



**Phoenix Life Limited
Alba With-Profits Fund
Annual Report to With Profits Policyholders for 2007**

Introduction

We set out how we manage the Phoenix Life Limited with profits funds in our Principles and Practices of Financial Management ('PPFM'). In this report we give details of how we have complied with the PPFM for 2007 for our Alba With-Profits Fund ('the fund').

We transferred the life assurance, pension and investment business of selected companies to Phoenix Life Limited on 31 December 2006. The policies in the Alba Life Ordinary Long Term Fund were transferred to the Phoenix Life Limited Alba With-Profits Fund. Other than the changes we made to take account of the transfer, related events and to create a consistent style and presentation throughout, the 1 January 2007 Phoenix Life Limited PPFM reflected the existing Phoenix Life Limited PPFM and those of the funds within the original companies.

Phoenix Life Limited has six with profits funds including the Alba With-Profits Fund. We manage each with profits fund in accordance with its own subset of our PPFM. The with profits bonuses, policy returns and payouts for each with profits fund reflect the financial position of that fund. The performance of each with profits fund reflects the historic performance of the original with profits funds and companies up to their respective transfer to Phoenix Life Limited and then their performance within Phoenix Life Limited since that time.

We have produced separate reports for our other with profits funds.

The PPFM is available on our website at www.phoenixlifegroup.co.uk, or you can ask us for a copy. We have produced a shorter guide called 'How we manage the Phoenix Life Limited Alba With-Profits Fund' and this can be obtained in the same way.

The policies in the fund originate from:

- former FS Assurance / Britannia Life Limited ('FS / BLL');
- former Britannia Life Assurance / Crusader Insurance ('BLA / Crusader'); and
- former Life Association of Scotland ('LAS').

The with profits policies in the fund fall into two broad groupings. These are fully participating business which fully participates in experience of the fund and investment smoothing business which only participates through investment smoothing.

Fully participating business comprises:

- traditional with profits;
- unitised with profits (started before 1 January 1994);
- deposit administration (not former FS / BLL); and
- controlled funding arrangements.

Investment smoothing business comprises:

- unitised with profits (started from 1 January 1994);
- Unitised Capital Guaranteed Fund;
- deposit administration (former FS / BLL);
- former BLA / Crusader With Profits Performance Fund and With Profits Pension Fund; and
- former BLA / Crusader Growth Bonus Series H.

Bonuses

We aim to pay all policyholders their fair share of the profits which the fund has earned over the time they have held their policy. We pay the share of profits either in the form bonuses or interest rates. When deciding what is a fair share we consider the underlying value of representative specimen policies (sometimes called the 'asset share') as a guide. The underlying value of policies reflects the premiums paid and the investment performance of the fund over the lifetime of the policies, after allowing for factors such as our costs, the tax we have to pay, the shareholders' share of profits, charges for death benefits, charges for guarantees and other profits and losses. This was the approach we used over 2007.

Bonus rates

The different product types investing in the fund receive their share of the profits earned in the fund in different forms of bonus. The form of bonus varies by type of product.

- Traditional with profits and unitised with profits policies receive their share of the profits in the form of annual and final bonuses.

The capital position of the fund still remains weak and hence we will not add annual bonuses for the foreseeable future, other than where they are guaranteed under the policy conditions. For traditional with profits business, annual bonus is declared in arrears and, in March 2007 as part of the 2006 year end valuation, we declared nil annual bonuses for 2006. We reviewed the 2007 annual bonuses in December and we subsequently declared nil annual bonuses for 2007 in March 2008 as part of the 2007 year end valuation. For unitised with profits business, we declare annual bonuses in advance and we declared a rate of nil for 2007 and to apply from 1 January 2008, other than where rates are guaranteed.

During 2007, we changed final bonus rates on 1 January and 1 July. We also reviewed final bonus rates from 1 January 2008. For some policies maturing in 2007 the final bonus was nil.

- Unitised Capital Guaranteed Fund policies, With Profits Performance Fund and With Profits Pension Fund policies receive their share of the profits in the form of regular bonuses added daily to the unit price.

We reviewed the bonus rates in March 2007 and also those to apply from March 2008.

- Deposit Administration policies receive their share of the profits in the form of interest added to policyholders' accounts.

We reviewed the rates of interest in March or each quarter, depending on the particular type of product.

- Controlled Funding policies receive their share of the profits as:
 - a percentage of the pension benefits purchased by the scheme to date;
 - an additional contribution; or
 - a reduction in the contribution payable.

