Phoenix Life Limited

Appendices 9.4 and 9.4A

Annual FSA Insurance Returns for the year ended

31 December 2009

(Appendices 9.1, 9.3 and 9.6 form part of a separate booklet)

APPENDIX 9.4

PHOENIX LIFE LIMITED

Abstract of Valuation Report

1. INTRODUCTION

(1) Valuation Date

The valuation relates to 31 December 2009.

(2) Previous Valuation

The previous valuation under Rule 9.4 related to 31 December 2008.

On 1 January 2009, all the business within the long term funds of Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") was transferred either to the Company or PLL, under Part VII of the Financial Services and Markets Act 2000. At the same time, additional funds were created in the Company.

The table below shows the sources and destinations of the various types of business remaining within the Company:

SOURCE	DESTINATION
SMA With Profits Sub-Fund	Scottish Mutual With-Profits Fund
SMA Other Business Sub-Fund	Non-Profit Fund
SPL SPI Fund	SPI With-Profits Fund
SPL Special Fund	SPI With-Profits Fund
SPL Non Profit Fund	Non-Profit Fund

Where reference is made to a previous valuation in respect of business transferred into the Company on 1 January 2009, it refers to the valuation carried out in the transferor company.

(3) Interim Valuations

No interim valuations (for the purposes of Rule 9.4) have been carried out since 31 December 2008.

2. PRODUCT RANGE

In the remainder of this Appendix and Appendix 9.4A, the products are identified by their current fund and / or their originating fund as defined above or, in respect of products that were already in PLL, by their originating company prior to **either:**

- the 2005 fund merger (see the Company's 2005 FSA Returns):

  "PAL"Phoenix Assurance Limited
  "SLUK"Swiss Life (UK) Plc
  "Bradford"Bradford Insurance Company Limited

- **or** the 2006 fund merger (see the Company's 2006 FSA Returns):

"Alba"Alba Life Limited
"BA"Britannic Assurance plc
"BRS"Britannic Retirement Solutions Limited
"BULA"Britannic Unit Linked Assurance Limited
"Century"Century Life plc
"PLP"Phoenix Life & Pensions Limited

For other products transferred into PLL that had been transferred previously, the descriptions previously used in the transferor's returns are still used.

The 100% With-Profits Fund previously accepted reinsurance of unitised with-profits group pensions business from Phoenix & London Assurance Limited. This reinsurance has been recaptured as at 31 December 2008 and so this business no longer appears in the Company's returns. The 100% With-Profits Fund also previously accepted reinsurance of the with-profits units of ex-SLUK unitised pensions from the Non Profit Fund. Under the 2008 funds merger, reinsurance of these units has transferred from the 100% With-Profits Fund to the 90% With-Profits Fund.

The new business status of each of the with-profits subfunds during the year was:

FUND	STATUS
Alba With-Profits Fund	(d) closed to new business except by increment
Britannic Industrial Branch Fund	(d) closed to new business except by increment
Britannic With-Profits Fund	(d) closed to new business except by increment
Phoenix With-Profits Fund	(d) closed to new business except by increment
90% With-Profits Fund	(d) closed to new business except by increment
100% With-Profits Fund	(d) closed to new business except by increment
Scottish Mutual With-Profits Fund	(d) closed to new business except by increment
SPI With-Profits Fund	(d) closed to new business except by increment

The remaining questions are answered in respect of each fund in turn.

Alba With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

During the year, market value reductions were applied to accumulating with-profits business as described below.

(a) Unitised with-profits business

Terminal bonus and market value reductions as a percentage of unit allocations by calendar year of purchase are shown in the tables below. Market value reductions (negative terminal bonuses) do not apply on maturity or death; the overall terminal bonus is subject to an overall minimum of nil and the minimum payout is the face value of the units. For all other claims, the overall terminal bonus can be negative and a market value reduction of that amount will have been applied to the face value of the units.

