Non Profit Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Not applicable

(2) Premiums on Reviewable Protection Policies

The following table shows the changes to premiums on non-linked reviewable protection policies since the previous valuation date.

Previous Company	Product	No of Policies	Annual Premium (£000s)	Range of increase From (%)	To (%)
BULA	Mortgage Cover Plan	729	266	-6%	0%
BULA	Life Cover Plan	271	84	-51%	0%
BULA	Total Cover Plan	670	251	0%	1%

The following table shows the reviewable protection policies where there were no changes to premiums since the previous valuation.

Previous Company	Product	No of policies	Annual premium in force (£000s)
Century	Ex-NAL Critical Illness Plan	10,170	2,521
BA	Decreasing term assurance	635	176
BA	Level Term assurance with critical illness	448	80
BA	Critical illness	1,401	300
BA	Pensions term assurance	5,425	884

The following table shows the yearly renewable term assurance policies where there were no changes to underlying premium rates since the previous valuation.

Previous Company	Product	No of policies	Annual premium in force (£000s)
PLL	Progressive Protection Plan	7,455	23,648
PLL	Flexible Mortgage Plan	1,915	577

(3) Non-profit deposit administration contracts

Policies previously written in PAL

The Pension Plan for the Self-Employed (PPSE) is a deferred annuity contract approved under section 226 of the Income and Corporation Taxes Act 1970.

The Executive Pension Plan (EPP) is designed for treatment as an exempt approved scheme as defined in the Finance Act 1970.

The Voluntary Pension Plan (VPP) provides additional benefits at retirement for members of approved company pension schemes through voluntary contributions of the member.

Under these contracts premiums for retirement benefits are paid into a Pension Account, interest being declared monthly in advance and compounded annually.

The interest rates applied during the valuation year were as follows:

Month	Interest Rate %p.a.
January	5.81%
February	5.56%
March	4.80%
April	4.35%
May	4.10%
June	3.83%
July	3.62%
August	3.59%
September	3.59%
October	3.57%
November	3.58%
December	3.58%

Policies previously written in SLUK

The rates of interest credited to accounts at the valuation date are given in the table below:

	Deposit Administration – Standard	Deposit Administration – Dollar Policies	
Account year	Interest per £1,000	Interest per £1,000	Interest per £1,000
		Series 1	Series 2
1982	128.50	-	-
1983	121.50	-	-
1984	120.50	-	-
1985	121.00	-	-
1986	118.00	90.00	80.00
1987	113.50	90.00	80.00
1988	113.50	90.00	80.00
1989	114.00	90.00	80.00
1990	110.00	90.00	80.00
1991	110.00	90.00	80.00
1992	100.00	90.00	80.00
1993	70.00	90.00	80.00
1994	75.00	56.30	80.00
1995	70.00	52.50	80.00
1996	70.00	46.00	46.00
1997	65.00	46.00	46.00
1998	50.00	36.00	36.00
1999	45.00	38.00	38.00
2000	45.00	38.00	38.00
2001	45.00	36.00	36.00
2002	45.00	36.00	36.00
2003	40.00	32.00	32.00
2004	43.00	34.40	34.40
2005	38.00	30.40	30.40
2006	41.00	32.80	32.80
2007	43.00	34.40	34.40
2008	40.00	32.00	32.00
2009	41.00	32.80	32.80

Policies previously written in Alba

There are no deposit administration policies in force.

Policies previously written in Century

<u>Non profit Deposit Administration</u>

This is a group deposit administration policy approved under Chapter I, Part XIV of the Income and Corporation Taxes Act 1988.

For premium paying schemes the account accumulates with credited interest additions which are the greater of:

a) A guaranteed minimum rate of interest of 4% per annum throughout the term of the policy increased by 1.5%; and

b) A basic credited rate increased by 1.5%.

For paid-up policies, the credited rate is reduced by 2% and the addition and guaranteed minimum cease to apply.

The basic rates declared depend on the month in which the end of the policy year falls. The rates declared in the period covered by this return are as follows:

Month	Interest Rate %p.a.
January	3.38%
February	3.13%
March	2.88%
April	2.63%
May	2.38%
June	2.00%
July	1.63%
August	1.25%
September	1.00%
October	0.63%
November	0.25%
December	0.00%

The Pensions 2000 Range (First Series)

This range consists of four varieties of one underlying group contract capable of exempt approval under Chapter I, Part XIV of the Income and Corporation Taxes Act 1988.

For premium paying schemes the interest additions made to the accounts are the greater of:

(a) A guaranteed minimum rate of interest of 4% per annum throughout the term of the policy. The guaranteed rate is increased for schemes where the level of annual premium exceeds certain thresholds. These thresholds vary according to the year in which the policy was effected, and are increased from year to year in line with the increase in the Retail Price Index over the period between commencement and renewal dates; and

(b) A credited rate. This rate is increased as described above.

For paid-up policies the credited rate is reduced by 2% and the threshold increases and guaranteed minimum cease to apply.

The basic rates declared depend on the month in which the end of the policy year falls. The rates declared in the period covered by this return are as follows:

Month	Interest Rate %p.a.
January	3.38%
February	3.13%
March	2.88%
April	2.63%
May	2.38%
June	2.00%
July	1.63%
August	1.25%
September	1.00%
October	0.63%
November	0.25%
December	0.00%

For pooled funded arrangements the base thresholds (i.e. before increasing in line with the Retail Price Index) are generally as follows:

Annual premium	Additional Interest
£4,999 or less	Nil
£5,000 to £9,999	0.50%
£10,000 to £49,999	1.00%
£50,000 or over	1.50%

For the money purchase arrangements additional interest is credited at the following rates:

Annual premium	Additional Interest
£9,999 or less	Nil
£10,000 to £49,999	0.50%
£50,000 or over	1.00%

This scale of thresholds applies to each of the first five policy years of a scheme. In subsequent years the threshold levels are indexed in line with the Retail Price Index.

Century Group Deposit Administration

These are group pension contracts designed to secure approval under Finance Act 1970 as exempt approved arrangements. Benefits are based on the accumulated premiums after provision for administration charges and with the addition of annual dividends, which are linked to the yield on the Unit Linked Century/OMLA Money Pension Fund. There are also guaranteed deferred and immediate annuity rates for the conversion of funds into annuities. Separate life assurance and widows reversionary annuities may be included on a non-profit basis.

Century Personal Pension Plans - pre April 1980

These are deferred annuity contracts approved under Section 226 of the Income and Corporation Taxes Act 1970. Benefits are based on the accumulated premiums after deduction of an annual administration charge and with the addition of annual dividends, which are linked to the yield on the Unit Linked Century/OMLA Money Pension Fund. Separate life assurance may be included on a non-profit basis. There are also guaranteed immediate annuity rates for the conversion of funds into annuities at retirement.

Century Personal Pension Plans - post April 1980

These are deferred annuity contracts approved under Section 226 of the Income and Corporation Taxes Act 1970. Benefits are based on the accumulated premiums after deduction of an annual administration charge and with the addition of annual dividends, which are linked to the yield on the Unit Linked Century/OMLA Money Pension Fund. Regular premiums paid during the first two years of the contract ("Initial Premiums") receive dividends at a lower rate than other premiums. Separate life assurance may be included on a non-profit basis. Dividends are guaranteed to be not less than 4% per annum (1% per annum on Initial Premiums). There are also guaranteed immediate annuity rates for the conversion of funds into annuities at retirement.

Century Capital Pension Plans

These are individual pension contracts designed to secure approval under the Finance Act 1970 as exempt approved arrangements. Benefits are based on the accumulated premiums after deduction of an annual administration charge and with the addition of annual dividends, which are linked to the yield on the Unit Linked Century/OMLA Money Pension Fund. Regular premiums paid during the first year of the contract ("Initial Premiums") receive dividends at a lower rate than other premiums. Life Assurance and widows reversionary annuities may be included on a non-profit basis. There remains an absolute guarantee that bonuses will average at least 4.5% and 1.5% per annum. There are also guaranteed immediate annuity rates for the conversion of funds into annuities at retirement.

Century Executive Pension Plans

These are individual pension contracts designed to secure approval under the Finance Act 1970 as exempt approved arrangements. Benefits are based on the accumulated premiums after deduction of an annual administration charge and with the addition of annual dividends, which are linked to the yield on the Unit Linked Century/OMLA Money Pension Fund. Regular premiums paid during the first two years' of the contract ("Initial Premiums") receive dividends at a lower rate than other premiums. Life Assurance and widows reversionary annuities may be included on a non-profit basis. There are also guaranteed immediate annuity rates for the conversion of funds into annuities at retirement.

Policies previously written in BULA

There are no deposit administration policies in force.

Policies previously written in BRS

There are no deposit administration policies in force.

Policies previously written in BA

There are no deposit administration policies in force.

Policies previously written in SMA

There are no deposit administration policies in force.

Policies previously written in SPL

There are no deposit administration policies in force.

(4) Service Charges on Linked Policies

Policies previously written in PLL

Policy fees on unit-linked contracts were increased by between 0.00% and 6.98% during 2009.

Policies previously written in Alba

Policy fees on unit-linked contracts were increased by between 2.75% and 3.75% during 2009.

Policies previously written in Century

Policy fees on unit-linked contracts were increased by between 0.00% and 4.52% during 2009.

Policies previously written in BULA

Policy fees on unit-linked contracts were not changed during 2009.

Policies previously written in BRS

There are no linked policies with service charges.

Policies previously written in BA

There are no linked policies in force.

Policies previously written in SMA

Policy fees on unit-linked contracts were increased by between 3.31% and 4.08% during 2009.

Policies previously written in SPL

Policy fees on unit-linked contracts were increased by between 3.23% and 7.69% during 2009.

(5) Benefit Charges on Linked Policies

There were no changes to benefit charges on linked policies in the period.

(6) Accumulating With Profits Charges

There were no changes to the unit management charges or notional charges on accumulating with profit policies during the year.

(7) Unit Pricing of Internal Linked Funds

Policies previously written in RSALI and SLUK (First Annuity Fund)

(a) Method used for cancellation and creation of units

All units are allocated to policies at the offer price calculated at the first valuation subsequent to the decision to allocate units. For non-Group units the fund is credited with an amount equal to the number of units allocated multiplied by the creation price or cancellation price (depending on whether the assets of the fund are being valued on a creation basis or cancellation basis respectively).

For Group units the fund is credited with an amount equal to the number of units allocated multiplied by the offer price.

All units are de-allocated from policies at the bid price calculated at the first valuation subsequent to the decision to de-allocate units. For non-Group units the fund is debited with an amount equal to the number of units so de-allocated multiplied by the creation price or cancellation price (depending on whether the assets of the fund are being valued on a creation basis or cancellation basis respectively). For Group units the fund is debited with an amount equal to the number of units de-allocated multiplied by the bid price.

Method used to determine prices of non-Group units in internal linked funds (except units in the Old Building Society Fund)

Prices of non-Group units in internal linked funds are calculated periodically thus:

(i) The assets of the fund are valued at 8 a.m. on the valuation day using, where applicable, the latest available prices supplied by a recognised supplier. Income from the assets of the fund less any appropriate tax charge is credited to the fund. Allowance is made for accrued income less deductions for any tax charges, both actual and prospective, and any other appropriate deductions permitted by policy conditions which includes investment management expenses for certain products.

The assets of the fund are valued on a cancellation basis (i.e. the price at which assets would be sold) or a creation basis (i.e. the price at which the assets would be purchased) depending on the current and recent trend and magnitude of unit transactions in the fund.

(ii) The value determined in (i) is adjusted by an allowance for dealing costs representing dealing costs incurred in purchasing an identical portfolio if valued on a creation basis or dealing costs incurred in realising the portfolio if valued on a cancellation basis.

(iii) Except for the Lifestyle Bond fund series and the Pensions Solutions fund series (for the range of pension products launched on 6 April 2001), a fund management charge is deducted from the fund at the applicable rate. The fund value for charging purposes may or may not include dealing costs adjustments and certain tax adjustments depending on policy conditions.

(iv) The value of the fund thus determined divided by the number of units in issue represents the creation price (if assets are valued on a creation basis) or cancellation price (if assets are valued on a cancellation basis).

(v) The offer price is calculated as the creation price or cancellation price, if the assets of the fund are valued on a creation basis and cancellation basis respectively, multiplied by A/B and rounded. The bid price is calculated as B% of the offer price and rounded, where:

A = 101 for all ULA and ULPF fund series except Money and Shield fund series
= 100 for other fund series

B = varies between 94 and 100. 100 less B represents the bid/offer spread

(vi) Prices in the Deposit and Money funds are guaranteed not to fall.

Method used to determine prices in the Old Building Society fund

The unit price of accumulation units on any occasion on which it is determined exceeds the previously determined unit price by at least such percentage as would, if applied successively to the unit price at time intervals equal to the time interval between the two aforementioned determinations, equate over a period of twelve months to the lowest rate of interest used on such occasions or most recently used by Santander (previously Abbey National plc) for new repayment mortgages granted on owner-occupied private domestic premises. In the event that no such rate or more than one rate is used, the Company may use a rate that is in the opinion of the Actuary fair and reasonable. In the case of capital units only, this rate is reduced by three and one-half percentage points (or such other number of percentage points as shall equate to the annual rate of management charge for the time being applicable).

Method used to determine prices of Group units in internal linked funds

Prices of Group units in internal linked funds are calculated periodically thus:

(i) The assets of the fund are valued on the last working day of the month at 8 a.m. using, where applicable, the latest available prices supplied by a recognised supplier. Income from the assets of the fund is credited to the fund. Allowance is made for accrued income, both actual and prospective, and any appropriate deductions permitted by policy conditions. Certain costs incurred are met by the fund, e.g. custodian's fees, stamp duty and other dealing costs. Investment management expenses are met by the Company.

The assets of the fund are valued on a cancellation basis (i.e. the price at which assets would be sold) or a creation basis (i.e. the price at which the assets would be purchased) depending on whether there is a net cancellation or creation of units at the valuation date.

(ii) The value determined in (i) is adjusted by an allowance for dealing costs representing dealing costs incurred in purchasing an identical portfolio if valued on a creation basis or dealing costs incurred in realising the portfolio if valued on a cancellation basis.

(iii) A fund management charge is deducted from the fund at the applicable rate.

(iv) The value of the fund thus determined divided by the number of units in issue represents the creation price (if assets are valued on a creation basis) or cancellation price (if assets are valued on a cancellation basis).

There is no bid/offer spread. If the fund is valued on a cancellation basis the bid and offer prices are calculated as the rounded cancellation price. If the fund is valued on a creation basis the bid and offer prices are calculated as the rounded creation price.

Method used to determine prices of units in internal linked funds (SLUK, ex-OB Fund)

In pricing units in internal linked funds, investments are valued at the lowest available offer price or the highest available bid price with appropriate allowance for the expenses of purchase or sale. The decision to value on a bid or offer basis is based on whether the trend of the size of the fund is downwards or upwards. The valuation is used to determine the bid price, the offer price being determined by adding the bid/offer spread to the bid price. Units are created and cancelled at the bid price; they are allocated to policies at the offer price and redeemed at the bid price. The prices used are those in effect on the day following a decision to carry out a transaction, or on the day a transaction is effected. Pricing is normally carried out daily for those funds which are invested in equities. For other funds, pricing is normally carried out weekly, the prices applying to the following seven days.

(b) Different Pricing Bases

Other than the differences mentioned in (a), different pricing bases do not apply to different policies.

(c) Units in Collective Investment Schemes

Funds buy units in certain collective investment schemes managed by Ignis Asset Management at the creation price and sell units at the cancellation price. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

For externally managed funds, purchases are normally made at the offer price and sales at the bid price.

In addition, for fund series formerly in ULA and ULPF, Series 8, 9 and 10 units for funds formerly in SAPL and the Lifestyle Bond and Pensions Solutions fund series, any remaining unit trust or Open Ended Investment Company fund management charge net of any rebate is reimbursed by the Company to the internal linked fund.

Policies previously written in Alba

(a) Method used for cancellation and creation of units

For all contracts described in this section, unless otherwise stated, the following features apply:

- All unit purchases are subject to a charge (representing the bid-offer spread) of typically 5%.
- There is currently no charge for one switch between funds every year (though the company reserves the right to introduce such a charge at any time). Charges are normally made for each switch after the first.

(i) The price at which the company creates and liquidates units is on the bid price on the day in question.

(ii) Assets are valued at market values where they exist. The following rules apply:

Asset	Bid price	Offer Price
Cash	Face value	Face value
Internal linked Fund	Bid	Bid
Fixed interest	Bid minus dealing	Offer plus dealing
Internal unit trust	Cancellation	Creation
External unit trust	Bid	Offer
Equity	Bid minus dealing	Offer plus dealing
Property	Bid – Unitised Property Fund price	Offer – Unitised Property Fund price plus buying costs

Most of the "Main Funds", i.e. the Internally Managed BLAS Life and Pensions Funds, are invested directly in Ignis Asset Management Unit Trusts which are valued at noon daily.

Calculating bid and offer values of the units

The asset values used in the calculation of unit prices include an allowance for dealing costs of buying or selling the assets.

The initial charge incorporated into the calculation of maximum offer prices is fixed at 5/95 of the value of the Fund.

(iii)Basis of valuation of assets

Policyholder net unit sales/repurchases
Fundamental pricing basis

Net sales expected into the medium term - Offer basis
Net repurchases expected into the medium term - Bid basis

Funds' cash flows over the rolling previous four months are reviewed on a regular basis. When the flow looks as if it could be changing direction, the pricing basis is changed and the Unit Pricing Committee advised.

(iv)Timing of asset valuation

The values of the above Funds are generally based on previous day's closing values. Funds which are cross invested in other BLAS Funds are valued after pricing the principal Funds and therefore receive same day price.

The Externally Managed Funds are priced on previous day's closing values, the one Branded Fund being valued daily and the others routinely on the first business day of every month and as required by clients or for claims etc.

(b) Different Pricing Bases

There are no differences applying to different policies.

(c) Collective Investment Schemes

This is covered in (a) above.