We reviewed these bonuses for 2006 in March and they were nil. We reviewed the rates for 2007 in December and subsequently declared nil rates in March 2008 as part of the 2007 year end valuation.

Smoothing

- During 2007, for traditional with profits and unitised with profits policies, we generally limited the changes in final bonus to ensure no more than a 10% difference in payouts on similar maturing policies from one declaration to the next. The movements in comparable payouts at each of the final bonus reviews were generally within the 10% limit.

The movements in maturity payouts in 2007 for equivalent term policies were necessary to keep payouts in line with the underlying value of policies, to ensure fairness between groups of policyholders and to protect the financial position of the fund.

As part of our approach to harmonise practices across our with profits funds we revised the smoothing policy to apply from 1 January 2008 maturities. We now generally limit changes in final bonuses to restrict differences in payouts on similar maturing policies to 7.5% at each half yearly final bonus review and to 15% from one year to the next. However, where payout ratios are significantly out of line with 100% of asset share, we may allow larger differences. For the January 2008 maturities we generally limited changes in maturity payouts to 7.5% compared to July 2007 and to 15% compared to January 2007.

The general reductions in payouts in 2007 for equivalent term policies were necessary to keep payouts in line with the underlying value of policies, to ensure fairness between groups of policyholders and to protect the financial position of the fund.

- For other types of business, we generally smooth in changes in the bonus or interest rates declared.

Investment policy

During 2007, we mostly invested the fund in a mix of assets such as property, fixed interest stocks (bonds, types of loan usually issued by the Government or companies) and cash deposits. We had the following asset mixes supporting different types of with profits policies in the fund on 31 December 2007.

Type of policy	Asset type			
	Fixed Interest %	Property %	Company shares (equities) %	Cash %
Traditional with profits life and pensions (former BLL Series B)	75%	25%	0%	0%
Traditional with profits pensions (other than former BLL Series B)	90%	10%	0%	0%
Unitised with profits business (started before 1 January 1994)	75%	25%	0%	0%
Unitised with profits business (started from 1 January 1994)	75%	25%	0%	0%
Unitised Capital Guaranteed Fund	80%	20%	0%	0%
Deposit administration - former FS/BLL	80%	20%	0%	0%
Deposit administration - not former FS/BLL	65%	10%	0%	25%
Deposit administration - former LAS Laserplan policies	100%	0%	0%	0%
Controlled funding arrangements - former Crusader (Growth Pension Fund)	75%	25%	0%	0%
Controlled funding arrangements - former FS/BLL and LAS	95%	5%	0%	0%
With Profits Performance Fund	9%	2%	45%	44%
With Profits Pension Fund	9%	2%	44%	45%

For the traditional with profits pensions (other than former BLL Series B) policies which currently has a 10% property exposure, we expect this to reduce to nil during 2008 when the remaining directly held property investment is sold.

The asset mix is generally the same as that at 31 December 2006.

Generally we do not currently invest in company shares and, because of overall weakness of the fund and the high risk associated with company shares, the fund is unlikely to invest in them for the foreseeable future.

The exception to this is the With Profits Performance Fund and With Profits Pension Fund policies which are invested in ring-fenced notional funds and these have maintained investment in company shares.

The yearly statement that we send to policyholders includes information about the mix of assets applying to different policies.

The fund also contains investments which back the non profit business, the cost of guarantees and the cost of smoothing.

Surrender values

- For traditional with profits policies, we set surrender values for policies close to maturity to avoid big differences between the surrender value and the maturity value. For other traditional with profits policies, we aimed to set surrender values to be less than the underlying value to protect the interests of the policyholders who are staying in the fund.

We reviewed surrender values at the end of 2007.

- For unitised with profits policies, we set surrender values based on the underlying value. If the underlying value was less than the value of the units then we applied a market value reduction so that the surrender value reflected the underlying value. We apply market value reductions to ensure fairness to all with profits policyholders, so that surrender values are not unfairly higher than the policies' share of the underlying value of the fund's assets.

We reviewed market value reductions in January and July and again from 1 January 2008.

- For Unitised Capital Guaranteed Fund, With Profits Performance Fund and With Profits Pension Fund policies we set surrender values based on the underlying value. If the underlying value was less than the value of the units then we applied a market value reduction so that the surrender value reflected the underlying value.

We reviewed market value reductions in March.