Applicable 1 January 2009 to 30 June 2009

Calendar year of purchase of units	Old BLAS business (Life System Company 2)		New BL business (Life System Company 4)	
	Life	Pension	Life Fund	Pension
<=1992		(7.00)%		0.00%
1993	0.50%	(6.50)%	17.00%	27.00%
1994	4.00%	25.00%	21.00%	31.50%
1995	11.00%	16.50%	28.00%	40.00%
1996	7.50%	11.50%	23.50%	33.00%
1997	4.50%	6.50%	19.00%	26.50%
1998	0.50%	(1.50)%	12.00%	17.00%
1999	(6.50)%	(8.50)%	5.00%	8.00%
2000	(8.00)%	(8.00)%	3.50%	6.00%
2001	(3.50)%	6.00%	8.00%	11.50%
2002	6.50%	9.50%	14.00%	19.50%
2003	11.00%	15.00%	16.00%	22.00%
2004	9.00%	11.00%	11.50%	15.50%
2005	5.50%	6.00%	4.50%	6.50%
2006	1.00%	2.50%	0.00%	0.50%
2007	0.50%	0.00%	(1.00)%	(1.00)%
2008	1.00%	1.00%	0.00%	0.00%
2009	0.00%	0.00%	0.00%	0.00%

Applicable 1 July 2009 to 31 December 2009:

Calendar year of purchase of units	Old BLAS business (Life System Company 2)		New BL business (Life System Company 4)	
	Life	Pension	Life Fund	Pension
<=1992		(8.00)%		
1993	0.50%	(8.00)%	15.50%	26.00%
1994	4.00%	27.00%	19.00%	30.50%
1995	11.00%	16.50%	26.50%	38.50%
1996	7.50%	11.50%	21.50%	31.50%
1997	4.50%	6.50%	17.50%	25.00%
1998	0.50%	(1.50)%	10.50%	16.00%
1999	(6.50)%	(8.50)%	3.50%	7.00%
2000	(8.00)%	(8.00)%	2.00%	5.00%
2001	(3.50)%	7.00%	6.50%	10.50%
2002	6.00%	9.50%	12.50%	18.50%
2003	11.00%	15.00%	14.00%	20.50%
2004	8.50%	11.00%	9.50%	14.50%
2005	5.50%	6.00%	3.00%	5.50%
2006	0.50%	2.50%	(1.50)%	(0.50)%
2007	0.00%	0.00%	(2.50)%	(2.00)%
2008	(0.50)%	0.00%	(2.00)%	(1.50)%
2009	(0.50)%	(0.50)%	(0.50)%	(0.50)%

(b) Other with-profits business

For the Unitised Capital Guaranteed Fund business, from 1 January 2009 to 25 March 2009 a market value reduction of 3.0% was applied, from 26 March 2009 to 31 December 2009 a market value reduction of 5.0% was applied.

For the Nestegg (post 1988) business, from 1 January 2009 to 31 December 2009 a market value reduction of 8% was applied.

For the ex BLA / Crusader With Profits Performance Fund business, from 1 January 2009 to 25 March 2009 no market value reduction was applied, from 26 March 2009 to 31 December 2009 a market value reduction of 5.0% was applied.

For the ex BLA / Crusader With Profits Pension Fund business, from 1 January 2009 to 31 December 2009 no market value reduction was applied.

For the Assured Growth Scheme business, individual scheme specific market value reductions were applied, where applicable, throughout the year.

(2) Premiums on Reviewable Protection Policies

There are no reviewable protection policies.

(3) Non-profit Deposit Administration

No non-profit deposit administration business is transacted.

(4) Service Charges on Linked Policies

There are no linked policies.

(5) Benefit Charges on Linked Policies

There are no linked policies.

(6) Accumulating With-Profits Charges

There were no changes to unit management charges or notional charges to accumulating with-profits policies since the last valuation.

