.0

14. OPTIONAL DISCLOSURE

None made.

Returns under the Accounts and Statements Rules

Phoenix Life Limited

Global Business

Financial year ended 31 December 2007

Pages 783 to 899 are blank.

Returns under the Accounts and Statements Rules

Statement of Additional Information on Derivative Contracts required by rule 9.29

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

Statement pursuant to rule 9.29

a) The Company has investment guidelines which indicate that derivative contracts are used primarily for the purpose of efficient portfolio management or reduction of investment risks, specific examples being to improve cashflow matching and hedge interest rate risk on policies with guaranteed annuity options. The guidelines also specify the types of derivative contracts which may be used and indicate the processes to be used in selecting and managing derivative contracts. The guidelines also require regular monitoring and reporting of open positions.

b) The guidelines operated by the Company for the use of derivative contracts do not include any provisions for the use of contracts under which the Company has a right or obligation to acquire or dispose of assets which was not, at the time the contract was entered into, reasonably likely to be exercised.

c) The Company was not a party to any such contracts of the kind described in b) at any time during the financial year.

d) The derivative assets held are valued at market value. There would be no material change in value of any assets on Form 13 if these contracts were closed as at 31 December 2007

e) The position under d) would not be different if such options were exercised in such a way as to change the amounts referred to in d) to the maximum extent.

f) The position under d) would not have been materially different at any other time during the relevant financial year.

g) The maximum loss which would be incurred by the Company in the event of failure by any one other person to fulfil its obligations under these contracts at the end of the financial year under existing and other foreseeable market conditions was £9,550,000

   The maximum loss any other time during the relevant financial year was £10,341,812

h) The Company did not, at any time during the financial year, hold a derivative contract which required a significant provision to be made for it under INSPRU 3.2.17R or (where appropriate) did not fall within the definition of a permitted derivative contract.

i) The Company received £Nil during the year in return for granting rights under derivative contracts.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

(1) The persons who, to the knowledge of the Company, were controllers at any time during the financial year were:

(a) Resolution Life Limited;
(b) Resolution Life Group Limited (ceased to be controller on 17 May 2007);
(c) Resolution Plc;
(d) Pearl Assurance plc;
(e) Pearl Group Limited;
(f) Sun Capital Investments Limited;
(g) Hera Investments One Limited;
(h) Xercise Limited;
(i) Jambright Limited;
(j) Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jonas;
(k) TDR Capital Nominees Limited; and
(l) TDR Capital LLP.

(2) The persons who, to the knowledge of the Company, were controllers at the end of the financial year were:

(a) Resolution Life Limited

Resolution Life Limited owned 100% of the ordinary share capital of Phoenix Life Limited, and was able to exercise 100% of the voting power at any general meeting.

(b) Resolution plc

Resolution plc owned 100% of the ordinary shares of Resolution Life Limited, a company of which Phoenix Life Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

(c) Pearl Assurance plc

Pearl Assurance plc owned 20.13% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking, and was able to exercise 20.13% of the voting power at any general meeting.

(d) Pearl Group Limited

Pearl Group Limited owned 100% of the ordinary share capital of Pearl Assurance plc and 5.79% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking, and was able to exercise 25.92% of the voting power at any general meeting.

(e) Sun Capital Investments Limited

Sun Capital Investments Limited owned 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

(Controllers at the end of the financial year - continued)

(f) Hera Investments One Limited

Hera Investments One Limited owned 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

(g) Xercise Limited

Sun Capital Investments Limited, which is an associate of Xercise Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

(h) Jambright Limited

Hera Investments One Limited which is an associate of Jambright Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

(i) Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jonas

Hugh Osmond, Alan McIntosh and Matthew Allen, together with Edward Spencer-Churchill and Marc Jonas, who were associates of Hugh Osmond and Alan McIntosh within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being partners, jointly owned 79.2% of the ordinary shares of Xercise Limited and were able to exercise 79.2% of the voting power at any general meeting. Sun Capital Investments Limited is a subsidiary undertaking of Xercise Limited and owns 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

(j) TDR Capital Nominees Limited

TDR Capital Nominees Limited acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

(Controllers at the end of the financial year – continued)

(k) TDR Capital LLP

TDR Capital Nominees Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, (who with Pearl Assurance plc, its 100% owned subsidiary), owned 25.92% of the ordinary share capital of Resolution plc, a company of which Phoenix Life Limited is a subsidiary undertaking and was able to exercise 12.96% of the voting power at any general meeting.