Policies previously written in Century

(a) Method used for cancellation and creation of units

The valuation price of a unit is calculated by dividing the market value of the relevant assets, including accruals for income and charges and after adjustment for accrued liability for tax on income and on realised and unrealised capital gains and losses, by the number of units in existence for the fund / type.

The creation price of a unit is obtained in the same way as the valuation price, having regard to the offer value of the investments plus the costs of acquisition. The cancellation price is similarly obtained having regard to the bid value of the investments less the costs of disposal.

If a fund has a net cash inflow and this is expected to remain so then the creation price will be used to allocate units to and, within limits, to de-allocate units from funds. Where a fund has a net cash outflow and is expected to remain so then the cancellation price will be used to de-allocate units from and, within limits, to allocate units to funds.

The current method by which the basis of the valuation of assets is selected is as follows.

For each fund a reference level of units is determined, called the tidemark level. Following the creation or cancellation of units, the current number of units is compared to the tidemark. If the fund is on a bid basis and the current number of units is lower than the tidemark then the tidemark is lowered. If the fund is on an offer basis and the current number of units is higher than the tidemark it is raised. If the fund is on an offer basis and the current number of units is less than 95% of the tidemark level then the fund will be moved to a bid basis and the tidemark reset. If the fund is on a bid basis and the current number of units is greater than 105% of the tidemark level then the fund will be moved to an offer basis and the tidemark reset.

In order to avoid going too far past the 5% trigger, before carrying out any large (greater than 3% of the fund) creation / cancellation which is against the existing basis, the unit position against the tidemark is examined in order to determine whether the transaction would trigger a change of basis. If so, the change of basis may be made in advance of the creation / cancellation rather than after.

For funds on a bid basis, the published bid price is determined from the above and, where the policy conditions permit, it may be rounded down by up to 1%. However, most prices are rounded to the nearest tenth of a penny. The offer price is then obtained by multiplying by 100/(100-bid offer spread %).

For funds on an offer basis, the published offer price is determined from the above multiplied by 100/(100-bid offer spread %) and, where the policy conditions permit, may be rounded up by up to 1%. However, most prices are rounded to the nearest tenth of a penny. The published bid price is then (100-bid offer spread)% of the offer price.

Valuations are carried out daily based on the investments held as at 9am and using the previous night's closing market values of the investments. Some prices may be adjusted to reflect market and currency movements from the previous close until the valuation point of the linked fund. Unit movements are allocated using the price calculated on the same day as the movements are processed. If a policyholder request to deal is received by post, then it is processed using the price on the day of receipt of the notification. If the notification is received by fax, then the following day's price is used in order to avoid selection against the fund.

(b) Different Pricing Bases

Except in very rare situations where a policyholder unit reduction is so large as to attract a dilution levy, at any one time the same pricing bases apply to different policies investing in the same internal linked funds.

(c) Collective Investment Schemes

Funds buy units in certain collective investment schemes managed by Ignis Asset Management at the creation price and sell units at the cancellation price. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

Where externally-managed collective investments are held, either the published offer price or the published bid price of the underlying unit trust is used, as appropriate. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

Policies previously written in BULA

(a) Method used for cancellation and creation of units

Ex-Unit Linked Fund: Other than Pensions Managed Fund business

Units are allocated to policies at the published offer price on the valuation date immediately following the date of receipt of the premium. On maturity, units are cancelled at the bid price on the valuation date immediately preceding the maturity date. On retirement, units are cancelled at the bid price on the last valuation date in the month of the selected retirement date. On death, critical illness, surrender, transfer, withdrawal, early retirement or other early termination, units are cancelled at the bid price on the valuation date following date of notification. Charges for mortality and terminal and critical illness cover, where applicable, are made by cancelling units at the bid price.

Units are only created in any linked fund if assets equivalent to such units are added simultaneously to the fund. Except for the purposes of meeting all expenses, charges and any tax liabilities or for reinvestment, assets are only withdrawn from any linked fund if units equivalent to such assets are simultaneously cancelled.

The fund is reduced by the weekly management charge based on the number of units multiplied by the published offer price.

Currently unit prices are determined by valuing the assets of the linked funds weekly, normally on a Wednesday, the valuation date. The day and frequency of such valuations may be amended after giving prior notice. The valuation takes account of all assets including uninvested cash. Stock exchange securities are valued using quoted prices. The value of land and buildings, if any, is based on valuations prepared by independent valuers with due allowance for variations since such valuations. The values of other assets are determined after taking any advice from independent experts or valuers where appropriate.

The offer value of a linked fund is the value of the investments at the prices at which they might be purchased on the valuation date, increased by amounts to cover acquisition costs of these investments and for accrued investment income and reduced by amounts to cover provisions for capital gains tax where applicable, other taxes and levies and by the management charge. The offer price of a unit is the offer value divided by the number of units, multiplied by 100/95 and the result rounded to the nearest tenth of a penny. The published offer price may vary below this offer price.

The bid value of the linked fund is the value of the investments at prices at which they might be sold on the valuation date, increased by amounts for accrued investment income and reduced by amounts to cover realisation costs, provisions for capital gains tax where applicable, other taxes and levies and by the management charge. The bid price of a unit is the bid value of the fund divided by the number of units, rounded to the nearest tenth of a penny. The published bid price may vary above this bid price.

When the published prices are based on an offer basis, then the published offer price is the rounded offer price and the published bid price is 95% of the published offer price. When the published prices are based on a bid basis, then the published bid price is the rounded bid price and the published offer price is 100/95 times the published bid price. The offer basis is used for periods of net creation of units and a bid basis is used for periods of net cancellation of units. All funds are currently on a bid basis.

Ex-Unit Linked Fund: Stakeholder Pension

These funds are priced daily, on an offer basis if there are net creations that day or on a bid basis if there are net cancellations that day. They are single priced and there is no bid/offer spread.

The offer basis price is the value of the assets of the fund, based on the prices at which the underlying assets could be bought, increased by amounts to cover dealing costs and stamp duty, where applicable, divided by the number of units, then reduced by the equivalent of one day's management charge and then rounded to two decimal places.

The bid basis price is the value of the assets of the fund, based on the prices at which the underlying assets could be sold, decreased by amounts to cover dealing costs, divided by the number of units, then reduced by the equivalent of one day's management charge and then rounded to two decimal places.

Ex-Unit Linked Fund: Pensions Managed Fund Business

Up to and including 30 November 2003 these funds were priced in a similar way as described above for Stakeholder Pension business.

From 1 December 2003, unit prices are calculated gross of management charges. Management charges are taken by unit encashment.

Ex-Non-Profit Fund: Other than the Capital and Super Plan

Unit prices are determined weekly. Unit prices may be determined more frequently at the company's discretion.

Policyholders buy units at the next available published offer price following the day that premiums are paid. Units are bought from policyholders at the next bid price following an instruction to switch units and at the current bid price at the time of maturity or death. Unit charges are deducted at the latest bid price at the time the charge is made. On surrender, units are valued at the latest bid price following receipt of all necessary documentation.

Units in the internal linked funds are created or cancelled at the unrounded offer price to match the number of units allocated or deallocated from policies. When there is expected to be a net purchase of underlying assets over the medium term, the internal linked funds are valued on an offer basis. A bid basis is used when net sales are expected.

When the funds are valued on an offer basis, unrounded offer prices are equal to the net asset value per internal unit for each unit fund. For a particular fund the asset value is:

- the lowest offer value of assets as at the close of the previous working day
- plus an estimate of the buying expenses incurred in purchasing an identical portfolio of assets

- plus investment income (net of tax for life funds)
- minus, for life funds, a provision for accrued realised and unrealised capital gains tax
- minus an amount in respect of accrued annual management charge.

The latter item is deducted weekly.

When the funds are valued on a bid basis, unit allocations and deallocations again take place using an unrounded offer price. This again is equal to the net asset value per internal unit for each unit fund. In this case for a particular fund the asset value is

- the highest bid value of assets at the close of the previous working day
- less an estimate of the cost of realising the portfolio of assets
- plus investment income (net of tax for life funds)
- minus, for life funds, a provision for accrued realised and unrealised capital gains tax
- minus an amount in respect of accrued annual management charge.

The latter is deducted weekly.

On both bases, the published offer price is the unrounded offer price rounded up to the nearest 0.5 pence. The published bid price is calculated as 95% of the published offer price rounded down to the nearer 0.5 pence.

Within each fund, all policyholder units are valued using the same basis.

Funds buy units in certain collective investment schemes managed by Ignis Asset Management at the creation price and sell units at the cancellation price. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

Ex-Non-Profit Fund: Capital and Super Plan

Unit prices are calculated on the 16th of each month based on closing prices on the 15th. Premiums are paid on the 15th of each month and policyholders purchase units at the offer price calculated on the 16th. On maturity or death, units are cancelled at the latest bid price. On surrender, units are cancelled at the latest bid price following receipt of all documentation. Super Plan units may be surrendered only on the 16th of each month. At the company's discretion Capital Plan units could be surrendered at the next available bid price.

Bid/offer spreads and the pricing basis is laid down in the policy documents. The published Capital Offer price is the unrounded price multiplied by 1.0125 rounded to the nearest half pence. The published Capital Bid price is calculated as 0.9875 times the unrounded price rounded in the same way as the Offer price. The published Super Plan Offer price is the unrounded price multiplied by 1.0175 rounded in the same way as the Capital prices. The published Super Plan Bid price is calculated as 0.9825 times the unrounded price rounded in the same way as the Capital prices.

Unrounded prices are equal to the net asset value per internal unit for each unit fund. For each fund the asset value is the mid market value of assets as at the close on the 15th of the month minus a provision for accrued realised and unrealised capital gains tax.

(b) Different Pricing Bases

The same pricing bases apply to different policies investing in the same internal linked funds.

(c) Collective Investment Schemes

Funds buy units in certain collective investment schemes managed by Ignis Asset Management at the creation price and sell units at the cancellation price. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

Where externally-managed collective investments are held, either the published offer price or the published bid price of the underlying unit trust is used, as appropriate. The price used in the fund valuation is in the main from midnight the day before the valuation date, but may be adjusted to reflect market and currency movements from then until the valuation point of the linked fund.

Policies previously written in BRS

(a) Method used for cancellation and creation of units

For the Equity Release Plan there is a single unit in each individual internal linked fund. For the purpose of determining unit prices, properties in the funds are held at vacant possession open market value. Properties are independently valued at acquisition and at least once every three years thereafter. The internal linked funds are valued at least once in each calendar year on the basis of the most recent valuation of the property adjusted using statistics for movements in house prices since the date of the last valuation.

(b) Different Pricing Bases

The same pricing basis is used for all policies at all times.

(c) Collective Investment Schemes

The units are not in collective investment schemes.

Policies previously written in BA

The unit liabilities for unit linked policies were reinsured to BULA. See "*Ex-Unit Linked Fund: Other than Pensions Managed Fund business.*"

Policies previously written in SMA & SPL

(a) Method used for cancellation and creation of units
The pricing basis depends on whether the unit-linked fund is expanding or contracting.

The company reviews the pricing basis regularly. Most funds are priced on a contracting basis and in general each fund will be considered to be contracting unless there is evidence of material new money being paid into the fund and a likelihood that will continue over the medium term.

The Bare Price of the fund is the creation Price or cancellation Price, depending on which pricing basis is being used (see below for details).

Method used for allocation and de-allocation of units

The quoted offer price for a particular day is the Bare Price divided by (1 minus the initial charge) and rounded up by no more than 0.1p. The initial charge is typically 5 or 6%.

The quoted Bid Price equals the quoted Offer Price adjusted for the Bid-Offer Spread (usually equal to the Initial Charge) and rounded to the lower 0.1p.

The prices used for transactions on a particular day are determined based on the asset position of the fund at 12pm on the previous working day (except Broker Managed Funds which are priced at close of business). The timing of the transaction relative to the time at which the policyholder requested the trade varies by product and is defined in the policy conditions.

Exceptional circumstances

Special bid and offer prices may be quoted for a material transaction or series of bid and offer prices may be quoted for a material transaction or series of transactions. "Material" means any one transaction or series of transactions which are of such a size that the company considers the basis of the pricing should change from creation to cancellation or vice versa to maintain equity between the transacting policyholders and remaining policyholders in the fund.

(b) Different Pricing Bases

Not applicable.

(c) Collective Investment Schemes

The internal linked funds managed by Ignis invest predominantly in unit trusts and OEICs. These collective investment schemes are in the main priced daily at 12pm, using either the creation or cancellation price for the collective investment scheme as appropriate for the net expansion or contraction of the linked fund. The price calculated for the collective investment scheme on a particular day is used in the valuation of the linked fund on the same day and is the price at which policyholder transactions in the linked fund on that working day are based.

Where funds are invested in externally-managed collective investment schemes, they are valued using either offer or bid prices as appropriate for the next expansion or contraction of the fund.

In all cases prices of collective investment schemes may be adjusted to reflect market and currency movements from their valuation point until the valuation point of the linked fund.

(8) Tax Deductions From Internal Linked Funds

This section is applicable to taxable life funds only. Pension funds may suffer tax to the extent that deductions cannot be reclaimed on underlying assets, although there would be no direct deductions in unit pricing.

Policies previously written in Alba

Tax on income

Tax on income is calculated at the full policyholder tax rates on all investment income.

Tax on loan relationships

For loan relationships both income and capital gains are taxed under the provisions for income. Accordingly, tax is calculated on the full policyholder tax rates on both elements. Full credit is given for actual and anticipated tax losses.

Capital Gains Tax (CGT) on other assets

Tax is applied to each internal linked fund as if it were a separate fund for tax purposes.

For ordinary disposals each taxable gain is charged at the rate in force at the time of disposal. Details of tax liabilities in respect of investment income and realised capital gains are incorporated into unit pricing from the investment ledger on a daily basis.

In the case of deemed disposals, taxable gains and reclaimable losses are charged at the rates in force at the end of the years to which each fraction is allocated, and discounted back to the present time at a rate to be set by the Unit Pricing Committee.

Since the fund is given full allowance for unrealised capital gains accrued to date the unit price should reflect the tax liability that has accrued alongside. Accordingly current liabilities are maintained which reflect the Fund's accrual of unrealised capital gains but discounted to the extent that tax on them can be deferred.

While a fund is valued on a bid basis in response to net outflow of policyholder money, the full rate of tax is applied to unrealised gains.

An appropriate allowance is made for indexation in the calculation of gains subject to taxation.

The above can be summarised as shown in the following table.

	Bid basis		Offer basis	
	Gains	**Losses**	**Gains**	**Losses**
Investment income	Provided at full rate -20%	N/A	Provided at full rate -20%	N/A
Loan relationships	Provided at full rate – 20%	Provided at full rate – 20%	Provided at full rate – 20%	Provided at full rate – 20%
Realised gains and losses	Provided at full rate – 20%	Provided at nil	Provided at full rate – 20%	Provided at nil
Unrealised gains and losses				
Main Life Funds	Provided at 18%	Provided at nil	Provided at 18%	Provided at nil
Personal Bonds	Provided at 20%	Provided at nil	Provided at 20%	Provided at nil
Deemed disposals	Provided at discounted rate – 18%	Credit to the extent that prior deemed gains exist in the previous 2 years.	Provided at discounted rate – 18%	Credit to the extent that prior deemed gains exist in the previous 2 years.

Policies previously written in Century

Tax on income

Tax on income is calculated at the full policyholder tax rate of 20%.

Tax on loan relationships

For loan relationships both income and capital gains are taxed under the provisions for income. Accordingly, tax is calculated on the full policyholder tax rates on both elements. Full credit is given for actual and anticipated tax losses.

Capital Gains Tax (CGT) on other assets

Tax is applied to each internal linked fund as if it were a separate fund for tax purposes. Realised tax is removed from the funds on a quarterly basis.

In the case of unit trusts, a deemed disposal is carried out at the end of each financial year and the tax deducted from the funds. Where a gain occurs subsequent to previous losses, those losses are used to offset the gain. Where a loss occurs subsequent to gains in the previous 2 years an amount of tax is credited back to the fund. Tax expected to be payable in current and future years as a result of a deemed disposal is removed from the fund in full but at a discounted rate, during the deemed disposal process. The rate at 31 December 2009 was 18%

Realised and unrealised capital gains are calculated as the difference between the sale proceeds and indexed pooled book cost or, in the case of unit trusts, the indexed pooled market value at the date of the latest deemed disposal with adjustments for any subsequent transactions. The unrealised provision is calculated at a rate of 18%. Tax on realised gains is deducted at 20%.

Policies previously written in BULA

This includes policies transferred from Allianz Cornhill.

<u>Tax on income</u>

Tax on income is calculated at the full policyholder tax rate of 20%.

<u>Tax on loan relationships</u>

For loan relationships both income and capital gains are taxed under the provisions for income. Accordingly, tax is calculated on the full policyholder tax rates on both elements. Full credit is given for actual and anticipated tax losses.

<u>Capital Gains Tax (CGT) on other assets</u>

Tax is applied to each internal linked fund as if it were a separate fund for tax purposes. Realised tax is removed from the funds at least once a year.

In the case of unit trusts, a deemed disposal is carried out at the end of each financial year and the tax deducted from the funds. Where a gain occurs subsequent to previous losses, those losses are used to offset the gain. Where a loss occurs subsequent to gains in the previous 2 years an amount of tax is credited back to the fund. Tax expected to be payable in current and future years as a result of a deemed disposal is removed from the fund in full but at a discounted rate, during the deemed disposal process. The rate at 31 December 2009 was 18%

Realised and unrealised capital gains are calculated as the difference between the sale proceeds and indexed pooled book cost or, in the case of unit trusts, the indexed pooled market value at the date of the latest deemed disposal with adjustments for any subsequent transactions. The unrealised provision is calculated at a rate of 18% where funds are primarily invested in assets subject to deemed disposal, and 20% otherwise.
Tax on realised gains is deducted at 20%.

All funds are currently priced on a bid basis except for the Capital and Super Plan Funds, which are priced on a mid basis. The tax on unrealised gains for these funds was provided for at 18% in 2008.

Policies previously written in BRS

No deductions are made for capital gains tax in the Equity Release Plan internal linked funds.