(7) Unit Pricing of Internal Linked Funds

Not applicable

(8) Tax Deductions From Internal Linked Funds

Not applicable

(9) Tax Provisions for Internal Linked Funds

Not applicable

(10) Discounts on Unit Purchases

Not applicable

4. VALUATION BASIS

(1) Valuation Methods

Subject to the exceptions specified below, liabilities have been valued using the gross premium valuation method. The mathematical reserves were calculated as the value of future benefits and expenses less the value of future expected office premiums. No allowance for future lapses is made except implicitly in setting the per policy expenses.

The mathematical reserve for all accumulating with-profits policies has been calculated as the face value of units, which is the number of units including attaching bonus units allocated up to the valuation date, less a market value adjustment where applicable.

Exceptions:

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

(b) As a result of realised losses brought forward, no provision for the prospective liability with respect to tax on unrealised capital gains on non-linked assets was considered necessary for the purpose of this valuation.

(c) No specific reserve has been made for investment performance guarantees for property linked and deposit administration contracts, apart from ex-BLAS pension policies in the With Profit Pension Fund, where the 4% guaranteed growth rate has been allowed for.

The With-Profits Fund guarantee on policies arising from BLA is provided for by valuing units at the higher of the underlying asset price or the quoted bid price.

(d) A prospective method of valuation has not been used for the following contracts.

Policies previously written in BLA

Economic Mortgage and Low Start Economic Mortgage policies were valued as endowment contracts but with a death benefit equal to the greater of the guaranteed minimum death benefit and the sum assured and declared bonuses.

For group life assurances, the reserve held was the proportion of premium due in respect of the period from the valuation date to the date when the next premium falls due. For schemes where a premium rebate is given on account of favourable experience, an additional reserve was held in respect of the estimated rebate accrued to the valuation date. A reserve was held to provide for claims incurred but not reported.

Inward reassurances of term assurance benefits were valued with the reserve being a proportion of current annual premium, the proportion being not less than one half.

Where extra premiums are payable for assurances, one half of the current extra annual premiums was reserved.

Where the office premium charged was for an age higher than the actual age at entry, in respect of an under average life, the assurance was dealt with according to the rated up age. Any debts imposed on account of extra risks were ignored in the valuation.

In respect of permanent disability benefits attaching to life policies, the whole of the premium received was reserved.

Claims payable by instalments were valued on an interest only basis by discounting the future repayments.

For deposit administration contracts, the valuation liability was taken as the amounts held to the credit of policyholders before adding the current year's bonus interest.

The liabilities of Growth Pension business were obtained by valuing the paid up pensions and annuities in payment secured by each policy at the valuation date.

The reserve in respect of fatal accident benefits was not less than one half of the current annual premium.

In respect of long term permanent health policies, other than those valued on the gross premium method, the reserve held was the proportion of premium due in respect of the period from the valuation date to the date when the next premium falls due, together with additional reserves in respect of the estimated amount of rebate accrued to the valuation date where appropriate.

A reserve was held for claims in course of payment and to provide for claims incurred but not reported.

Policies previously written in BLL

(i) Group life assurances costed on a unit rate risk premium basis: a reserve equal to the proportion of the premium relating to the unexpired risk subject to a minimum of one quarter of the annual premium is held.

(ii) Group life assurances associated with pension schemes and costed on a risk premium basis: a reserve equal to 75% of the risk premium is held.

No specific tests of adequacy were considered necessary for the bases used in (i) and (ii) as the underlying premium rates are tested annually for adequacy and the chargeable premium rate is guaranteed for not more than two years in either case.

Policies previously written in BLAS

Liabilities for group term assurance are calculated on the basis of a year's risk cost, the provision being 75% of the office annual premium or the recurrent single premium.

For deferred annuities under the Long Term Accumulation System the liabilities are the aggregate amounts of the deposit accounts, for the schemes concerned as at the valuation date after crediting interest to the daily balances, at the valuation rate.

For deferred retirals the liabilities are the cash options at normal retirement ages accumulated with interest.

In the light of these provisions tests for adequacy were not considered appropriate.