Returns under the Accounts and Statements Rules

Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

In accordance with Rule 9.36 of the Interim Prudential Sourcebook for Insurers, the Actuary appointed to perform the With-Profits Actuary function of Phoenix Life Limited has been requested to furnish the particulars required in paragraph 1 of the Rule and has accordingly furnished the following statement. The Company has reviewed the requirements of Rule 9.36 and is not aware of any further information to that provided by the Actuary.

Particulars of Shareholdings

At 31 December 2007 the With-Profits Actuary to the Company held:

(a) 21,345 ordinary shares in Resolution Plc, the ultimate holding company; and
(b) options to subscribe for 75,691 ordinary shares in Resolution Plc granted under the Company's Long Term Incentive Plan and the Savings Related Share Option Scheme.

Particulars of Pecuniary Interests

There was one contract of insurance in existence between the With-Profits Actuary and companies in the Resolution group, being a term assurance policy effected on normal terms with Scottish Provident Institution prior to it being part of the Resolution Group.

Particulars of Remuneration, Benefits, Directors Emoluments, Pensions or Compensation

The aggregate amount receivable by way of remuneration and the value of other benefits under a contract of employment with Resolution was £250,536 during 2007.

The With-Profits Actuary was a member of the Resolution Group Pension Scheme. The figure shown above excludes the relevant contributions.

Note:

The above information relates to Mr M J Merrick from 1 January 2007 to 30 November 2007.

Until 30 November 2007, Mr M J Merrick was the With-Profits Actuary for the business in the following sub funds only:

- Britannic Industrial Branch Fund
- Britannic With-Profits Fund
- Alba With-Profits Fund

Returns under the Accounts and Statements Rules

Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

In accordance with Rule 9.36 of the Interim Prudential Sourcebook for Insurers, the Actuary appointed to perform the With-Profits Actuary function of Phoenix Life Limited has been requested to furnish the particulars required in paragraph 1 of the Rule and has accordingly furnished the following statement. The Company has reviewed the requirements of Rule 9.36 and is not aware of any further information to that provided by the Actuary.

Particulars of Shareholdings

At 31 December 2007 the With-Profits Actuary to the Company held:

(a) 1,100 ordinary shares in Resolution Plc, the ultimate holding company; and
(b) options to subscribe for 8,862 ordinary shares in Resolution Plc granted under the Company's Long Term Incentive Plan and the Savings Related Share Option Scheme.

Particulars of Pecuniary Interests

There was one contract of insurance in existence between the With-Profits Actuary and companies in the Resolution group, being a term assurance policy effected on normal terms with Scottish Provident Institution prior to it being part of the Resolution Group.

Particulars of Remuneration, Benefits, Directors Emoluments, Pensions or Compensation

The aggregate amount receivable by way of remuneration and the value of other benefits under a contract of employment with Resolution was £196,137 during 2007.

The With-Profits Actuary was a member of the Resolution Group Pension Scheme. The figure shown above excludes the relevant contributions.

The above information relates to Mr A E Burke the With-Profits Actuary from 1 January 2007.

Mr A E Burke was the With-Profits Actuary for the business in the following sub funds only:

- 90% With-Profits Fund
- 100% With-Profits Fund
- Phoenix With-Profits Fund

Returns under the Accounts and Statements Rules

Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

In accordance with Rule 9.36 of the Interim Prudential Sourcebook for Insurers, the Actuary appointed to perform the With-Profits Actuary function of Phoenix Life Limited has been requested to furnish the particulars required in paragraph 1 of the Rule and has accordingly furnished the following statement. The Company has reviewed the requirements of Rule 9.36 and is not aware of any further information to that provided by the Actuary.

Particulars of Shareholdings

At 31 December 2007 the With-Profits Actuary to the Company held:

(a) 10,978 ordinary shares in Resolution Plc, the ultimate holding company; and
(b) options to subscribe for 36,211 ordinary shares in Resolution Plc granted under the Company's Long Term Incentive Plan and the Savings Related Share Option Scheme.