Policies previously written in BA

The unit liabilities of BA policies were reinsured to BULA. See "Policies previously written in BULA."

Policies previously written in SMA & SPL

Each individual linked fund is treated as a separate entity for the purpose of tax.

Tax on income

Tax on income is calculated at the full policyholder tax rate of 20%.

Tax on loan relationships

For loan relationships both income and capital gains are taxed under the provisions for income. Accordingly, tax is calculated on the full policyholder tax rates on both elements. Full credit is given for actual and anticipated tax losses.

Capital Gains Tax (CGT) on other assets

If there are net overall realised and unrealised gains, the calculation of the unit price will include a charge for the tax expected to be payable on these gains. Gains are reduced for the benefit of indexation relief. If there are net overall realised and unrealised capital losses, the unit price may include a credit for the expected tax relief that the company can obtain on these losses. If it is not expected that the company can gain credit for these losses in the foreseeable future, according to a deterministic calculation, they are carried forward in a memorandum account to be offset against future gains.

At the end of each year the charge for the tax on accrued realised gains is cash settled with the non profit fund. The fund may be paid a cash credit for tax relief on accrued realised losses. Unrealised gains and losses are carried forward to the next accounting period.

The rate of tax charge on gains is the policyholder tax rate discounted to reflect timing until the tax is paid, including allowance for spreading of gains under the deemed disposal rules where the underlying holding is a collective investment vehicle. The rate of tax relief on losses is the policyholder tax rate discounted to reflect timing until it is expected that the loss can be used by the company to be offset against future gains.

For UK funds, as at 31 December 2009 the rate applying to net realised gains was 20%. Net unrealised gains were taxed at 18% where funds were primarily invested in assets subject to deemed disposal, and 20% otherwise. No tax relief was being given where there were net losses. Deemed disposals were taxed at the rate of 18% and income was taxed at 20%.

For taxable Eire funds, as at 31 December 2009 the rate applying to net realised gains was 25%. Net unrealised gains were taxed at 24%. No tax relief was being given where there were net losses. Income was taxed at 12.5%.

Other Policies

Tax on income

Tax on income is calculated at the full policyholder tax rate of 20%.

Tax on loan relationships

For loan relationships both income and capital gains are taxed under the provisions for income. Accordingly, tax is calculated on the full policyholder tax rates on both elements. Full credit is given for actual and anticipated tax losses.

Tax on Realised Capital Gains

The provision for tax on realised capital gains on chargeable assets within internal funds is calculated at each valuation by applying a tax rate to the realised capital gain calculated as the excess of the proceeds on disposal of the asset less the book cost of the asset with appropriate allowance for indexation relief.

Any brought forward realised capital losses are applied to offset any realised capital gains within the same fund.

The tax rate applied to realised capital gains does not exceed that which would apply if the fund comprised the whole of the Company's life assurance fund with no allowance being made for expenses. For chargeable assets excluding gilts and bonds, the rate of tax applied during the report period has been 20%. Throughout the report period the rate of tax for gilts and bonds, where a tax rate has applied, was 20%. The provision for tax on realised capital gains is deducted from the fund annually at the end of each year.

For realised capital gains arising from Sections 212 to 214a of the Taxation of Chargeable Gains Act 1992 (deemed disposals), one seventh of the gain is provided for as above. The balance of the instalments is taxed at an appropriate rate (18%) and the provision is held within the fund. When the capital gains tax charge on a subsequent instalment falls due, the instalment is removed from this provision and treated as other realised tax charges described above.

Where policy benefits are linked to directly held assets, namely authorised unit trusts or other collective investment schemes, a deduction is made from the policy benefits when units are de-allocated representing tax on the realised capital gains as permitted by policy conditions. During the report period the rate of tax applied has been 18% throughout.

Tax on Unrealised Capital Gains

The provision for tax on unrealised capital gains on chargeable assets within internal funds is calculated at each valuation by applying a tax rate to the unrealised capital gain calculated on the excess of the market value of the asset less the book cost of the asset with appropriate allowance for indexation relief.

Any brought forward realised capital losses remaining after offsetting against the provision for realised capital gains are applied to offset any unrealised capital gains within the same fund.

During the report period the rates of tax applied have been:

Assets within internal fund	Offer basis	Bid basis
Equities and other company securities	17%	20%
Unit trusts etc. *	17%	20%
Property	17%	20%
Gilts and Bonds	20%	20%

* i.e. assets within the scope of the deemed disposal provisions.

(9) Tax Provisions for Internal Linked Funds

Due to a mismatch between the capital gains position of individual life linked funds and the overall position of the company, an additional reserve is normally held. At the valuation date the reserve was £46.6m.

Policies previously written in PLL

For assets of internal linked funds, provision for tax on unrealised capital gains has been implicitly included in the unit liability, the latter being equal to the value of the corresponding linked funds which has been adjusted to allow for future tax on capital gains.

Allowance has been made in the valuation for taxation which whilst currently being shown as tax recoverable by the non-linked funds, will actually be used for the benefit of the unitholders in the linked funds.

Tax rates used in the determination of the provision are described above in 3(8).

This method applies to all types of units.

Policies previously written in Alba

These are covered in paragraph 3 (8) above.

Policies previously written in Century

During the year, realised and unrealised gains and losses are notionally credited in the pricing process. Tax is deducted and credited at the current rate used to calculate the unrealised provision.

Realised and unrealised capital gains are calculated as the difference between the sale proceeds and indexed pooled book cost or in the case of unit trusts, the indexed pooled market value at the date of the latest deemed disposal with adjustments for any subsequent transactions. Tax rates used in the determination of the provision are described above in 3(8).

Income, realised gains and unrealised gains in respect of loan relationships were, at the valuation date, taxed at 20% having regard to the pooled market value at the date of the latest mark to market.

Policies previously written in BULA

In determining unit prices, realised and unrealised gains have been allowed for as follows:

> The value of the assets of the linked funds is reduced by any tax due on realised gains (after taking account of unrelieved tax losses). For realised losses, no allowance has been made for any tax credit since July 2001.
>
> For unrealised gains, (net of unrelieved tax losses) a provision for the tax charge has been made. For unrealised losses, no allowance has been made for any tax credit. Capital losses on each fund are treated individually.
>
> Deemed disposals on unit trusts have been treated as realised gains.
>
> Tax rates used in the determination of the provision are described above in 3(8)
>
> The rate of tax levied on unrealised fixed interest gains was 20% of the unrealised amounts.

Policies previously written in BRS

A deferred tax provision is held to cover chargeable capital gains made up to the valuation date. The current tax rate applicable to capital gains is currently 20% and the provision covers 100% of this.

Policies previously written in BA

There are no internal linked funds.

Policies previously written in SMA and SPL

Each internal fund is treated as an independent entity for the purposes of assessing capital gains tax. A rate of tax is levied on the gain net of any indexation relief and capital losses, as appropriate.

The maximum rate of tax for realised capital gains is the policyholder rate of tax for the period in question. Where appropriate, this may be reduced to reflect the period between the realisation of the gain and the date when the tax is actually due to be paid.

The maximum rate of tax for unrealised capital gains is the rate for realised capital gains. This is normally reduced to reflect the extra expected period until the gain is finally crystallised.

Tax rates used in the determination of the provision are described above in 3(8).

In respect of the Long Term Care Fund (SPL), only one third of the above UK tax rates apply. This is based on the average mix of taxable and gross business in that fund.

(10) Discounts on Unit Purchases

Unit Trust Life and Unit Trust Pension Policies previously written in PLL

The internal linked funds purchase units in collective investment funds managed by certain companies with no connection with the Company where discounts are received on the Initial Charges.

These are detailed below:

Investment Management Company	Initial Charge Discount	Fund buys at:
Framlington	4.00%	-
Henderson	-	Creation price + 0.5%
Barings	4.50%	-
Gartmore	4.50%	-
Invesco	3.00%	-
Perpetual	4.50%	-

Personal Bond Funds, Broker Bond Funds, Executive Pension Plans, Broker Funds and Broker Direct Investment previously written in PLL

Funds buy units in unit trusts and other collective investment schemes managed by Foreign & Colonial Asset Management at the creation price.

All the benefits are passed on to the internal linked fund and therefore reflected in the unit price.

Direct holdings of assets in PLL

The Company holds authorised unit trusts and investments in other collective investment schemes which are direct holdings of assets matching liabilities in respect of property linked benefits.

The Company receives a discount of 5% on the Initial Charge when buying units in respect of unit trusts managed by the JP Morgan Fleming. The benefit of this discount is retained by the Company.

The Company receives a discount of 4.5% on the Initial Charge when buying units in respect of unit trusts managed by Gartmore Fund Managers. The benefit of this discount is retained by the Company.

External Fund links for the Lifestyle Bond previously written in PLL

Certain funds available to the Lifestyle Bond buy or sell units in funds operated by external companies with no connection with the Company at the creation or liquidation price.

The company receives a rebate of management charge in respect of holdings in such External funds as set out in the following table:

External Fund Link	Rebate p.a.
Framlington Health	0.55%
Framlington Absolute Growth	0.75%
Framlington UK Growth	0.65%
Gartmore American	0.75%
Gartmore Euro Select	0.75%
Gartmore UK & Irish Companies	0.75%
Aberdeen Technology	0.75%
Aberdeen Ethical	0.95%
Newton Life Managed	1.00%
Newton Life Balanced	1.00%
Newton Life Continental	1.00%

The rebates received are reimbursed (net of tax at 20%) by the Company to the internal linked fund.

External Fund links for Pensions Solutions Products previously written in PLL

Certain funds available to Pensions Solutions products buy or sell units in funds operated by external companies with no connection with the Company at the creation or liquidation price.

The company receives a rebate of management charge in respect of holdings in such funds External funds as set out in the following table:

External Fund Link	Rebate p.a.
Baille Gifford Managed	0.00%
Framlington Health	0.55%
Framlington Absolute Growth	0.75%
Framlington UK Growth	0.65%
Gartmore American	0.75%
Gartmore Euro Select	0.75%
Gartmore UK & Irish Companies	0.75%
Aberdeen Technology	0.75%
Aberdeen Ethical	0.95%
Newton Life Managed	1.00%
Newton Life Balanced	1.00%
Newton Life Continental	1.00%

The rebates received are reimbursed by the Company to the internal linked fund.

Policies previously written in Alba

No units are held that need to be reported.

Policies previously written in Century

The assets of the internal linked funds of the Company include unit trusts and other collective investment schemes, e.g. OEICs, ICVCs and UCITS, available from a range of fund managers.

In general, discounts are available to the Company on the purchase of units and these are passed on to the policyholder. The majority of the assets in what were formerly Century's unit linked funds are managed by Ignis Asset Management Limited and Invesco Fund Managers Limited. Both fully rebate their initial charge.

Both Ignis Asset Management Limited and Invesco Fund Managers Limited rebate to the Company a part of the annual management charge levied by them with the exception of Invesco assets held by the Perpetual Managed Funds. For the majority of the internal funds, the amount rebated to the Company is credited to the relevant fund, less tax where appropriate. Specifically:

(i) The following linked funds are rebated some or all of the amount received by Century Life in respect of those funds, subject to the deduction of tax in the case of life funds. This applies to:

Certain Ex-NBA Performance Bond fund links to IAM
Ex-NBA Multichoice life funds
Ex-NEL Pensions Multichoice funds
Ex-CCL funds
Ex-Crown funds
Ex-Prosperity funds
Ex-Hiscox funds
Ex-City of Edinburgh funds
Ex-UK Life funds
Ex-OMLA funds

(ii) Certain funds are rebated the whole of the unit trust annual management charge, subject to tax. This applies to:

Ex-NBA Performance Bond fund links to Invesco and certain links to IAM
Ex-NBA Pensions
Ex-NEL Pensions NELEX fund links to Invesco and IAM except Invesco Exempt Trust fund
Ex-NAL Funds

(iii) Certain funds receive no rebate at all. The funds are:

Ex-NEL Pensions NELEX Invesco Exempt Trust fund
Ex-Sentinel funds
Broker funds*

*In respect of unit trust investments held within broker funds neither Ignis nor Invesco rebate their annual management charges to the Company.

Policies previously written in BULA

There are no units held where BULA receives commission, discount or other allowances that need to be reported.

Policies previously written in BRS

No units are held that need to be reported.

Policies previously written in BA

There are no internal linked funds.

Policies previously written in SMA

Where internal linked funds invest in units in collective investment schemes, any discount or other allowance negotiated with the fund manager of the units is fully passed on to the appropriate policyholders.

Policies previously written in SPL

Where internal linked funds invest in units in collective investment schemes, the policyholder benefits to the full from any discount achieved on the purchase of such units and the valuation of such units reflects the discounts achieved. For investments in an Ignis Asset Management (IAM) collective investment fund, units are purchased at the creation price and sold at the cancellation price, i.e. IAM fully rebates the initial charge. A rebate is only payable if the underlying IAM collective investment scheme has an annual management charge that exceeds the annual management charge payable on the insurer's fund. No renewal commission is payable by IAM.

4. VALUATION BASIS

(1) Valuation Methods

Policies previously written in PLL

A gross premium method has been used except for a small number of ex-SLUK non-profit policies which have been valued using the net premium method.

In respect of fixed immediate, reversionary and index linked annuities, the liability has been taken as the present value of all future annuity payments, valued according to the contractual mode of payment, together with the relevant expenses. Allowance has been made where annuity payments are guaranteed for a minimum number of years.

For guaranteed rate individual PHI policies the gross premium method was used in the valuation. Gross premiums were reduced by the greater of the amount of renewal commission and 2.5%. In addition there is an annual per policy loading for all contracts. Any waiver of premium benefits are brought into the calculation of the reserves as an addition to the sum assured. The reserves thus calculated were then increased to provide, inter alia, for:

(i) extra premium payable on account of health or occupation. Policies carrying an extra premium have an additional reserve of 2 years' extra premium (PAL only);

(ii) an additional reserve making full provision for claims in payment on the valuation date; and

(iii) the inclusion of additional reserves for claims incurred but not yet reported and claims notified but not yet accepted.

For group risk contracts the reserve is made up as follows:

(i) a reserve in respect of the risk exposure relating to the period from the valuation date to the next premium due date,

(ii) 10% of premiums in force on the valuation date,

(iii) the discounted value of PHI claims in course of payment, and

(iv) a reserve in respect of claims which have not yet been reported, whether as a result of the deferred period (for PHI claims) or for other reasons.

The liability in respect of Progressive Protection contracts is taken as one year's office premium in respect of life cover, and one and a half years' premium in respect of critical illness cover.

The liability for Flexible Mortgage Protection contracts is taken as three and a half years' office premium in respect of life cover, and four years' premium in respect of critical illness cover.

In respect of policies issued on sub-standard lives, where an extra premium was imposed, a reserve of not less than 100% of one year's extra premium was established.

Deposit administration contracts (PAL)

The liability for Pension Plans was calculated as:

(i) the total Pension Accounts; plus
(ii) an allowance for any death in service benefits provided under the Executive Pension Plan; plus
(iii) an allowance to provide for investment guarantees; plus
(iv) an annual per policy expense.

Deposit administration contracts (SLUK)

For Deposit Administration contracts and Deferred Annuities by Cash Accumulation, the reserve is the discounted value of expected future transfers from the accounts, including bonuses at the current rate. The discounted value of the payments due on surrender of the contract has been used where this produces a higher reserve.

Linked Contracts

In respect of all other unit linked contracts the liability is determined on the following basis:

> Unit liability – for all contracts, the unit liabilities were taken as the number of units deemed allocated in accordance with the funding plan where applicable and allowing for future cancellation of cancellable units multiplied by the unit price in the relevant fund or unit trust/OEIC at the valuation date. For this purpose unit prices in the internal linked funds have been calculated using the bid value at the valuation date of the assets of the relevant fund.
>
> Non-unit liability – for all contracts, except those listed below, the liability is calculated using cash flow projection methods. Allowance is made within the cash flow projection for mortality and expenses. For ex-RSALI business negative sterling reserves are allowable as long as total unit and sterling reserves are at least equal to surrender values.

The total liability is the sum of the unit and non-unit liabilities.

For Protection Plan, a proportion of each premium, less a charge for life cover, is invested in units and placed in the "Reserve Account". On each policy anniversary the value of the units in the "Reserve Account" is compared with a guaranteed value (calculated using a net premium formula with interest at 2.5% and mortality assuming A49/52) and the number of units is reduced so that the value of units in the "Reserve

Account" is equal to the guaranteed value. The balance of units (if any) is transferred to the "Bonus Account".

The claim value is the sum assured plus the value of units in the "Bonus Account". The surrender value, after two years' premiums have been paid, is the guaranteed value at each policy anniversary plus the value of units in the "Bonus Account".

The total liability is the sum of the unit and non-unit liabilities (including the value of units in the "Bonus Account"), subject to a minimum of the surrender value.

The approach adopted to calculate the non-unit liability for policies not valued using a discounted cash flow basis is set out below.

Isle of Man Substitute Plans (Series I and II)	5% of annual premium
Group Pension Scheme	1% of unit liability plus one month's premium
International Mortgage Plan	5% of annual premium
Flexibonds	5% of unit liability
Isle of Man Substitute Plans (Series III)	5% of unit liability
Universal Protection Plan	3 months' servicing expense charges
Vested Pensions Policy	Value of future expenses
Annuity in Payment	Value of future expenses

For Partners Pension Plan, Pension Fund Investment Policy, Pension Fund Trustee Investment Policy, Private Companies Pension Fund Investment Policy, Retirement Annuity Policy, Group Schemes, Shield, Lloyds Bank, Individual Bonds (inc. CTT Plan), no cash flow projections were made. This is because such ongoing expenses are currently less than the ongoing monthly management charge on the units and anticipated to be so in the future.

The liability in respect of benefits on contracts reassured from Phoenix and London Assurance Limited (PALAL) on a risk premium basis is taken as three months' risk premiums in respect of these benefits, as charged to policyholders by PALAL. (PALAL pays Phoenix Life Limited 87.5% of these risk premiums in respect of life cover reassurances, and 91% of these risk premiums in respect of reassurances of the Living Benefit and Medical Expenses Benefit on Universal Protection Plan).

