



**ECCLESIASTICAL LIFE LIMITED  
PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT  
REPORT ON COMPLIANCE FOR THE PERIOD  
1 JANUARY 2006 TO 31 DECEMBER 2006**

**1. STATEMENT OF COMPLIANCE**

Ecclesiastical Life Limited (ELL) first published its Principles and Practices of Financial Management (PPFM) in May 2004. These were updated at 31 December 2005 and policyholders were advised of the changes. A consumer friendly version of the PPFM, "How We Manage Our With-Profits Business," was introduced from 31 December 2005. Both the PPFM and CFPPFM remained unchanged throughout 2006.

ELL is required to maintain governance arrangements designed to ensure that, in the conduct of our with-profits business, we comply with, maintain and record our PPFM.

It is the Board of Directors' opinion that we have complied with the above requirement throughout the period 1 January 2006 to 31 December 2006.

The Board additionally confirms that:

- (a) the exercise of discretion in the conduct of ELL's with-profits business has been appropriate and applied in accordance with the PPFM, and
- (b) any competing or conflicting rights, interests or reasonable expectations of the ELL's policyholders have been addressed through the application of the PPFM. In doing so, we have maintained fairness between different categories of policy and policyholder and between policyholders and the shareholder.

**2. JUSTIFICATION**

The Board considers it appropriate to make this declaration having taken into account:

- (a) advice from our With-profits Actuary on compliance with the PPFM and discretion exercised throughout the period. A statement from him is attached to this report,
- (b) independent judgement from the Independent Expert, on our compliance with the PPFM throughout the period,
- (c) the Directors' overall assessment of the business,
- (d) materiality of individual aspects of compliance.

**3. HOW WE HAVE COMPLIED**

(a) Payouts

Payouts made from the with-profits fund during the year reflected asset shares subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. Some changes to asset share methodology were introduced; each being consistent with the PPFM and continuing to give fair payouts to policyholders.

In addition, the bases for determining payouts were established with the aim of having 90% of all payouts falling within the target ranges specified in the PPFM. A change to the surrender value assumptions for conventional with-profits business was introduced in March 2006 to ensure that the payouts for these classes of business better reflected asset shares, gave a smooth transition to maturity payouts and enhanced the likelihood of being within the target range. Additional changes are planned during 2007 to further increase the proportion of policies that would fall within the required range upon surrender.

Final bonus rates and market value reduction factors for With Profit Bonds were amended at 3 March 2006 and at 6 November 2006. All other bonus rates remained unchanged throughout the year. In setting bonus rates, we followed the approach set out in the PPFM and differentiated between classes and generations of policy in a reasonable and proportionate manner.

#### (b) Investment Policy

The investment policy of the with-profits fund remained unchanged during the year and in accordance with the PPFM. The proportion of the fund's assets invested in equities and property increased from 61% to 64% during 2006, due to the relative out-performance of those classes of assets. This remains within the limits specified in the PPFM. Benchmark asset allocations are monitored monthly.

The fund held some derivatives that would have reduced the impact of any significant fall in equity values. Towards the end of the year it was resolved to increase the level of such protection, with the implementation taking place in several tranches.

#### (c) Business Risk

Risks were monitored regularly during the year. No significant new risks were undertaken during the year.

Expenses continued to be charged to the with-profits fund in line with the Scheme, as summarised in Appendix B of the PPFM. A review during 2006 confirmed these to be broadly in line with industry expense levels.

#### (d) Inherited Estate

Deductions were made from asset shares to allow for financial support received from the inherited estate. The level of inherited estate remained within the broad target range set out in the PPFM.

#### (e) Other Items

Volumes of new business were acceptable according to criteria included in the PPFM.

March 2007

***With-Profits Actuary's report to with-profits policyholders for the year 2006***

As With-Profits Actuary to Ecclesiastical Life Ltd ("ELL") I am required to report to the with-profits policyholders every year on whether, in my opinion, the with-profits business of ELL has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

The With-Profits Actuary role was introduced on 31 December 2004 and this is my second report to policyholders. Prior to that date, the Appointed Actuary of ELL was involved in decisions about the with-profits business of ELL. ELL has provided me with information about the management of the with-profits fund during the year, as have my colleagues at Watson Wyatt who have been involved in preparing information on which bonus and surrender value recommendations have been based. I have also had access to the Board of ELL to discuss matters relating to with-profits business. In addition, in preparing this report I have taken account of the rules of the Financial Services Authority and the guidance requirements of the actuarial profession.

In my opinion, the annual report by ELL to its with-profits policyholders, and the discretion exercised by ELL in respect of 2006, may be regarded as having taken the interests of ELL's with-profits policyholders into account in a reasonable and proportionate manner.

**Nick Dumbreck**  
**With-profits Actuary to ELL**  
**9 March 2007**

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