- For deposit administration policies, we set surrender value based either on the terms specified in the policy documentation or on the underlying value. If the underlying value was less than the value of the units then we applied a market value reduction so that the surrender value reflected the underlying value.

We reviewed market value reductions in March or each quarter, depending on the particular type of product. For some policies where we use scheme specific market value reductions and we review these on a scheme basis at the time of surrender.

- For controlled funding arrangement, we set surrender values based either on the terms specified in the policy documentation or on the underlying value.

Allocation of expenses

During 2007, we charged a fair share of our expenses to the fund and we made an appropriate allocation to the underlying value of with profits policies in the fund. The main expenses we charged to the fund in 2007 were due to:

- Management Services

During 2007, Resolution Management Services and Capita provided all the services required to operate the fund apart from investment management services. The charges are mainly expressed as an annual amount per policy which increases each year linked to the increase in the Retail Prices Index.

Resolution Management Services and Capita made additional charges for certain one-off activities and developments and we generally apportioned such costs in a fair and reasonable manner, taking into account the beneficiaries of the activity.

- Investment Management Services

During 2007, investment management services for the fund were provided by Resolution Asset Management. The charges made by Resolution Asset Management in respect of the fund's investments were attributed to the fund.

- Direct and other costs

We apportioned a fair share of the direct and other costs we incurred to the fund.

Allocation of taxation

We allocated a fair share of the provisional amount of tax we incurred to the fund. We calculated this by treating the fund as though it was our only fund. Once we have agreed our tax charge with HM Revenue & Customs (HMRC), we will review the amount of tax we have allocated to the fund to ensure it remains fair.

Cost of guarantees and other profits and losses

Products which are described as fully participating share in all the profits and losses arising in the fund. This includes the costs of providing guarantees, the cost of guaranteed annuity options, profits and losses arising from surrenders and profits and losses arising from the non profit business within the fund. They also share in the run off item which is the balancing item to ensure that all of the assets of the fund will be distributed over the remaining lifetime of the policies in force. We review the level of these charges, other profits and losses and the run off item following each half yearly valuation. We apply these items to the underlying policy values.

Capital policy

We updated our capital policy to reflect changes in the FSA rules and the setting up of Phoenix Pensions Limited which is owned by our shareholder fund.

Shareholders

Our shareholders received a share of the distributed profits which is generally a percentage of the value of bonuses we distributed to with profits policyholders.

- In respect of traditional with profits policies, unitised with profits policies and controlled funding arrangements, the shareholders received one ninth of the value of bonuses distributed to policies, excluding any guaranteed bonuses or annual bonuses in respect of unitised with profits business written from 1 January 1994.
- In respect of Unitised Capital Guaranteed Fund policies and deposit administration (former FS / BLL) policies, the shareholders did not receive any share of the value of bonuses distributed to policies.
- In respect of deposit administration (other than former FS / BLL) policies, the shareholders received one ninth or one eighteenth of the value of bonuses distributed to policies, excluding any guaranteed bonuses, depending on the type of policy.
- In respect of the With Profits Performance Fund and With Profits Pension Fund policies, the shareholders did not receive any share of the value of bonuses distributed to policies.

The shareholders' share of distributed profits for 2007 was £0.5m. We changed the way we calculate the amounts paid from the fund to shareholders if we declare an annual bonus. The change means that shareholders would receive less than they would have done using the previous method.

Changes to the PPFM during 2007

We include a description of the recent changes to the PPFM with the annual statement we issue to with profits policyholders.

Communications with policyholders

During 2007, we provided with profits policyholders with key information concerning annual bonuses, investment mixes and changes to the PPFM with their annual statement. We also provided revised guides to how we manage the with profits fund to allow for the funds merger at 2006 year end.

Governance arrangements

The company formally consulted with, and took into account the opinions of the With Profits Actuary and the With Profits Committee (a committee which is independent by virtue of its independent non-executive directors' participation) in respect of all material changes during 2007. This included consultation on the changes to bonus rates and surrender values.

Conclusion

It is the opinion of the company that Phoenix Life Limited including the Alba With-Profits Fund was, in all material respects, managed in accordance with the PPFM over 2007.

The Directors of Phoenix Life Limited

May 2008

With Profits Actuary's statement

In my opinion the management of the Phoenix Life Limited Alba With-Profits Fund, the discretion exercised and the annual report to with profits policyholders to which this statement is attached, took into account the interests of with profits policyholders in a reasonable and proportionate manner.

Geoffrey Ross
Fellow of the Institute of Actuaries
With Profits Actuary
May 2008