For products where the valuation method does not allow for future lapses as outlined in paragraph 4 (9), negative reserves have been eliminated.

<u>PAL Reassured Contracts</u>

Business is accepted under reassurance treaties with companies overseas under which the Company receives a share of the whole business. The liabilities have been calculated on the valuation basis adopted by each ceding company. The liabilities are the amounts which have been deposited with each ceding company as security for the Company's obligation; each reassurance treaty contains a clause that the mathematical reserve must be deposited with the ceding company.

Policies previously written in Alba

The mathematical reserve for all unitised contracts linked to units in the unit linked fund has been calculated as the sum of (i) and (ii) below:

(i) The face value of units, which is based on the number of units at the valuation date.

(ii) A sterling reserve calculated by discounting projected future cashflows and allowing for future expenses. For regular premium paying policies, the reserves are based on the higher of:

(a) the reserve calculated assuming that regular premiums continue to be paid at the current level and

(b) the reserve calculated assuming that premiums cease and the policy becomes paid up at the valuation date.

Exceptions:

(a) No negative reserves have been included and no contract of insurance has been treated as an asset.

(b) For property linked business an amount equal to the provision in the pricing of the internal linked funds at the valuation date has been reserved for the prospective liability to tax on unrealised capital gains.

(c) No specific reserve has been made for investment performance guarantees for property linked contracts.

For the Capital Investment Bond and Mortgage Minder arising from BLA, no specific reserve has been considered necessary for the Cash Fund guarantee because the backing assets are deposits or short term securities.

Policies Arising From BLAS

Mortality reserves in respect of guaranteed and other death benefits were set up as follows:

Pre 1982 series. Assuming a 25% fall in unit values, very few contracts would have a sum assured at risk. A nominal reserve is held.

Post 1981 series and pension business. With the exception specified below, the reserve is twice the monthly risk charge for the relevant benefits, adjusted for extra premiums.

The reserve set up for waiver of premium benefits under the Personal Pension Plan is the accumulation of premiums paid subject to a maximum of three years' premium, adjusted for extra premiums.

For permanent health insurance benefits the reserve set up is the accumulation of premiums paid subject to a maximum of three months' premiums, adjusted for extra premiums.

(d)Other specific reserves have been set up for the following contracts:

(i)On Growth Property Bonds Series 1 and 2, Capital Investment Bonds and single premium pension plans, the unit liability was the value of units allocated plus loyalty bonus units accrued to the valuation date.

(ii)For Mortgage Minder and regular premium unit linked pension policies the unit reserve was equal to the value of the units allocated to date. A mortality reserve was held equal to one third of the current month's mortality charge.

(iii)Genesis pension contracts have been valued by a cash flow method for linked benefits.

(iv)LASPEN Managed Fund

The valuation net liability comprises the unit liabilities at the valuation date and the amount of premiums received by the valuation date to be allocated to the purchase of units at the next allocation date.

(v)Post 1 January 1995 Contracts

A reserve for future mortality and expenses was generated by calculating a present value of future charges, expenses and costs of risk benefits. The charges assumed are those actually deducted from the contract and the bases for expenses and mortality are shown in sections 4(4) and 4(6).

(vi)Segregated Pension Funds

Certain Segregated Pension funds have outstanding loans matched against property assets. No additional reserve was required regarding the recovery of these loans.

Policies previously written in Century

The total liability, net of reassurance, for all classes of business where a prospective method of valuation has not been used is not significant in comparison with the total mathematical reserves for the Company.

The valuation methods used in the valuation of the significant groups of business were as follows.

<u>Non-linked Whole Life and Endowment Assurance</u>

For all non-linked whole life and endowment assurance contracts, the reserve was calculated using a gross premium method of valuation.

Policies have been issued subject to a lien and under certain Endowment Assurance policies the sum payable on death may be less than the sum payable at maturity. In the valuation an amount equal to the sum payable on maturity has been assumed to be the sum payable at death.

The reserves calculated were tested against the guaranteed surrender value and if the latter was the greater then this amount was held as the valuation reserve. Any negative reserves arising were individually eliminated by reducing the value of the valuation premiums so as to make the mathematical reserves zero.

Policies which have been granted guaranteed bonus additions have been valued as non-profit policies with a sum assured increasing at the guaranteed rate. Additional reserves have been included for the guaranteed terminal bonus on ex-Hiscox ex-with profit policies.

For waiver of premium benefits the liability has been taken as 75% of the accumulated annualised premium plus a reserve for claims in payment at the valuation date.

Guaranteed Security Bonds were valued using a cashflow method.

Term Assurances

For all term assurance contracts a gross premium method of valuation was used.

For Ex-Prosperity Decreasing Term Assurances and Pension Term Assurances costed by recurrent single premiums, 100% of either the annual or single premium was reserved, as appropriate.

A distinction has been made for policyholders of certain ex-NEL Term Assurances and reducing Term Assurances between those who do and those who do not smoke.

For ex-CCL Convertible Term Assurances an additional reserve of 10% of premiums paid for policies issued up to 1979 and 15% of premiums paid for policies issued after 1979 was held. For all other Convertible Term Assurances an additional reserve of 10% of all premiums paid accumulated with compound interest at the valuation rate has been made.

For ex-FMI contingent assurances a reserve equal to the single premium was made.

A 13% Mortgage Repayment Table was assumed to apply to all ex-NEL and ex-Sentinel Mortgage Protection policies. A 6.75% Mortgage Repayment Table was assumed to apply to all ex-Consumers Mortgage Protection policies. A 12% Mortgage Repayment Table was assumed to apply to all policies originally issued by CCL and a 15% table to all policies originally issued by Shield. For ex-NAL Mortgage Protection Plans a mortgage rate of 8% was assumed in determining future sums assured.

For policies where the extended term non-forfeiture provision was in operation on the valuation date, a reserve was held to cover the liability during the remaining period of non-forfeiture and, for endowment assurances, any maturity payment at the end of the period.

For accidental death benefits, the reserve held was an amount equal to the unexpired portion of the premium plus two months' premiums plus a reserve for claims in payment on the valuation date. For ex-Prosperity Accident Income Plans the reserves were calculated as one half of the annual premiums in force. An additional reserve was held for claims in payment.

For lives accepted at non-standard rates, the additional reserve held was an amount equal to 150% of the annual office extra premium.

In the case of reassurances accepted or ceded by the Company on a risk premium basis, a reserve equal to 50% of the current premium has been set up where premiums are paid annually, and equal to one month's premium where premiums are paid monthly.

No credit has been taken for risk premium reinsurance ceded on ex-CFS policies as this is costed on a quarterly census method.

Ex-Prosperity Group life assurances were valued by reserving either 60% of the annual premium or the unearned proportion of the single premium, as appropriate. The liability in respect of other Group Life schemes has been calculated as (12-n)/12 multiplied by one year's office premium, where n is equivalent to the number of complete months of cover since the last renewal date. In the case of schemes paying premiums on a monthly basis one month's premium has been reserved.

For annual premium Group Death in Service contracts providing Spouses' Pensions benefits, the wives have been assumed to be 3 years younger than their husband. For ex-Crown policies, a reserve has been made for Group Death in Service Benefits by recurrent single premium of a proportion of the office premium corresponding to the unexpired period of risk calculated to the higher month.

The liability for Payment Protection Benefits on ex-NAL Pensions Life Assurance Plans was taken as one annual premium. The liability for Payment Protection claims in payment was taken as five times the annual premium for the main contract.

A reserve has been held for death claims which have not been reported equal to two months' expected death cost net of reassurance. A similar reserve has been held for critical illness claims equal to three months' expected claim cost net of reassurance.

For Creditor schemes, the liability was taken as the total amount of unearned premiums (net of commission) as at the valuation date assuming that all risks commenced at the end of the premium payment month. The single premiums are taken to be earned in proportion to the cost of risk assuming that loan repayments are uniform over the term of each loan and that the claims rate remains constant. The valuation methods make implicit allowance for claims incurred but not reported as at the valuation date. The liabilities were increased by the amount of any experience profit share accrued to the valuation date.

Any negative reserves arising were individually eliminated by reducing the value of the valuation premiums so as to make the mathematical reserves zero.

Non-linked Deferred Annuities

For all policies, the premium payment term is an integral number of years and the vesting date is usually the insured's birthday following the end of that period.

For all deferred annuity contracts the reserve was calculated using a gross premium method of valuation.

Personal Retirement Plans were valued using a cashflow method.

Any negative reserves arising were individually eliminated by reducing the value of the valuation premiums so as to make the mathematical reserves zero.

Ex-NELPEN Self Employed Pension Plans, Personal Pension Policies, EPPs, AVCs, Transfer Plan and Group Pension Schemes (including Pensions Management Contracts)

Under "Guaranteed Growth" contracts, for the "Second Account" or "Main Account" the full accumulated balance is taken and for "First Account" or "Initial Account" the accumulated balance is discounted with mortality and interest. On all "Guaranteed Growth" contracts the accumulated balance at the valuation date is increased by interest at the relevant rate at the valuation date to allow for interest accruing since the previous policy anniversary.

For Guaranteed Growth Plans, the valuation method was to take the accumulated balance of the "Second Account/Main Account" plus the discounted balance of the "First Account/Initial Account" plus a reserve for future expenses and mortality. The basic reserves allow for the guaranteed unit growth rates.

Immediate Annuities

The reserve held in respect of annuities in payment was the present value of future benefits together with an additional reserve of the present value of future expenses.

Non-linked Permanent Health Insurance

The reserves for non group PHI business are calculated as the sum of:

(i) 1 x premium for future risk including IBNR;
(ii) Reserve for all future expenses assuming no contribution from the premium; and
(iii) a reserve for claims in payment based on annuity factors with a maximum of 7 or actual factors from reinsurers (where available). No expenses are included in this reserve.

The first and last of these are calculated on a gross and net basis with the difference used to calculate the reinsurance offset. There is no reinsurance offset for the expense component.

The reserves for Group PHI business are calculated as the sum of Unearned Premium and Incurred but not Reported Reserves and a reserve for claims in payment based on annuity factors with a maximum of 7 or actual factors from reinsurers (where available). No expenses are included in this reserve.

These are calculated on a gross and reinsured basis in order to determine the net liability.

For Ex-NAL Critical Illness Plans and Tailored Mortgage Protection contracts including an element of critical illness cover, it was assumed that the current premiums would remain unaltered for the full contract terms, even though it is likely that these will increase.

Deposit Administration Contracts

The base reserve for ex-Crown contracts has been taken as the aggregate of the surrender value for each scheme at the valuation date including an allowance for interest from the previous scheme anniversary date to the valuation date. The interest rate used varied by month of scheme renewal and was derived from the average rate of interest earned in the period to the valuation date, including an additional amount to allow for enhancements allowed for certain schemes.

For the guaranteed minimum rate of interest on ex-Crown Deposit Administration business the expected cost of the guarantee for the remaining term of the policy was calculated assuming that interest rates fell by 20% at the valuation date.

For ex-OMLA Personal Pension Plans, Capital Pension Plans and Executive Pension plans, the main fund was taken as the full accumulated balance and for the Initial Premium fund the accumulated balance was discounted with mortality and interest. For all contracts the accumulated balance at the valuation date was increased by interest at the relevant rate at the valuation date to allow for interest accruing since the previous policy anniversary. An additional sterling reserve was calculated using a cashflow method. The basic reserves allow for the guaranteed unit growth rates.

Linked Business

All unit-linked business with the exception of ex-Crown group business was valued on a sterling reserve basis. Ex-Crown group policies were allocated expenses equal to their margins.

Unit liabilities were calculated as the value of capital and accumulation units discounted, where applicable, using the following funding rates

Portfolio	Capital Units	Accumulation Units
Ex- Sentinel	6.00%	-
Ex-Crown	4.35%	-
Ex-NELPEN	5% /6%	-
Ex-OMLA	3.5% /4.5% 4.75% /5.25%	0.75% /1.0%

For ex-NELPEN and ex-OMLA the rate used varies according to contract type. In addition, for ex-NBA life and pension policies and certain other ex-OMLA policies, surrender penalties are deducted from the unit values to calculate the unit reserve held.

The value of the units is based on bid prices at 31 December calculated in accordance with the asset valuation regulations. Where appropriate, provisions have been made within each of the funds to meet any potential liability to tax on unrealised capital gains including outstanding amounts payable in respect of unit trust deemed disposals.

In respect of all life business internal linked and broker funds the valuation bid price of units makes an allowance for a potential tax liability on unrealised gains after credit for any unrealised or realised losses.

A sterling reserve for mortality and expenses is calculated on a cash flow basis. For linked contracts, the reasonable expectations of policyholders are taken into account in establishing the sterling reserves. No allowance for increasing the annual management charge or other charges is made, other than inflationary increases in plan fees, even though in some circumstances the Company has the right to increase such charges.

The mortality charges used are an assumed rate based on the average mortality charges for the linked contracts. The morbidity rates are those used in practice.

For Ex-NAL Pension Policies, there is an option to increase the policy fees on these policies each year in line with NAE. Current practice is to increase the fees each year by 75% of the increase in NAE and the valuation assumption is in line with this practice.

Any negative unit reserves and any negative sterling reserves were individually eliminated by increasing the respective reserve to zero except as described below. Where there are unit-linked benefits in addition to conventional benefits, any negative values on the conventional part of the policy were eliminated without regard to any positive value on the unit-linked part.

An additional reserve has been established in respect of amounts yet to be allocated to units. Reserves in respect of the uninvested balance have been established equal to the full amount of the uninvested balance in respect of the AVSP (Whole Life), Pan Plan (Whole life), PIP (Whole Life) and WISP (Series 1 and Series 2) contracts. For WISP Series 3 the reserve is that for an endowment assurance (sum assured equal to the uninvested balance) maturing at age 60 and under which no further premiums are payable.

For WISP policies there is a further reserve of 0.2% of the guaranteed sum assured in respect of the Waiver of Premium benefit. For Super WISP 25 policies there is a further reserve of 2% of one annualised office premium in respect of the Waiver of Premium benefit.

For A-plan policies additional reserves were held as follows:
(i) A reserve in respect of the maturity guarantee.
(ii) An amount equal to 2% of the office annual premium for the Waiver of Premium Benefit.
(iii) An amount equal to 0.1% of the sum at risk in respect of the Accidental Death Benefit cover.
(iv) An amount equal to 3% of the sum assured discounted to the maturity date at 4.5% in respect of the guaranteed insurability option.

For Unit Trust Whole Life and Endowment policies the valuation liability was taken as the market value of attaching units together with the value of the endowment or whole life benefit valued in accordance with the general principles detailed for non-linked policies in this section.

For policies linked to unit trusts which were ex-dividend at the valuation date an adjustment to the mathematical reserves was made, being the respective anticipated total net distribution receivable by the policyholders.

For the Pension Investment Plan and ex-NELPEN Pensions Management contracts a reserve of 2% of the unit liability was made to provide for future expenses.

For policyholders deemed invested in the Income Fund who have elected to receive distributed income in the form of cash rather than units, an additional reserve has been set up being the cash accrued and awaiting distribution. Where a Plan comprises a cluster of policies taken out simultaneously the per plan expenses are divided equally between each policy.

For ex-NBA Life policies, where an extra premium has been charged for the provision of premium waiver during incapacity a reserve of 75% of the total annualised extra premiums paid has been set up.

For ex-NBA Pension policies, where the policy carries a provision for waiver of premium, dependent on the deferred period (either 13 weeks or 26 weeks), the mathematical reserve was taken as being equivalent to either four months' or seven months' current cost charge based on the age nearest birthday at the valuation date, allowing for extra morbidity if applicable.

The liability for Payment Protection Benefits on ex-NAL Pension Plans was taken as one annual premium. The liability for Payment Protection claims in payment was taken as five times the annual premium for the main contract.

For ex-Crown Pensions 2000 Phase 2 final salary arrangements the discount period for initial units is the outstanding period to 20 years for each block of Initial Units and the discount is based on interest only. For money purchase arrangements the discount period for Initial Units is the outstanding term to the Normal Retirement Date or, in the case of AVCs, the Normal Retirement Date less 5 years.

For ex-Crown Retirement Savings Plan & Contracted Out Money Purchase policies the discount period for Initial Units is the outstanding term to the Normal Retirement Date and for Accumulation Units is the outstanding term to 11 years from the commencement date of the individual account.

A reserve has been held for claims which have not been reported equal to two months' expected mortality cost for death claims, three months' expected critical illness cost for critical illness claims and seven months' PHI cost, all net of reassurance.

Policies have been issued subject to a lien, but no modification has been made to the valuation method.

In the Non Profit Fund additional reserves have been established in Form 53 in respect of ex-OMLA, ex-CCL and ex-Prosperity personal pension policies for the expected liability in respect of policies which were "mis-sold".

Policies previously written in BULA

For non-linked non profit insurance, the gross premium method of valuation has been adopted. For products where the valuation method does not allow for future lapses as outlined in paragraph 4 (9), negative reserves have been eliminated.

The mathematical reserve for linked contracts is the value of the units allocated together with reserves in respect of additional life cover.

The unit liability is the number of units allocated up to the valuation date, multiplied by the valuation unit price without any discounting. The valuation unit prices are determined from the value of each internal linked fund, calculated in accordance with the note to Form 44, without any adjustments for dealing costs or tax on unrealised capital gains or losses, by dividing by the number of units in issue.

For regular premium paying business formerly in the BULA Unit Linked Fund, the aggregate expense reserves were based on the sum of:

- 50% of the higher of the reserve calculated assuming that regular premiums continued to be paid at the current level and the reserve calculated assuming that regular premiums increased automatically in line with the policy conditions
- plus 50% of the reserve calculated assuming that regular premiums ceased and the policy became paid up at the valuation date.

In respect of contracts which consist of two or more separate types of insurance, each type has for valuation purposes been treated separately. In certain cases where two or more contracts have been issued contemporaneously in respect of the same lives, whether in connection with assurances or annuities, such contracts have been treated as a single contract.