Particulars of Remuneration, Benefits, Directors Emoluments, Pensions or Compensation

The aggregate amount receivable by way of remuneration and the value of other benefits under a contract of employment with Resolution was £145,957 during 2007.

The With-Profits Actuary was a member of the Resolution Group Pension Scheme. The figure shown above excludes the relevant contributions.

The above information relates to Mr A Rendell the With-Profits Actuary from 1 January 2007.

Mr A Rendell was the With-Profits Actuary for the business in the following sub funds only:

- Britannic Industrial Branch Fund
- Britannic With-Profits Fund

Returns under the Accounts and Statements Rules

Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

In accordance with Rule 9.36 of the Interim Prudential Sourcebook for Insurers, the Actuary appointed to perform the With-Profits Actuary function of Phoenix Life Limited has been requested to furnish the particulars required in paragraph 1 of the Rule and has accordingly furnished the following statement. The Company has reviewed the requirements of Rule 9.36 and is not aware of any further information to that provided by the Actuary.

Particulars of Shareholdings

At 31 December 2007 the With-Profits Actuary to the Company held:

(a) 3,000 ordinary shares in Resolution Plc, the ultimate holding company; and
(b) no options to subscribe for ordinary shares in Resolution Plc granted under the Company's Long Term Incentive Plan and the Savings Related Share Option Scheme.

Particulars of Remuneration, Benefits, Directors Emoluments, Pensions or Compensation

The aggregate amount receivable by way of remuneration and the value of other benefits under a contract of employment with Resolution was £220,880 during 2007.

The With-Profits Actuary was a member of the Resolution Group Pension Scheme. The figure shown above excludes the relevant contributions.

The above information relates to Mr G M Ross the With-Profits Actuary from 1 January 2007.

From 1 December 2007, Mr G M Ross was the With-Profits Actuary for the business in the following sub funds only:

- Alba Wth-Profits Fund

Returns under the Accounts and Statements Rules

Certificate required by rule 9.34(1)

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

We certify that:

(1) (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and

(b) we are satisfied, save as disclosed on the attached note to the certificate, that:

(i) throughout the financial year, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and

(ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.

(2) (a) in our opinion, premiums for contracts of long-term insurance business entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular to establish adequate mathematical reserves;

(b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business; and

(d) the directors have, in preparing the return, taken and paid due regard to:

(i) advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and

(ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

G L SINGLETON	R P STOCKTON	M J MERRICK
.....	.....	.....
Chief Executive	Director	Director

26 March 2008

Returns under the Accounts and Statements Rules

Certificate required by rule 9.34(1)

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

Note to the Directors' Certificate

1. Rider UiSL Financial Reconciliations

Process and system issues in one of Resolution's outsourcers, UiSL Limited, have generated higher than expected premium and claim suspense account balances when reconciling ledger balances to underlying policy administration systems.

Resolution Management Services is working closely with UiSL Limited to prevent recurrence of this issue and clear the accrued suspense account backlogs.

2 Principles and Practices of Financial Management

Paragraph 2(c) which relates to the management of the with profits fund in accordance with the Principles and Practices of Financial Management ("PPFM"), has been omitted from the return due to certain minor instances where the management of the fund differed from the published PPFM but these have not resulted in the unfair treatment of policyholders.

Returns under the Accounts and Statements Rules

Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Phoenix Life Limited

Global business

Financial year ended 31 December 2007

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000

- Forms 2, 3, 11 to 19, 40 to 45, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the report[s] required by IPRU(INS) rule 9.31 ("the valuation reports").

We are not required to examine and do not express an opinion on the following:

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate signed in accordance with IPRU(INS) rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with IPRU(INS) rule 9.35. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our examination, for this report, or for the opinions we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the direction issued under section 148 of the Act referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with IPRU(INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

Returns under the Accounts and Statements Rules

Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Phoenix Life Limited

Global business

Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 28 March 2008. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation reports.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

Opinion

In our opinion:

(a) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and

(b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with IPRU(INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2 and 1.3.

Ernst & Young LLP

Registered Auditor

London

28 March 2008

Phoenix Life Limited

Year ended 31 December 2007

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