Whole life assurances involving more than one life with sums assured payable on the first death have been valued using independent mortality rates. Joint whole life assurances with sums assured payable on the second death have been valued so as to have regard to the likelihood, on the valuation basis, that one or other life has died, or that neither life has died.

An additional reserve has been made of 50% of the amount of all yearly extra premiums payable. This is included in the reserves shown on Forms 51 to 54.

For the following categories of non-linked contracts the net liability has been determined in the manner indicated.

<u>Group Life Assurances & Group Permanent Health</u>

The liability has been taken as the amount of unearned premiums plus a reserve for unpaid amounts relating to profit sharing arrangements, plus a reserve for claims which were incurred but not reported by the valuation date plus a claims in payment reserve.

Where premiums are payable monthly the unearned premium has been taken as one month's premium. For single premiums the unearned premium has been taken as the same proportion of the premium (after allowance for expenses, incurred immediately on payment of the premium) as the unexpired term bears to the original term of the assurance.

The incurred but not reported reserve was calculated as an estimated one and a half months' claims costs.

The reserve for claims in payment paid as an income stream is set up using a chain ladder approach to estimate the ultimate cost of claims from the pattern of past experience.

The reserve for unpaid amounts relating to profit sharing arrangements was calculated as the profit share proportion of the underwriting profit on each contract less any payments already made under the arrangement. The underwriting profit is calculated as premiums earned less claims incurred; this includes the deduction of the company's fee from premiums earned and estimates of outstanding and incurred but not reported claims.

Policies previously written in BRS

A prospective method of valuation has been used for all mathematical reserves other than for those special reserves described below.

The significant classes of business are pension annuities in payment shown in forms 51 and 54. These liabilities are calculated as the present value of the future annuity payments plus the present value of future expenses. The values of both expenses and index linked annuity payments allow for increases in the level of RPI in the future.

Policies previously written in BA

A prospective valuation method is used to value all policies.

Traditional life contracts are valued using a net premium valuation method, the reserve generally being subject to a minimum of one year's office premium. The net premium is restricted to 90% of the office premium and an explicit expense reserve established where the value of the margin between the net premium and the office premium is insufficient to cover future expected expenses.

Policies issued subject to an extra premium have been valued at true ages and an additional reserve of one year's extra premium has been established.

For certain decreasing term assurance with critical illness business which is reinsured, the mathematical reserves net of reinsurance allow for the level and incidence of reinsurance premium payments.

The mathematical reserves for annuities in payment are calculated as the present value of the future annuity payments plus the present value of future expenses. The value of expenses allows for increases in the level of RPI in the future.

Policies previously written in SMA

In general, non-linked non profit contracts have been valued using the gross premium method. Negative mathematical reserves are held on those contracts where the calculation yields a negative result. For the Smoothed Funds the reserve held is the sum of the sterling reserve and the valuation smoothed prices multiplied by the number of units. Certain assurances accepted at an increased rate of premium are valued at correspondingly increased ages. An additional reserve has been made of 50% of the amount of all yearly extra premiums payable. This is included in the reserves shown on Forms 51 to 54.

It is assumed that annuity payments occur at the end of the month in which they are due and that increments under increasing annuities take place at the end of the month in which they escalate. For certain annuities there is a capital guarantee that if the annuitant dies before the aggregate annuity payments made equal or exceed the purchase price, the shortfall becomes payable immediately. Provision for those extra guarantees is included with the reserves shown.

The benefits valued for group schemes are the amounts secured by premiums paid prior to the valuation date, except for contracts where benefits in force are secured by premiums fixed until retirement.

Linked contracts are valued individually with the number of units allocated to the contract being multiplied by the valuation price for the corresponding internal linked fund. Cash flow calculations have been made individually for each linked contract. The bases used are described below. For some contracts, the unit reserve has been reduced to allow for actuarial funding. The overall unit and sterling reserve for each contract is always at least equal to the surrender or transfer value, subject to a minimum of zero.

The Non Profit Fund also holds sterling reserves on unitised with-profits contracts in the Scottish Mutual With-Profits Fund. These reserves are calculated using cash flow calculations as for linked contracts. The bases used are described below.

Policies previously written in SPL

A gross premium valuation method has been used for all business shown on Forms 51 and 54. Negative reserves are held for those contracts where the gross premium method yields a negative result. Explicit allowance has been made in the valuation for renewal expenses as detailed in paragraph 4 (6). Where appropriate, allowance has also been made for payments in accordance with reassurance treaties.

For accumulating with-profits business, non-unit reserves have been calculated to cover any mortality or expense strain within the valuation in a manner consistent with that used for property-linked benefits as described below.

For property-linked contracts, the unit reserve in respect of accumulation (or ordinary) units is taken as the value at the prices specified in Form 55 of the units allocated to policies in force at the valuation date. The unit reserve in respect of capital (or initial) units of the pension funds in which Accolade and New Style Pensions invest has been taken as the face value of those units. The unit reserve in respect of capital (or initial) units of all other funds has been taken as the value of the accumulation units equivalent to the allocated capital units allowing for the additional charges for those funds where the value of the linked assets held equals the funded value of the units.

Some property-linked contracts (Personal Retirement Account, Pension Investment Account, Executive Retirement Account, Self Assurance (overseas version) and some miscellaneous classes) offer bonus units that either accrue over time up to vesting or death or are awarded on certain dates. The unit liability under these contracts includes units held in respect of the maximum prospective bonus which would be payable.

A non-unit reserve is held for certain property-linked contracts in respect of future expenses, mortality and morbidity. Investigations have shown that this reserve, in conjunction with ongoing management charges at the current rates and the uninvested portion of future premiums under continuing contracts, is sufficient to cover future outgoings on the valuation basis, with the exception of the guarantee on the Self Assurance Long-Term Care Contract which is valued separately.

(2) Valuation Interest Rates

All policies excluding those previously written in SMA and SPL

The interest rates used for each product group are shown in the following table:

Product Group	Current Valuation	Previous Valuation
Sterling reserve discount rates		
Life (unrestricted)	3.00%	2.80%
Life (restricted)	3.00%	2.60%
Pensions (unrestricted)	3.75%	3.55%
Pensions (restricted)	3.75%	3.30%
Annuities		
Pension Annuities in Payment	5.03%	5.65%
Pensions Deferred Annuities pre vesting	4.09%	3.30%
Pensions Deferred Annuities post vesting	4.09%	3.30%
Life Annuities In Payment (except companies below)	3.00%	3.95%
RSALI & Phoenix Life Annuities in Payment	5.03%	5.65%
BULA NP Life Annuities in Payment	3.00%	3.40%
Life Deferred Annuities	3.00%	2.60%
Index-linked Annuities in Payment	0.73%	1.19%
Other		
Assurances (Life)	3.00%	2.60%
Assurances (Pensions)	3.75%	3.30%
Index-linked Assurances (Life)	0.60%	1.00%
PHI and Critical Illness	3.75%	3.30%
PHI Claims in Payment	3.75%	4.95%
Deposit Administration	3.75%	3.30%
RSALI Seniorplan	3.00%	2.60%

Policies previously written in SMA

The interest rates used for each product group are shown in the following table:

Product Group		Current Valuation	Previous Valuation
Life Assurances		2.95%	2.85%
Immediate Annuities	life	3.70%	3.85%
	pensions	5.03%	5.75%
Deferred Annuities in deferment	single	4.09%	3.40%
	regular	4.09%	3.40%
Deferred Annuities in payment	single	4.09%	3.40%
	regular	4.09%	3.40%
PHI Assurances		3.70%	3.55%
Unit-linked and unitised with-profits life non-unit reserves		2.95%	2.85%
Unit-linked and unitised with-profits pension non-unit reserves		3.70%	3.55%

Policies previously written in SPL

The interest rates used for each product group are shown in the following table:

Product Group		Current Valuation		Previous Valuation	
		UK	Republic of Ireland	UK	Republic of Ireland
Whole Life and Endowment Assurances (Life and Pensions)		3.70%	1.45%	2.75%	3.05%
Term Assurances	life	2.95%	1.15%	2.15%	2.45%
	pensions	3.70%	1.45%	2.75%	3.05%
Immediate Annuities (Conventional and Index-Linked)		5.03%	3.49%	5.65%	3.45%
Deferred Annuities	in deferment	4.09%	3.49%	3.30%	3.45%
	in payment	4.09%	3.49%	3.30%	3.45%
Linked Life non-unit reserves		2.95%	1.15%	2.20%	2.45%
Linked Pension non-unit reserves		3.70%	1.45%	2.75%	3.10%

Note: the valuation interest rates are shown net of tax for life business and gross of tax for all other business.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction

(b) Other Securities

A deduction was applied to the yield on an individual stock by stock basis to allow for the risk of default. The individual stock risk margins were calculated as a long term average default rate plus an additional allowance for short-term factors and expected deviations from the historic average.

The long term average default rates (in basis points) were:

Credit Rating	5yr	10yr	20yr
AAA	4.4	12.8	15.9
AA	19.6	33.6	48.8
A	32.2	46.6	62.5
BBB	83.6	104.3	120.9
BB	257.0	273.9	283.0
B	573.8	509.4	426.7

A number of different techniques were then employed to arrive at an additional haircut, namely:

- For bank subordinated debt, a higher risk was recognised by imposing a nil recovery rate on the above default rates. For banks that were in receipt of state aid, there was an additional deduction depending on whether the coupons could be missed or deferred without interest.
- Subordinated debt attracted hair cuts based on the senior rating of the issuer rather than the rating of the bond itself.
- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).

An additional prudence was then applied to all but the "already defaulted" stocks by increasing the risk margin deduction by 25%.

The adjustments described in this section are in addition to the 2.5% required by the regulations.

(4) Mortality Basis

Longevity improvement factors

For immediate annuities in payment and deferred annuities, post vesting where appropriate, a common set of improvement factors has been adopted for all annuities. The improvement factors are:

Males	**2010**	**2020**	**2030**	**2040**	**2050**	**2060**
40	1.44%					
50	1.98%	2.47%				
60	1.45%	2.63%	2.87%			
70	2.52%	1.80%	2.47%	2.64%		
80	3.91%	2.09%	1.71%	2.13%	2.17%	
90	1.91%	2.11%	1.56%	1.55%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Females	2010	2020	2030	2040	2050	2060
40	1.76%					
50	2.51%	2.98%				
60	1.82%	3.31%	3.12%			
70	2.58%	2.55%	2.90%	2.69%		
80	3.41%	2.44%	2.14%	2.20%	2.17%	
90	1.62%	2.03%	1.70%	1.62%	1.63%	1.63%
100	1.00%	1.08%	1.08%	1.08%	1.08%	1.08%

Improvement rates for a cohort are read down the diagonal, i.e. a 60 year old male will experience an improvement rate of 1.45% in 2010 and 1.80% in 2020, when he would be 70.

In the tables that follow all mortality tables are ultimate.

Policies previously written in PLL but not previously written in PAL or SLUK

The mortality tables used for each product group are shown in the following table:

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Linked Life - aggregate	81% AM92 105% AF92	81% AM92 105% AF92
Linked Life - non-smoker	73% AM92 80% AF92	73% AM92 80% AF92
Linked Life - smoker	145% AM92 162% AF92	145% AM92 162% AF92
Seniorplan	138% AM80 138% AF80	138% AM80 138% AF80
Non linked Whole Life	75% AM92 81% AF92	75% AM92 81% AF92
Non linked TA - aggregate	80% TM92 84% TF92	80% TM92 84% TF92
Non linked TA - non-smoker	66% TM92 66% TF92	66% TM92 66% TF92
Non linked TA - smoker	156% TM92 182% TF92	156% TM92 182% TF92
Life Fund Annuities in Payment	75.3% IM80 C=2010 improving 1.5% pa 76.4% IF80 C=2010 improving 1.25% pa	76.4% IM80 C=2010 improving 1.5% pa 77.3% IF80 C=2010 improving 1.25% pa
Pension Annuities in Payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Linked Pensions	50% AM92 57% AF92	50% AM92 57% AF92
Annuities in Deferment	50% AM92 57% AF92	50% AM92 57% AF92
Pension TA - aggregate	80% TM92 84% TF92	80% TM92 84% TF92
Pension TA - non-smoker	66% TM92 66% TF92	66% TM92 66% TF92
Pension TA - smoker	156% TM92 182% TF92	156% TM92 182% TF92

No allowance has been made for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on the mortality or morbidity experience of the Company.

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

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	22.29	25.07	22.15	24.96
75	14.10	16.00	13.98	15.90

For pension annuities in payment, the expectations of life under the current (and previous year) valuation assumptions for sample ages are shown in the table below. For pension deferred annuities, the expectations of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions are shown in the table below:

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	23.68	26.16	24.88	26.37
	75	75	14.35	16.33	15.07	16.46
Deferred annuities	45	65	26.90	29.24	28.98	29.97
	55	65	25.28	27.74	27.06	28.27

Policies previously written in PAL

The mortality tables used for each product group are shown in the following table:

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Term Assurances - Aggregate	105.6% TMC00 108.9% TFC00	105.6% TMC00 108.9% TFC00
Term Assurances - Non smoker	105.6% TMN00 108.9% TFN00	105.6% TMN00 108.9% TFN00
Term Assurances - Smoker	105.6% TMS00 108.9% TFS00	105.6% TMS00 108.9% TFS00
Whole Life & Endowment	86% AM92 112% AF92	86% AM92 112% AF92
Pensions pre-vesting	50% AM92 57% AF92	50% AM92 57% AF92
Pensions post vesting (including GAOs)	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Pension Annuities currently in payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Fund Annuities in Payment	75.3% IM80 C=2010 improving 1.5% pa 76.4% IF80 C=2010 improving 1.25% pa	76.4% IM80 C=2010 improving 1.5% pa 77.3% IF80 C=2010 improving 1.25% pa
Life Annuities in deferment	50% AM92 57% AF92.	50% AM92 57% AF92
Permanent Health Insurance	76% TM92 76% TF92	76% TM92 76% TF92
Linked Life (aggregate)	81% AM92 105% AF92	81% AM92 105% AF92
Linked Life (non-smoker)	73% AM92 80% AF92	73% AM92 80% AF92
Linked Life (smoker)	145% AM92 162% AF92	145% AM92 162% AF92

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

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	22.29	25.07	22.15	24.96
	75	75	14.10	16.00	13.98	15.90
Deferred annuities	45	65	25.47	27.54	25.32	27.42
	55	65	23.85	26.29	23.70	26.17

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

Policies previously written in SLUK

The mortality tables used for each product group are shown in the following table:

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Group Spouses' Annuities	N/A Modified PCFA00	N/A Modified PCFA00
Life Annuities in payment	91.2% IMA92 C=2010 improving 1.5% pa 91.9% IFA92 C=2010 improving 1.25% pa	92.6% IMA92 C=2010 improving 1.5% pa 93.1% IFA92 C=2010 improving 1.25% pa
Pension Annuities in payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Deferred Annuities	94.0% IMA92 C=2010 improving 1.5% pa 91.9% IFA92 C=2010 improving 1.25% pa	92.6% IMA92 C=2010 improving 1.5% pa 93.1% IFA92 C=2010 improving 1.25% pa
Pension Deferred Annuities	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Whole Life and Endowment	72% AM92 72% AM92 -3 yrs	72% AM92 72% AM92 -3 yrs
RICTA	98% TMC00 98% TMC00 -3 yrs	98% TMC00 98% TMC00 -3 yrs
Group Term Assurance	88.6% TMC00 92.9% TFC00	88.6% TMC00 92.9% TFC00
Individual Life & Pension Term (aggregate)	88.6% TMC00 92.9% TFC00	88.6% TMC00 92.9% TFC00
Individual Life & Pension Term (non-smoker)	84.3% TMN00 90.7% TFN00	84.3% TMN00 90.7% TFN00
Individual Life & Pension Term (smoker)	86.5% TMS00 93.9% TFS00	86.5% TMS00 93.9% TFS00
Life Unit Linked policies	94% AM92 94% AM92 -3 yrs	94% AM92 94% AM92 -3 yrs
Pensions Unit Linked policies	83% AM92 83% AM92 -3 yrs	83% AM92 83% AM92 -3 yrs
Accelerated TPD	See below See below	See below See below
TPD	See below See below	See below See below
Income Protection (pre-claim)	45% TM80 45% AF80	45% TM80 45% AF80
Income Protection (post-claim)	81% TM80 81% AF80	81% TM80 81% AF80

The mortality/morbidity tables used to value individual policies which include total & permanent disability benefits have not been published. Specimen rates from the tables applicable to non-smokers are given below for the current valuation, per 1000 lives:

Age	TPD		Term & TPD	
	Males	Females	Males	Females
25	0.237500	0.237500	0.460000	0.315000
35	0.292500	0.292500	0.543750	0.436250
45	0.900000	0.900000	1.571250	1.256250
55	3.361250	3.361250	5.026250	4.047500

Rates for the previous valuation were:

Age	TPD		Term & TPD	
	Males	Females	Males	Females
25	0.237500	0.237500	0.460000	0.315000
35	0.292500	0.292500	0.543750	0.436250
45	0.900000	0.900000	1.571250	1.256250
55	3.361250	3.361250	5.026250	4.047500

All the above rates are increased by 2% p.a. after 5 years from the valuation date.

Annuitant mortality – Expectation of life at the valuation date

Age	Male Modified PCMA00	Female Modified PCFA00	Male Modified IMA92	Female Modified IFA92
65	25.22	25.89	23.94	26.13
75	15.06	16.19	14.74	16.19

Annuitant mortality – Expectation of life at the previous valuation date

Age	Male Modified PCMA00	Female Modified PCFA00	Male Modified IMA92	Female Modified IFA92
65	27.03	28.71	23.81	26.03
75	16.09	18.95	14.62	16.10

Policies previously written in Alba

Percentage of mortality table together with the age adjustments are shown in the table below:

Product Type	Current Valuation		Previous Valuation	
Table	A67/70 %	Female Age Adj	A67/70 %	Female Age Adj
LAS Homeplan Series 1	70%	-4	70%	-4
LAS Homeplan Series 2/3	61%	-4	61%	-4
LAS Investment Plan	83%	-4	83%	-4
LAS Savings Plan	83%	-4	83%	-4
LAS Five Plus Account	83%	-4	83%	-4
LAS SP Bonds	83%	-4	83%	-4
LAS Blueprint	70%	-4	70%	-4
LAS EPP/FPA	77%	-4	77%	-4
LAS Healthcheque	60%	-4	60%	-4
LAS Vitality	100%	n/a	100%	n/a
BL Genesis RP Pensions	88%	none	88%	none
CAPSIL Bonds	94%	-4	94%	-4
CAPSIL Whole of Life	94%	-4	94%	-4
CAPSIL Mortgage Minder	94%	-4	94%	-4
CAPSIL RP Pensions	88%	-4	88%	-4
CAPSIL SP Pensions	94%	-4	94%	-4
COMPASS Bulk Buyouts	99%	none	99%	none
COMPASS GPS	99%	none	99%	none
COMPASS UCGF Bulk Buyouts	99%	none	99%	none
COMPASS UCGF GPS	99%	none	99%	none

Ex-BLAS Contracts

For Blueprint for Security and Vitality contracts, only the terms to the first review dates were taken into account, with the current sums at risk remaining constant over such terms. For level term assurance rider benefits the current sums at risk were taken as constant to expiry. For other annual premium contracts an estimate was made of the terms over which the sums at risk would reduce to nil and it was assumed that the current sums at risk would reduce over such terms in line with the sums at risk for non-profit endowment assurances. For waiver of premium benefits and permanent health benefits the additional AIDS provision was taken as 1% of the annual benefit.

Policies previously written in Century

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
Ex With Profit Fund Non Profit Whole Life and Endowment Assurances	77% A67/70 [1]	77% A67/70 [1]
Ex Non Profit Fund Non Profit Whole Life and Endowment Assurances	77% A67/70 [1]	77% A67/70 [1]
Term Assurance Ex-WP Fund (excluding Ex-NAL)	61% A67/70 [1]	61% A67/70 [1]
Term Assurance Ex-NP Fund (excluding Ex-NAL)		
Aggregate	61% A67/70 [1]	61% A67/70 [1]
Non Smoker	51% A67/70 [1]	51% A67/70 [1]
Smoker	90% A67/70 [1]	90% A67/70 [1]
Term Assurance (Ex-NAL) – Life Assurance, Mortgage Protection & Pensions Life		
Gross Liabilites		
Non Smoker	46% AM80 [2]	46% AM80 [2]
	51% AF80 [3]	51% AF80 [3]
Smoker	81% AM80 [2]	81% AM80 [2]
	89% AF80 [3]	89% AF80 [3]
Net liabilities (pre 30/9/97 business)		
Non Smoker	55% AM80 [2]	55% AM80 [2]
	58% AF80 [3]	58% AF80 [3]
Smoker	93% AM80 [2]	93% AM80 [2]
	100% AF80 [3]	100% AF80 [3]
Net liabilities (1/10/97 to 30/6/00 business)		
Non Smoker	55% AM80 [2]	55% AM80 [2]
	58% AF80 [3]	58% AF80 [3]
Smoker	93% AM80 [2]	93% AM80 [2]
	100% AF80 [3]	100% AF80 [3]
Net liabilities (post 1/7/00 business)		
Non Smoker	51% AM80 [2]	51% AM80 [2]
	56% AF80 [3]	56% AF80 [3]
Smoker	93% AM80 [2]	93% AM80 [2]
	102% AF80 [3]	102% AF80 [3]

[1] AIDS 36.3% R6A (peak) Female age deduction 3 years
[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.17% R6A (peak)

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Term Assurance (Ex-NAL) – Tailored Mortgage Protection, Life Cover only		
Gross liabilities	Table 1 [2,3]	Table 1 [2,3]
Net liabilities (pre 19/3/01 business)	Table 2 [2,3]	Table 2 [2,3]
Net liabilities (post 20/3/01 business)	Table 3 [2,3]	Table 3 [2,3]
Non Linked Deferred Annuity – in deferment		
Ex With Profit Fund business	45% A67/70 [4]	45% A67/70 [4]
Ex Non Profit Fund business	50% A67/70 [4]	50% A67/70 [4]
Ex-NELPEN policies	61% A67/70 [1] plus 100% funding of units	61% A67/70 [1] plus 100% funding of units
Immediate annuities (& deferred annuities - in payment)	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00

[1] AIDS 36.3% R6A (peak) Female age deduction 3 years
[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.17% R6A (peak)
[4] Female age reduction 3 years

Product Group	Current Valuation	Previous Valuation
Non Linked PHI	61% A67/70 [1]	61% A67/70 [1]
Linked business		
Sterling Reserves with mortality deductions		
Ex-OMLA	94% A67/70 [5]	94% A67/70 [5]
Ex-Sentinel & Ex-UK Life – Non Smokers	61% A67/70 [4]	61% A67/70 [4]
Ex-Sentinel & Ex-UK Life – Smokers	91% A67/70 [4]	91% A67/70 [4]
Others	70% A67/70 [4]	70% A67/70 [4]
Sterling Reserves without mortality deductions	61% A67/70 [1]	61% A67/70 [1]

[1] AIDS 36.3% R6A (peak) Female age deduction 3 years
[4] Female age reduction 3 years
[5] Female age reduction 4 years

The AIDS projection basis R6A is as reported by the Institute of Actuaries AIDS Working Party. No credit was taken for the margins in the mortality bases used in the scheduled valuation against the levels currently being experienced. No additional AIDS reserve was deemed necessary for Group Death in Service benefits by recurrent single premium in view of the limited periods for which the premium rates are guaranteed. No specific provision was made for the minor risk associated with ex-NBA linked 'Bond' business. Ex-NBA pensions death in service benefits are all provided for by monthly current cost deduction from an associated linked fund; as the Company is freely able to review the premium rates charged, no provision for AIDS is considered necessary.

No other reserves for possible detrimental changes in mortality or morbidity rates have been made.

For annuity bases shown above, the expectations of life at age 65 and 75 are shown in the following table:

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	24.14	24.84	23.42	26.11
	75	75	14.78	15.28	13.89	16.22
Deferred annuities	45	65	27.22	27.99	27.46	29.93
	55	65	25.67	26.45	25.57	28.12

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

Table 1 current valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.64	0.38	0.28	0.16
35	0.68	0.38	0.52	0.30
45	1.75	0.77	1.56	0.77
55	5.64	2.41	4.20	2.06

Table 1 previous valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.64	0.38	0.28	0.16
35	0.68	0.38	0.52	0.30
45	1.75	0.77	1.56	0.77
55	5.64	2.41	4.20	2.06

Table 2 current valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.68	0.41	0.29	0.17
35	0.73	0.42	0.54	0.32
45	1.86	0.85	1.63	0.83
55	5.98	2.67	4.37	2.23

Table 2 previous valuation

Age	Male smoker	Male Non-smoker	Female smoker	Female Non-smoker
25	0.68	0.41	0.29	0.17
35	0.73	0.42	0.54	0.32
45	1.86	0.85	1.63	0.83
55	5.98	2.67	4.37	2.23

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	0.66	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

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	Previous Valuation
	Modified Table	Modified Table
Term Assurance (Ex-NAL) – Tailored Mortgage Protection, Combined Life & Critical Illness Cover		
Gross liabilities	Table 4 [2,3]	Table 4 [2,3]
Net liabilities (pre 19/3/01 business)	Table 5 [2,3]	Table 5 [2,3]
Net liabilities (post 20/3/01 business)	Table 6 [2,3]	Table 6 [2,3]
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

[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.17% R6A (peak)

For products listed above where 'modified table' has been used, sample rates (combined mortality and morbidity) 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	1.24	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 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	1.22	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 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	1.00	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 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	0.56	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 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	0.51	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 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	0.50	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 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	0.38	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

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	110% AMC00 110% AFC00
Unit-linked endowments with critical illness	125% Gerling SI morbidity and: 110% AMC00 110% AFC00	125% Gerling SI morbidity and: 110% AMC00 110% AFC00
Unit-linked deferred annuity (pre-vesting)	58% AMC00 58% AFC00	58% AMC00 58% AFC00
Unit-linked Personal pension, FSAVCs and Stakeholder pension	165% AMC00 154% AFC00	165% AMC00 154% AFC00
Business formerly in the Non-Profit Fund		
Pension Annuities in Payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Fund Annuities in Payment	75.3% IM80 C=2010 improving 1.5% pa 76.4% IF80 C=2010 improving 1.25% pa	76.4% IM80 C=2010 improving 1.5% pa 77.3% IF80 C=2010 improving 1.25% pa
Unit Linked Business with aggregate smoker status	88% AM92 88% AF92	88% AM92 88% AF92
Unit Linked Business with smoker split		
Aggregate	88% AM92 88% AF92	88% AM92 88% AF92
Non Smoker	77% AM92 66% AF92	77% AM92 66% AF92
Smoker	176% AM92 132% AF92	176% AM92 132% AF92
Aggregate Term Assurance	128.1% TMC00 119.5% TFC00	128.1% TMC00 119.5% TFC00
Term Assurance (codes GITN & GITF)		
Non Smoker	349.0% TMN00 186.8% TFN00	349.0% TMN00 186.8% TFN00
Smoker	224.2% TMS00 189.9% TFS00	224.2% TMS00 189.9% TFS00
Other Term Assurances		
Non Smoker	148.3% TMN00 141.9% TFN00	148.3% TMN00 141.9% TFN00
Smoker	130.2% TMS00 121.7% TFS00	130.2% TMS00 121.7% TFS00
Whole of Life (with medical selection)	105% AM92 119% AF92	105% AM92 119% AF92
Senior Security Plan	Modified AM92/AF92	Modified AM92/AF92
Other Permanent Assurances	99% AM92 121% AF92	99% AM92 121% AF92
AIDS loading where relevant	Nil	Nil

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	24.14	24.84	25.76	26.80
75	14.78	15.28	15.74	16.79

For life 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	22.25	25.04	22.15	24.96
75	14.07	15.98	13.98	15.90

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:

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
25	393.113%	407.114%	339.142%	538.955%
35	393.113%	407.114%	339.142%	538.955%
45	362.148%	381.491%	316.905%	492.604%
55	233.985%	270.147%	225.644%	307.988%

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:

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
25	393.113%	407.114%	339.142%	538.955%
35	393.113%	407.114%	339.142%	538.955%
45	362.148%	381.491%	316.905%	492.604%
55	233.985%	270.147%	225.644%	307.988%

Policies previously written in BRS

The mortality tables used are modified RMV00/RFV00 mortality factors plus longevity improvement factors. The improvements are in line with those shown at the start of section 4(4) above.

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	25.99	25.93	25.80	21.24	19.09	17.06	14.21
Male aged 75	16.63	16.58	16.48	12.66	11.26	9.82	7.83
Female aged 65	29.30	29.26	29.19	24.73	23.91	22.40	19.96
Female aged 75	19.20	19.17	19.11	15.13	14.80	13.72	11.99

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	24.46	23.75	22.71	21.13	17.69	15.27	11.85
Male aged 75	15.79	15.13	14.11	13.07	10.51	8.68	6.14
Female aged 65	26.85	25.97	24.50	23.73	21.01	18.62	14.77
Female aged 75	17.90	17.05	15.58	15.30	13.46	11.68	8.77

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	125% Gerling Re morbidity and: 105% TMC00 110% TFC00
Non linked immediate annuity	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Aggregate Term Assurance	105% TMC00 110% TFC00	105% TMC00 110% TFC00
Term Assurance (codes T1 & T2)		
Aggregate	166% TMC00 163% TFC00	166% TMC00 163% TFC00
Non Smoker	106% TMC00 105% TFC00	106% TMC00 105% TFC00
Smoker	226% TMC00 222% TFC00	226% TMC00 222% TFC00
Term Assurance with serious illness (codes ST1 & ST2)	125% Gerling SI morbidity and:	125% Gerling SI morbidity and:
Aggregate	199% TMC00 139% TFC00	199% TMC00 139% TFC00
Non Smoker	119% TMC00 88% TFC00	119% TMC00 88% TFC00
Smoker	278% TMC00 189% TFC00	278% TMC00 189% TFC00
Endowment and Whole of Life	110% AMC00 110% AFC00	110% AMC00 110% AFC00
Pension deferred annuities (pre-vesting)	90% AMC00 90% AFC00	90% AMC00 90% AFC00

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

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

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	23.55	24.53	24.47	24.95
75	14.92	14.92	15.39	15.20

Policies previously written in SMA

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
Life Assurances (excluding term assurance)		
Smoker	69% AM92 1 72% AF92	69% AM92 [1] 72% AF92
Non-smoker	55% AM92 1 77% AF92	55% AM92 [1] 77% AF92
Pension Assurances (individual and group)	72% AM92 66% AF92	72% AM92 66% AF92
Term Assurances (Life)		
Smoker	117% TM92 [1] 112% TF92	117% TM92 [1] 112% TF92
Non-smoker	59% TM92 [1] 78% TF92	59% TM92 [1] 78% TF92
Term Assurances (Pension)	79% TM92 [1] 105% TF92	79% TM92 [1] 105% TF92
Unit-linked and unitised with-profits life	77% AM80 [1] 77% AF80	77% AM80 [1] 77% AF80
Unit-linked and unitised with-profits pensions	77% AM80 77% AF80	77% AM80 77% AF80
Deferred annuities (in deferment) (individual and group)	72% AM92 66% AF92	72% AM92 66% AF92
Deferred annuities (in payment) - life (individual and group)	94% IMA92 mc 102% IFA92 mc	94% IMA92 mc 102% IFA92 mc
Immediate annuities in payment - life	100% IMA92 mc 109% IFA92 mc	99% IMA92 mc 108% IFA92 mc
Immediate and deferred annuities in payment - pensions	Modified PCMA00 Modified PCFA00	Modified PMA00mc Modified PFA00mc

[1] AIDS 33% R6A (peak) for males only

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	22.74	24.74	22.68	24.69
	75	75	14.21	15.35	14.16	15.31
Deferred annuities	45	65	24.17	25.85	24.13	25.82
	55	65	23.72	25.53	23.67	25.50

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	23.75	25.33	24.17	25.60
	75	75	14.40	15.60	14.35	15.63
Deferred annuities	45	65	26.96	28.43	28.23	28.86
	55	65	25.34	26.91	26.33	27.31

Policies previously written in SPL

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

SPL

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Endowment Assurance (UK and overseas)		
Aggregate	88% AM92 [1] 110% AF92	88% AM92 [1] 110% AF92
Non-smoker	70% AM92 [1] 88% AF92	70% AM92 [1] 88% AF92
Smoker	141% AM92 [1] 176% AF92	141% AM92 [1] 176% AF92
Whole Life Assurance (UK and overseas)	Modified TM92 [1] Modified TF92	Modified TM92 [1] Modified TF92
Term Assurance (UK and overseas)	Modified TM92 [1] Modified TF92	Modified TM92 [1] Modified TF92
Flexible Mortgage Plan and Self Assurance Lifetime (mortality only) (UK and overseas)	Modified TM92 [1] Modified TF92	Modified TM92 [1] Modified TF92
Linked Assurances other than Flexible Mortgage Plan and Self Assurance Lifetime (UK and overseas)		
Non-smoker	70% AM92 [1] 88% AF92	70% AM92 [1] 88% AF92
Smoker	141% AM92 [1] 176% AF92	141% AM92 [1] 176% AF92
Deferred annuities (in deferment)		
Overseas (group and individual)	Nil Mortality	Nil Mortality
UK (individual)	Nil Mortality	Nil Mortality
UK (group)	88% AM92 110% AF92	88% AM92 110% AF92
Linked Deferred Annuities (in deferment) and Group Pensions (overseas)	Nil mortality	Nil mortality
Immediate and deferred annuities in payment (UK and overseas)	Modified PCMA00 Modified PCFA00	Modified PMA00 Modified PFA00

[1] AIDS 33% R6A (peak) for males only

Where the mortality assumptions are based on the TM92/TF92 tables, age-related percentages are used. Select rates are used for conventional term assurance and ultimate rates for conventional whole life assurance and the Flexible Mortgage Plan. Sample mortality rate per 1000 lives are as follows:

Conventional term assurance – current year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.408	0.729	0.185	0.280
35	0.438	0.719	0.287	0.486
45	0.972	1.702	0.715	1.343
55	2.539	6.471	1.873	3.864

Conventional term assurance – previous year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.408	0.729	0.185	0.280
35	0.438	0.719	0.287	0.486
45	0.990	1.720	0.715	1.343
55	2.549	6.481	1.873	3.864

Conventional whole life assurance – current year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.421	0.421	0.218	0.218
35	0.444	0.444	0.348	0.348
45	1.007	1.007	0.892	0.892
55	2.908	2.908	2.406	2.406

Conventional whole life assurance – previous year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.421	0.421	0.218	0.218
35	0.444	0.444	0.348	0.348
45	1.042	1.042	0.892	0.892
55	2.917	2.917	2.406	2.406

Unitised Flexible Mortgage Plan – current year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.503	0.500	0.244	0.391
35	0.539	0.495	0.378	0.680
45	1.173	1.203	0.942	1.877
55	3.106	4.475	2.468	5.401

Unitised Flexible Mortgage Plan – previous year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.503	0.500	0.244	0.391
35	0.539	0.495	0.378	0.680
45	1.190	1.221	0.942	1.877
55	3.116	4.485	2.468	5.401

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	23.75	25.33	24.17	25.60
	75	75	14.40	15.60	14.35	15.63
Deferred annuities	45	65	26.96	28.43	28.23	28.86
	55	65	25.34	26.91	26.33	27.31

(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

		Current Valuation		Previous Valuation	
Age	Table	Male	Female	Male	Female
25	CMIR12	83.00%	145.00%	104.00%	182.00%
35	CMIR12	83.00%	145.00%	104.00%	182.00%
45	CMIR12	83.00%	145.00%	104.00%	182.00%
55	CMIR12	74.00%	129.00%	92.00%	161.00%

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

		Current Valuation		Previous Valuation	
Age	Table	Male	Female	Male	Female
25	CMIR12	29.00%	29.00%	52.00%	52.00%
35	CMIR12	29.00%	29.00%	52.00%	52.00%
45	CMIR12	29.00%	29.00%	52.00%	52.00%
55	CMIR12	29.00%	29.00%	52.00%	52.00%

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

		Current Valuation		Previous Valuation	
Age	Table	Male	Female	Male	Female
25	CMIR12	29.00%	29.00%	52.00%	52.00%
35	CMIR12	29.00%	29.00%	52.00%	52.00%
45	CMIR12	29.00%	29.00%	52.00%	52.00%
55	CMIR12	29.00%	29.00%	52.00%	52.00%

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:

		Current Valuation		Previous Valuation	
Age	Table	Male	Female	Male	Female
Individual/Group PHI (Direct written)					
25	CMIR12	43.00%	75.25%	86.00%	150.50%
35	CMIR12	43.00%	75.25%	86.00%	150.50%
45	CMIR12	43.00%	75.25%	86.00%	150.50%
55	CMIR12	43.00%	75.25%	86.00%	150.50%
Individual/Group PHI (Reassurance accepted)					
25	CMIR12	43.00%	75.25%	86.00%	150.50%
35	CMIR12	43.00%	75.25%	86.00%	150.50%
45	CMIR12	43.00%	75.25%	86.00%	150.50%
55	CMIR12	43.00%	75.25%	86.00%	150.50%
Critical Illness (non-smoker)					
25	CIBT93M	45.00%	63.00%	45.00%	63.00%
35	CIBT93M	45.00%	63.00%	45.00%	63.00%
45	CIBT93M	45.00%	63.00%	45.00%	63.00%
55	CIBT93M	45.00%	63.00%	45.00%	63.00%
Critical Illness (smoker)					
25	CIBT93M	95.00%	100.00%	95.00%	100.00%
35	CIBT93M	95.00%	100.00%	95.00%	100.00%
45	CIBT93M	95.00%	100.00%	95.00%	100.00%
55	CIBT93M	95.00%	100.00%	95.00%	100.00%
Critical Illness (aggregate)					
25	CIBT93M	95.00%	100.00%	95.00%	100.00%
35	CIBT93M	95.00%	100.00%	95.00%	100.00%
45	CIBT93M	95.00%	100.00%	95.00%	100.00%
55	CIBT93M	95.00%	100.00%	95.00%	100.00%
Accelerated Critical Illness (non-smoker) : Term assurance mortality plus:					
25	CIBT93M	46.00%	64.00%	46.00%	64.00%
35	CIBT93M	46.00%	64.00%	46.00%	64.00%
45	CIBT93M	46.00%	64.00%	46.00%	64.00%
55	CIBT93M	46.00%	64.00%	46.00%	64.00%
Accelerated Critical Illness (smoker) : Term assurance mortality plus:					
25	CIBT93M	98.00%	103.00%	98.00%	103.00%
35	CIBT93M	98.00%	103.00%	98.00%	103.00%
45	CIBT93M	98.00%	103.00%	98.00%	103.00%
55	CIBT93M	98.00%	103.00%	98.00%	103.00%
Accelerated Critical Illness (aggregate) : Term assurance mortality plus:					
25	CIBT93M	98.00%	103.00%	98.00%	103.00%
35	CIBT93M	98.00%	103.00%	98.00%	103.00%
45	CIBT93M	98.00%	103.00%	98.00%	103.00%
55	CIBT93M	98.00%	103.00%	98.00%	103.00%

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	63.00%	63.00%	63.00%	63.00%
35	CMIR12	63.00%	63.00%	63.00%	63.00%
45	CMIR12	63.00%	63.00%	63.00%	63.00%
55	CMIR12	63.00%	63.00%	63.00%	63.00%
Group PHI claims					
25	CMIR12	63.00%	63.00%	63.00%	63.00%
35	CMIR12	63.00%	63.00%	63.00%	63.00%
45	CMIR12	63.00%	63.00%	63.00%	63.00%
55	CMIR12	63.00%	63.00%	63.00%	63.00%

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	63.00%	63.00%	63.00%	63.00%
35	CMIR12	63.00%	63.00%	63.00%	63.00%
45	CMIR12	63.00%	63.00%	63.00%	63.00%
55	CMIR12	63.00%	63.00%	63.00%	63.00%
Group PHI claims					
25	CMIR12	63.00%	63.00%	63.00%	63.00%
35	CMIR12	63.00%	63.00%	63.00%	63.00%
45	CMIR12	63.00%	63.00%	63.00%	63.00%
55	CMIR12	63.00%	63.00%	63.00%	63.00%

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 (i.e. combined smoker/non smoker) rates are shown below:

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

Tables for non smoker rates:

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

Tables for smoker rates:

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

Policies previously written in SMA

For conventional PHI policies, the following morbidity bases are used:

Inception rates expressed as a percentage of the table:

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	160.00%	160.00%	160.00%	160.00%
35	CMIR12	160.00%	160.00%	160.00%	160.00%
45	CMIR12	160.00%	160.00%	160.00%	160.00%
55	CMIR12	160.00%	160.00%	160.00%	160.00%

Recovery rates expressed as a percentage of the table:

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	70.00%	70.00%	70.00%	70.00%
35	CMIR12	70.00%	70.00%	70.00%	70.00%
45	CMIR12	70.00%	70.00%	70.00%	70.00%
55	CMIR12	70.00%	70.00%	70.00%	70.00%

For Homeowner, morbidity rates are based on those charged by the reinsurer and are as follows, per 1000 lives:

Critical illness

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.517	0.923	0.491	0.875
35	0.747	1.430	1.263	2.337
45	2.070	3.780	3.119	5.756
55	6.793	12.292	6.519	11.779

Residual mortality

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.313	0.313	0.054	0.085
35	0.182	0.182	0.006	0.008
45	0.245	0.245	0.006	0.008
55	0.037	0.037	0.006	0.008

Policies previously written in SPL

The morbidity rates used in the valuation all relate to critical illness benefits and are all based on the rates charged by the reinsurers.

Sample valuation rates for conventional term assurance and conventional endowment assurance, both for combined mortality and critical illness benefits, are as follows:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.001030	0.001209	0.000863	0.000774
35	0.001078	0.001737	0.001316	0.001623
45	0.002411	0.005297	0.002726	0.004697
55	0.007830	0.014886	0.007645	0.011184

An allowance was made for a future deterioration of 0.375% p.a. for each of mortality, critical illness and TPD.

Sample valuation rates for conventional term assurance with critical illness benefits only are as follows. This option is not available for conventional endowment assurance.

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.000656	0.000700	0.000634	0.000460
35	0.000880	0.001292	0.001371	0.001369
45	0.001980	0.004057	0.002886	0.004025
55	0.007251	0.012616	0.007841	0.009283

An allowance was made for a future deterioration of 0.75% p.a. for each of critical illness and TPD.

Sample valuation rates for Flexible Mortgage Plan and Self Assurance Lifetime are as follows:

Combined mortality and critical illness:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.001062	0.001251	0.000766	0.000947
35	0.001122	0.001815	0.001211	0.002061
45	0.002422	0.005340	0.002489	0.005915
55	0.007754	0.014789	0.006766	0.013646

Critical illness benefits only:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.000633	0.000721	0.000493	0.000610
35	0.000889	0.001389	0.001188	0.002020
45	0.002003	0.004245	0.002476	0.005882
55	0.007045	0.012976	0.006505	0.013120

No allowance was made for future deterioration in mortality, critical illness or TPD.

(6) Expenses

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

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Term assurance (325 / 330)	24.06	14.46
Critical illness (340 / 345 / 350 / 355)	60.12	59.14
Income protection (360 / 365)	33.98	32.71
Income protection claims in payment (385)	0.00	0.00
Annuity (400)	25.56	24.80
UWP bond (500)	N/A	N/A
UWP savings endowment (510)	N/A	N/A
UWP regular premium pension (525)	55.38	49.06
UWP single premium pension (525)	38.77	34.34
UWP group regular premium pension (535)	N/A	N/A
UWP group single premium pension (535)	N/A	N/A
UL bond (700)	13.93	29.53
UL savings endowment (715)	38.66	N/A*
UL target cash endowment (720)	59.10	N/A*
UL regular premium pension (725)	45.80	N/A*
UL single premium pension (725)	32.07	N/A*
UL group regular premium pension (735)	45.06	48.15
UL group single premium pension (735)	31.55	33.70

Note that for 325/330, 400 and 700 the major product group has changed from that reported in 2008. The 2008 comparatives were 24.39, 26.66 and 14.12.
*For UL products there were no expenses attributable to individual policies in 2008. Instead there was a total annual amount as described in 6(6).

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	n/a	1.50%

There is no longer a per premium cost for BULA. Instead there is a total non-attributable expense for unit linked products as described in 6(6).

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.

(7) Unit Growth Rates

Previous Company	Product Group	Unit growth rate before management charge (% p.a.)	Expense inflation rate assumed (% p.a.)	Policy charge increase rate assumed (% p.a.)
PLL but not SLUK	Life business except for Home Ownership Plan	4.45%	4.58%	4.58%
	Home Ownership Plan	1.20%	4.58%	3.58%
	Pensions business	4.65%	4.58%	4.58%
SLUK	Life business	4.45%	4.58%	0.00%
	Pensions business	4.65%	4.58%	0.00%
Alba	Life business	4.45%	4.58%	0.00%
	Pensions business	4.65%	4.58%	0.00%
Century	Life Funds	4.30%	1.50%	4.58%
	Pension Funds	4.50%	1.50%	4.58%
BULA				
Former UL Fund business	Life business	4.45%	4.58%	3.58%
	Pensions business	4.65%	4.58%	3.58%
Former Non-Profit Fund business	Life business	4.45%	4.58%	3.58%
	Pensions business	4.65%	4.58%	3.58%
BRS	Pension Annuities	7.75%	3.58%	n/a
BA	Pension Annuities	n/a	4.58%	n/a
SMA	Life business	4.00%	4.58%	4.58%
	Pensions business	4.35%	4.58%	4.58%
SPL				
UK	Life business	4.55%	4.58%	3.58%
	Pensions business	4.75%	4.58%	3.58%
Republic of Ireland	Life business	4.55%	0.00%	3.58%
	Pensions business	4.75%	0.00%	3.58%

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 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 following the changes to the INSPRU valuation rules at 31 December 2006, no credit has been taken for future lapses.

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 margin positive)	3.60%	3.60%	3.60%	3.60%
Level term	Lapse (if margin negative)	2.40%	2.40%	2.40%	2.40%
Decreasing term	Lapse (if margin positive)	8.40%	8.40%	8.40%	8.40%
Decreasing term	Lapse (if margin negative)	5.60%	5.60%	5.60%	5.60%
Accelerated critical illness	Lapse (if margin positive)	10.80%	10.80%	10.80%	10.80%
Accelerated critical illness	Lapse (if margin 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 reserves are negative and a negative margin when the reserves are positive.

Policies previously written in Alba

The valuation makes no allowance for lapses.

Policies previously written in BULA

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse (if margin positive)	11.00%	9.60%	9.60%	9.60%
Level term	Lapse (if margin negative)	7.40%	6.40%	6.40%	6.40%
Decreasing term	Lapse (if margin positive)	21.60%	21.40%	21.40%	21.40%
Decreasing term	Lapse (if margin negative)	14.40%	14.30%	14.30%	14.30%

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 reserves are negative and a negative margin when the reserves are positive.

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.

Policies previously written in SMA

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
UWP bond	Surrender	10.0%	10.0%	10.0%	10.0%
UWP bond	Automatic withdrawals	5.0%	5.0%	5.0%	5.0%
UL bond	Automatic withdrawals	2.5%	2.5%	2.5%	2.5%

Policies previously written in SPL

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse	9.5%	6.7%	6.0%	6.0%
Decreasing term	Lapse	11.9%	11.2%	11.0%	11.0%
Accelerated critical illness	Lapse	11.0%	9.5%	9.1%	9.1%
UL bond	Automatic withdrawals	2.0%	2.0%	2.0%	2.0%

Reserves for protection business are calculated using the lapse rates shown in the table and with lapse rates both increased and decreased by 40%. The highest reserve for each policy is taken, i.e. aggregate reserves may use a mixure of the three lapse scenarios.

(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 at that time.

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
		60.1% AF92
	After vesting	61.5% PMA80 C=2010
		75.2% 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	£11.6m	£3.2m
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%

The main assumptions used to value GAOs were:

Valuation interest rate p.a.	3.08%
GAO take-up rate*	80%
Mortality	IMA92/IFA92
Payment expense allowance	2%

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	£15.9m	£42.7m
Spread of outstanding	0-25 years	0-25 years
Guarantee reserve	£3.2m	£6.9m
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. Other than for the unit linked ex-NEL business, these options are fully reassured.

The main assumptions used to value GAOs were:

Valuation interest rate p.a.	Pre-vesting	4.09%
	Post-vesting	4.09%
GAO take-up rate*		95%
Mortality		As in 4 (4)
Payment expense allowance		4%
* This assumes 20% of policies take 25% of their fund as cash at retirement for all oustanding durations		

(b)

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	18.5	0-24	13.2	11.11%	Yes	*	60-75
Ex-NEL Linked	9.3	0-20	6.2	11.11%	Yes	*	60-75
Ex-Crown Dep Admin	2.5	0-22	0.1	10.25%	Yes	*	60-65
Ex-OMLA Ex-WP	7.3	0-16	2.8	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.

Policies previously written in SMA

There are no guaranteed annuity rate options.

Policies previously written in SPL

Guaranteed annuity rate options are included on Select Executive and Personal Retirement Plans written in the Republic of Ireland prior to October 1998. For these contracts, the non-unit liabilities were explicitly calculated allowing for the increased cost of projected benefits at the selected normal retirement date arising from the guaranteed annuity options. This increased cost was based on the ratio of the cost of £1 per annum pension on the valuation basis to that on the basis underlying the guaranteed annuity rates. The projections took account of growth on units already purchased as well as that on units due to be allocated in respect of future premiums both at the current level and resulting from any selected premium indexation. No allowance was made for either lapses or the cessation of premium indexation prior to retirement.

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	GAO Rate	Incrs Yes/No	Ann. Form	Ret. Ages
Select Executive & Personal Retirement Plan	21.2	0-41	7.6	9.1%	Yes	*	60-70

* The sample guaranteed annuity rates are provided for a male aged 65 based on single life, level annuities paid monthly in advance and guaranteed for 5 years. Policyholders may choose a different basis, e.g. with spouse's annuity, escalating payments or different payment frequency.

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

(2) Guaranteed Surrender and Unit-linked Maturity Values

Policies previously written in PLL

a) Methods

<u>Surrender Guarantees</u>

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 & 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	£5m	£0.4m
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	£28.5m
Spread of outstanding	Up to 41 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	£0.3m
Increments	Increments are not allowed

Product Name	Wealth Assured Ten + Ten contracts
Basic reserve	£0.2m
Spread of outstanding	Outstanding durations to the next guarantee date range from 1 year to 8 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	£6.6m
Spread of outstanding	Whole Life contract. The youngest current age is 35.
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 conditions	In Force Premiums £m	Incrs Yes/No
Flexible Investment Plan (first series)	16.0	0-20	0.0	6.5	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.

Policies previously written in SMA

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

Policies previously written in SPL

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 health. 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 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 from 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.

Policies previously written in SMA

There are no guaranteed insurability options.

Policies previously written in SPL

UK Self Assurance contracts may contain a renewal option giving policyholders the option to renew their policies at the end of the initial term. The reserve for this option is calculated as 70% of the option premiums received to date.

Product name	In-force premium £m	Sum assured £m	Description of option	Gtee reserve £m
Self Assurance	0.40	113	Renewal – renew policy on maturity.	0.31

(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 £1.9m 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 £3.3m. 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 to 10% 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.

Policies previously written in SMA

Some classes of deferred annuity have a cash option. The reserve for these policies is calculated in the same way as for cash contracts with guaranteed annuity options, as described in paragraph 5(1) for the Scottish Mutual With-Profits Fund. The value of the annuity at the vesting date (or maturity date) according to the mortality and interest tables in use is compared with the cash option. The reserve is calculated as a weighted average of the reserves for the guaranteed annuity option and the cash option, assuming a take-up rate for the cash option as shown below,

For Individual Pension Arrangements, the take-up rate assumed for the cash option is 5% for all maturities. The vesting date is taken to be Normal Retirement Age.

These contracts are 100% reinsured to Phoenix Pensions Limited. The total gross reserves on these contracts, after allowing for the cash option which reduces the reserve from that which would be required if only the deferred annuity was valued, are:

Deferred annuity contract	Total mathematical reserves	Mathematical reserves if no option	Reduction to mathematical reserves in respect of option
Individual Pension Arrangements	9.3	9.4	0.2

Policies previously written in SPL

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 in the following table:

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
All Products	1.4	18.8	38.5	24.3	83.0
All expenses attributable	1.4	18.8	38.5	n/a	58.7
Total	1.4	18.8	38.5	24.3	83.0

(2) Implicit Allowances

Implicit allowances for expenses include 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 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	75.7	83.0	7.4
Total	75.7	83.0	7.4

Differences arise from the expected increase in investment expenses in 2010 due to the increase in fees payable to Ignis Asset Management Ltd in respect of ex-SMA and ex-SPL business. In addition there are extra costs expected from the Solvency II and Actuarial Systems Transformation projects.

The expense loadings also include an additional year's inflation compared to form 43, but are based on a smaller book of business due to the run off of 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) together with expense provisions described below are considered to be sufficient to meet the expenses likely to be incurred in the future. The agreement also includes a prudent allowance for costs that are not covered by standard fees payable under the agreement.

Costs falling outside the MSAs Provision - £5.8m

This provision is established as it is expected that the management service agreements will be reviewed in future to reflect changes in business practice, for example due to Solvency II. The provision is calculated as the capitalised value of 1% of current outsourcer fees.

UPAC Provision - £18.7m

This provision covers the expected expense associated with the unit pricing and control team for the ex-RSALI business. It is calculated as the expected 2010 expense capitalised over the average future remaining lifetime of this business.

MSA Participation Agreements - £3.3m

This provision covers an expense overrun for 2010 related to PLIre books of business administered by PGMSI.

Policies previously written in PLL

Other than a reserve of £0.3m, 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).

(6) Non-attributable expenses

The non profit fund pays a fixed expense fee to PGMS in respect of all unit linked business other than (1) that originally written in Century, (2) Alba corporate business, (3) that originally written in SMA and (4) that originally written in SPL. The run-off of fees is projected as at 1 January 2009 and is based on the per policy fees agreed to be paid to PGMS allowing for future inflation. The present value of all future fees remains the same on a best estimate basis. The total fee is assumed to inflate at RPIX+1% per annum and from 1 January 2010 the amount paid each year will be adjusted for the movement in RPIX at each November. If for any year the percentage change in RPIX+1% is negative, the fee will not be inflated.

The sterling reserve for the business covered by this agreement is calculated in the following manner:

- Calculate the individual policy sterling reserves using the standard models with per policy expenses set to zero. These expenses are the fees payable to PGMS with a loading for direct costs and any Peak 1 margin.
- The total (unit plus sterling) reserve held in respect of each individual unit linked policy is increased if necessary to ensure it is at least equal to the current surrender value. This step is no different from the method used in previous valuations.

- Calculate the value of the expenses that have been removed from the standard models. The value is calculated using Peak 1 assumptions for discount rates, RPI inflation and tax applicable to this unit linked business.
- Calculate the value of the spare charges that arise within the models because of the criteria that individual policy reserves are at least equal to the current surrender value. This is the difference between sterling reserves on this basis and on the basis that there is no floor to the negative sterling reserves.
- Offset the value of the spare charges against the value of the expenses.
- The total reserve held in respect of unit linked business is the unit liability, plus the individual policy sterling reserves, plus any excess of the value of expenses over value of spare charges.

The total sterling reserve for this business is £27.5m. This also covers mortality and morbidity risk. The present value of the future expense payments to PGMS is £227.7m.

Other non-attributable expense reserves are for TCF (£9.2m), other costs falling outside MSAs (£5.8m), other direct costs and business retention activity (£3.7m) and allowance for extra unmodelled per policy expense payable to Percana from 2011-15 (£2.2m).

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

Currency	Mathematical Reserves m	Backed by assets m
Sterling (£)	839.6	839.6
Other currencies	15.4	15.4
Total	855.0	855.0

(2) Other Currency Exposures

The proportion of the liabilities in "other currencies" which is matched by assets in the same currency is 100%.

(3) Currency Mismatching Reserve

With the exception of the Republic of Ireland business previously written in SPL, all of the liabilities and the majority of the assets are denominated in sterling and are backed mainly by fixed interest assets and cash. The liabilities under Republic of Ireland business previously written in SPL are denominated in euros and are matched by assets in the same currency. 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)

Not applicable.

(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 the 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. The 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
Future Projects Provision	20.1	0.0	20.1
Data Contingency Reserve	30.8	9.7	21.1
Litigation Provision	18.5	5.8	12.7
Counterparty Risk Provision	14.0	0.0	14.0
VAT Provision	21.2	0.0	21.2
Reinsurer Credit Default	12.0	0.0	12.0
TCF Provision	9.2	0.0	9.2

Future Projects Provision

This provision is held to cover additional expenses which may arise in connection with unanticipated projects with no or little financial benefit and is calculated having regard to past experience.

Data Contingency Reserve

Data contingency reserves for additional expenses which may arise in connection with data errors affecting the long-term business.

Litigation Provision

Reserves are held for future litigation settlements and similar costs.

Counterparty Risk Provision

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

<u>VAT Provision</u>

This provision covers the risk that VAT is applied to future charges made by external outsourcers. The provision is calculated as the present value of these potential future amounts.

<u>Reinsurer Credit Default Provision</u>

This provision is based on the non-collateralised reserves ceded to any external reinsurer, a probability of default based on credit rating and a prudent allowance for recoveries in the event of default.

<u>TCF Provision</u>

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 Reinsurance

(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 such 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 £16.2m.

(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 £132.2m.
(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 £0.2m.
(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 £35.3m.
(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 £1.7m.
(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 £1.5m.
(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 £1.2m.

(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 £0.7m.

(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) **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 £10.9m.

(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 £9.3m.

(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 £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 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 £10.0m.

(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 £21.5m.

Note 2 The total reserves ceded in respect of treaties covering TA, CI and TPD business previously written by SLUK are £28.7m.

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 £330.1m.

(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 £1.6m.
(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 £1.0m.
(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

For policies previously written in SMA

(d)	**Munich Re**
(e)	The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement.
(f)	Premiums of £35.9m were paid by the company under this treaty during the year.
(g)	The reserves of £395.3m are fully deposited back.
(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 £395.3m.
(k)	There is no retention under the treaty.
(l)	The reinsurer is authorised to transact business in the UK.
(m)	The reinsurer is not connected to the company.
(n)	Loss mitigation techniques have been used to effectively eliminate credit risk through the ring-fencing of reassurance assets.
(o)	No commission is payable on the reinsurance premium.
(p)	This is not a financing reassurance treaty.

For policies previously written in SPL

(d) **XL Re Ltd**

(e) The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement.

(f) No premiums were paid by the company under this 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 £415.6m.

(k) There is no retention under the treaty.

(l) The reinsurer is authorised to transact business in the UK.

(m) The reinsurer is not connected to the company.

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

(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.

(d) **Swiss Re**

(e) The treaty covers mortality, accelerated critical illness and stand-alone critical illness under Self Assurance contract on a quota share basis.

(f) Premiums of £15.4m were paid by the company under this 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 £44.6m.

(k) There is no retention under the treaty.

(l) The reinsurer is authorised to transact business in the UK.

(m) The reinsurer is not connected to the company.

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

(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.

(d) **Munich Re**
(e) The treaty covers UK Self Assurance Lifetime and Long Term Care business, certain UK pensions term assurances and UK Flexible Mortgage Plan with attaching critical illness cover on a risk premium, individual surplus basis.
(f) Premiums of £4.4m were paid by the company under this 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 £0.1m.
(k) There is no retention under the treaty.
(l) The reinsurer is authorised to transact business in the UK.
(m) The reinsurer is not connected to the company.
(n) There are no material contingencies, such as credit risk or legal risk, to which the treaty is subject.
(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.

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 £236.8m.
(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 £4,143.2m.
(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 2009.

(2) Previous Valuation

The previous valuation date was 31 December 2008.

(3) Interim Valuations

An interim valuation was carried out on 30 June 2009.

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	4.55%	3.84%
Risk discount rate	4.55%	3.84%
RPI Inflation	3.58%	2.54%
Expense inflation	4.58%	3.54%

The inflation assumption for individual business is 9.6% until 2011 to reflect the terms of the management services agreement.

Allowance has been made under INSPRU 1.3.39G for the illiquid nature of a proportion of the assets (namely the corporate bonds) backing the immediate non-profit annuities within the Fund. A margin of 10% has been added to cover the risk of unexpected mismatch between the assets and liabilities.

(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).	43.8	0.0
Unitised With-Profits 4% guarantee		18.8	0.0
Deposit Administration		98.7	13.0
Unitised Capital Guarantee Fund		20.2	0.0
With Profits Performance Fund		7.2	0.5
Capsil Series H		1.1	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, with the exception of the valuation interest rates which are as set out in paragraph 5 (1) below.	53.1	1.8
As above but with guaranteed annuity options.		6.2	1.5
Other policies without guaranteed annuity options	Individual asset shares calculated using actual premiums received, fund performance and expenses incurred in accordance with the PPFM.	490.2	96.5
Other policies with guaranteed annuity options.		119.3	81.4
Adjustments		8.5	84.7
Total		867.0	279.5

(2) Correspondence With Form 19

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

The adjustments consist of a £78.8m provision to repay part of the contingent loan (see paragraph 7), £5.6m for planned enhancements to reduce working capital to zero and £0.2m for future shareholder transfers on BL pre 1990 business.

(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 is 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 respect 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	3.7
Pensions - individual	0.3
Pensions - corporate	2.6
Total	6.6

(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 Pearl Group 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	1.2
Pensions - individual	2.5
Pensions - corporate	3.2
Total	6.8

(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 6.7% charge was applied to asset shares in the valuation year. This consists of 6.0% in respect of guaranteed annuity option costs and 0.7% in respect of non-guaranteed annuity option costs. This compares to an overall charge of 0.3% 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	102.2%
Previous year	102.3%
Current year	102.9%

(7) Allocated Return

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

Life policies (gross)	2.82%
Pensions policies (Low guarantee)	2.82%
Pensions policies (High guarantee)	4.13%

The asset allocation for life policies and pensions low guarantee was 25% property and 75% fixed interest. For pensions high guarantee it was 100% fixed interest.

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

(a) As described in paragraph 3 (1), the prospective method uses the mathematical reserves calculated using the published statutory basis, with the exception of valuation interest rates which are changed from the rates detailed in Appendix 9.4 paragraph 4 (2) to those set out below. These comply with the regulatory rules and hence differ from the risk free rates required by paragraph 6 (4) (a) (iii):

Life Assurance Fund	
With-Profits	3.05%
Non Profit	4.35%
General Annuity Fund	
With-profits Deferred Annuities	5.65%
Non profit Deferred Annuities	4.35%
Immediate Annuities	4.90%
Pension Business Fund	
New With-Profits AP Deferred Annuities	4.75%
New With-Profits SP Deferred Annuities	4.75%
Old With-Profits AP Deferred Annuities	5.70%
Old With-Profits SP Deferred Annuities	5.85%
Non Profit AP Deferred Annuities	4.40%
Non Profit SP Deferred Annuities	6.30%
Immediate Annuities	4.95%
Laserplan	5.85%
Group Pension Plan	3.10%
PHI Fund	
Non-claims	4.00%
Claims in Payment	4.90%

(b) No assumptions about investment returns or risk adjustments were used in this prospective method;

(c) Expense inflation of 4.6% was used, except for the term to 2011 for the business administered by Pearl Group Management Services when the inflation assumption was 9.6% 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	£
Individual	
Annuities	46.35
RP WP & Unitised WP Life	77.25
RP WP & Unitised WP Pensions	128.75
SP/PUP WP & Unitised WP	38.63
Corporate	
Buyouts	38.59
Group money purchase & Group personal plans	77.16
Group deferred annuity & Executive pension plan	115.75

(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.

	Cost of Guarantees & Options	Extent of Grouping	No of Individual policies	No of model points
All Business	Stochastic model	All business	135,698	9,448

(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.

The calculations were carried out using a risk neutral approach.

(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.

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	0.97%	0.97%	0
2	1.60%	1.60%	0
3	2.19%	2.19%	0
4	2.70%	2.70%	0
5	3.13%	3.13%	0
7	3.75%	3.75%	0
10	4.35%	4.35%	0
15	4.80%	4.80%	0
20	4.86%	4.86%	0
25	4.79%	4.79%	0
30	4.69%	4.69%	0
35	4.61%	4.61%	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	20.70%	23.20%	250
2	19.30%	20.30%	100
3	17.90%	18.70%	80
4	16.70%	17.70%	100
5	15.90%	17.10%	120
7	14.70%	16.20%	150
10	14.10%	15.10%	100
15	14.60%	13.80%	(80)
20	14.40%	12.70%	(170)
25	14.00%	11.90%	(210)
30	13.00%	11.30%	(170)

<u>Equities</u>

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

<u>Property</u>

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	1.00	0.15	0.48	(0.62)	0.34	(0.59)	0.68	0.22
Property		1.00	0.12	(0.08)	0.12	(0.07)	0.15	0.09
5yr Govt ZCB			1.00	0.19	0.78	0.17	0.36	0.16
15yr Govt ZCB				1.00	0.17	0.94	(0.41)	(0.07)
5yr Corp ZCB					1.00	0.35	0.29	0.15
15yr Corp ZCB						1.00	(0.38)	(0.05)
5yr Index Linked ZCB							1.00	0.78
15yr Index Linked ZCB								1.00

(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)	3.13%	4.82%	4.79%	4.60%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	857,311	493,905	310,711	207,157	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	122,986	262,588	345,824	420,165	235,640	411,568	516,359	607,015	577,983	759,762	899,302	1,007,012
3		FTSE All Share Index (p=0.8)	114,324	210,730	250,960	280,950	220,443	332,140	375,029	408,601	541,350	617,143	658,315	685,526
4		Property (p=1)	60,876	173,673	264,231	346,737	179,448	320,560	435,540	534,610	559,299	689,129	832,392	945,574
5		Property (p=0.8)	53,497	125,889	173,032	211,980	161,948	240,635	293,495	335,395	520,256	536,844	580,539	614,374
6		15 year risk free zero coupon bond (p=1)	21,374	21,798	18,015	32,340	96,122	90,252	94,102	145,509	500,006	499,630	507,864	549,090
7		15 year risk free zero coupon bond (p=0.8)	18,054	10,964	6,580	5,706	82,642	45,739	24,295	28,289	455,241	309,924	229,777	214,589
8		15 year corporate bonds (p=1)	22,803	27,095	27,822	49,533	101,040	106,496	111,161	163,114	498,463	497,569	507,220	553,080
9		15 year corporate bonds (p=0.8)	19,463	13,711	9,842	11,661	87,250	56,771	36,745	45,085	454,264	315,083	238,798	228,117
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	66,161	174,418	258,480	331,230	172,259	312,865	417,910	507,396	538,043	674,890	792,235	900,261
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	59,121	130,133	173,532	205,988	156,884	237,191	285,042	320,567	498,502	524,154	555,429	582,198
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	61,736	159,590	221,986	285,168	161,842	288,344	368,273	444,989	524,454	625,450	727,931	818,273
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	55,047	118,184	145,719	173,655	147,356	217,769	246,479	275,602	484,563	483,282	497,961	515,289
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)	25,671	86,232	134,571	192,791	114,280	199,579	269,177	340,819	508,057	554,231	628,084	711,282
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)	21,327	54,774	73,106	99,189	99,658	135,443	156,044	184,398	465,441	400,141	394,196	408,812
			L=15				L=20				L=25			
16		Receiver swaptions	8.63%	4.95%	3.29%	2.16%	10.36%	5.95%	3.94%	2.58%	11.72%	6.72%	4.44%	2.92%

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 term to maturity.

Term to maturity (years)	WP endowments	WP mortgage endowments	WP pensions funding for cash (no GAO)	WP pensions funding for annuity	WP funding for cash (with GAO)
1-5	0.38%	1.08%	1.77%	23.50%	10.21%
6-10	0.14%	0.48%	1.31%	12.73%	12.18%
11-15	0.11%	0.01%	0.87%	7.08%	11.55%
16-20	0.02%	0.00%	0.67%	2.76%	6.14%
21-25	0.08%	0.00%	0.44%	1.14%	2.51%
26-30	0.02%	0.00%	0.12%	0.24%	0.71%

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

(vii) Comprehensive tests are carried out on the output produced by Barrie & Hibbert asset model as follows:

For UK property, 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 has been verified to be 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.

Zero coupon bond yields calculated from the model cash output have been verified to match yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

Verification has also been made, 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	4%	4%	4%	4%
CWP target cash endowment	Surrender	4%	4%	4%	4%
UWP savings endowment	Surrender	8%	8%	8%	8%
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 £78.8m. 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 £78.8m 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

None

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities of £56.3m consist of regulatory current liabilities consistent with Form 14 Line 49.

10. RISK CAPITAL MARGIN

(a) The risk capital margin amounted to nil.

(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 more onerous.

(ii) A yield fall of 17.5% of the annualised 15 year gilt yield (of 4.45%), i.e. 0.78% 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 0.78%. (The foreign investments were all European apart from a small holding, £4.3m, of US Treasury bonds.) The interest rate fall was the more onerous.

(iii) The average change in spread for bonds (weighted by value) was 0.37%, and the total change in asset value for bonds was -2.30%. Items (b) debts, (d) analogous non-reinsurance financing agreements and (e) other assets do not apply. Furthermore (c) does not apply as all of the 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 £8.8m or 1.0% 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 provision to repay £78.8m of the contingent loan already provided for in line 45 of Form 19 is excluded.

An assumption is made that the future projects and issues contingency reserve will be increased from £4.4m to £6.4m.

(ii) No management actions are assumed under the stress scenarios.

(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 includes 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. As at the valuation date, the fund held swaptions valued at £18.4m with an aggregate nominal value of £173.3m.

The option dates for swaptions range from the current year until 2038, 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	23.5
Write back planned benefit enhancements to zeroise working capital	0.0
Revised opening working capital	**23.5**
Opening adjustments	7.8
Restated opening working capital	**31.3**
Investment return on working capital	1.0
Assumption changes	
- Non-economic	11.2
- Economic	38.2
- Management actions	9.4
Impact of new business	0.0
Other variances	
- Contingent loan repayment	(6.8)
- Contingent loan interest	(3.8)
- Change in provisions	6.7
- Expense variance	(2.0)
- Tax variance	0.0
- Unexplained	(0.6)
Closing working capital before zeroisation	**84.4**
Provision to repay contingent loan	(78.8)
Planned benefit enhancements to zeroise working capital	5.6
Closing working capital	**0.0**

The following table shows a breakdown of the liabilities shown on line 51 of Form 19 at the start and end of the year:

Claims Outstanding - Reinsurers' Share	0.2	(0.4)
Provision for Deferred Tax	0.0	0.0
Provisions - Other risks and charges	3.0	3.7
Creditors - Direct insurance business	5.0	4.7
Creditors - Reinsurance ceded	4.0	4.0
Taxation	0.0	0.0
Other creditors	13.7	15.0
Accruals and deferred income	1.3	2.9
Total	**56.3**	**55.4**

Line 47 of Form 19 changed from £0.0m to £0.2m over the year, this is for the present value of future shareholder transfers on BL pre 1990 business.

14. OPTIONAL DISCLOSURE

None made.