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

(i) Growth equity contracts have been valued as non-linked with-profits, plus, on Type A policies only, the full undiscounted value of capital appreciation to the valuation date including the reserve for capital gains tax.

(ii) Genesis pension contracts have been valued by a cash flow method for linked benefits and by a gross premium method for non-linked benefits.

The assumptions used in the cash flow method are as stated at the start of this section.

(2) Valuation Interest Rates

The following table shows the valuation interest rates.

	Current Valuation	Previous Valuation
Life Assurance Fund		
With Profit	2.60%	2.50%
Non Profit	1.40%	3.85%
General Annuity Fund		
With profit Deferred Annuities	5.35%	5.95%
Non profit Deferred Annuities	4.00%	3.65%
Immediate Annuities	4.20%	4.00%
Pension Business Fund		
New With Profit AP Deferred Annuities	4.65%	4.05%
New With Profit SP Deferred Annuities	4.65%	4.05%
Old With Profit AP Deferred Annuities	5.35%	5.95%
Old With Profit SP Deferred Annuities	4.70%	4.95%
Non Profit AP Deferred Annuities	4.00%	3.65%
Non Profit SP Deferred Annuities	5.35%	6.05%
Immediate Annuities	4.20%	4.00%
Laserplan	4.70%	4.95%
Group Pension Plan	1.60%	3.20%
PHI Fund		
Non-claims	4.00%	4.00%
Claims in Payment	4.20%	4.00%

For deferred annuities, the stated valuation interest rate applies before and after vesting.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

<u>Fixed Interest</u>

(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%.

Variable Interest

The yield on variable interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

For the property unit trust a deduction of 50 basis points is made to allow for the risk of default. This deduction is based on the property portfolio underlying the unit trust and is based on the difference between the risk adjusted yield as calculated above and the yield with no adjustment for risk.

(4) Mortality Basis

Product Type	Current Valuation Table	Previous Valuation Table
Life Fund Permanent Assurances	94% AM92 94% AF92	94% AM92 94% AF92
Term Assurances	94% TM92 94% TF92	94% TM92 94% TF92
GAF Annuities	95% Modified IMA92 95% Modified IFA92	90% Modified IMA92 90% Modified IFA92
PBF Annuities	95% Modified PMA92 95% Modified PFA92	90% Modified PMA92 90% Modified PFA92
PBF Deferred Annuities (In deferment)	64% AM92 64% AF92	64% AM92 64% AF92
GAF Deferred Annuities (In deferment)	64% AM92 64% AF92	64% AM92 64% AF92
PBF Deferred Annuities (In Payment)	95% Modified PMA92 95% Modified PFA92	90% Modified PMA92 90% Modified PFA92
GAF Deferred Annuities (In Payment)	95% Modified IMA92 95% Modified IFA92	90% Modified IMA92 90% Modified IFA92
	Percent of Premium	**Percent of Premium**
Group Pensions % of premium	0.15%	0.15%
Group Life % of premium	70%	70%

Annuities in payment use the following improvement factors:

Male	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	1.92%	2.11%	1.56%	1.55%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Female	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%

Expectation of life resulting from these improvement factors:

	Current Age	Expectation of life from Age	Current Year		Previous Year	
			Males	Females	Males	Females
Immediate annuities	65	65	24.06	25.90	24.65	26.01
	75	75	14.67	15.71	14.82	15.69
Deferred annuities	45	65	26.53	28.66	27.63	28.79
	55	65	24.99	27.16	26.01	27.36

(5) Morbidity Basis

Not required as below de minimis level.

(6) Expense Basis

The following table shows the gross attributable expenses per policy.

Product Group		Per Policy Expense Current Valuation	Per Policy Expense Previous Valuation
		£	£
CWP savings endowment (product code 120)	RP	74.14	70.61
	PUP	37.07	35.31
CWP target cash endowment (125)	RP	74.14	70.61
	PUP	37.07	35.31
CWP pensions (155/165)	RP	123.56	117.69
	SP/PUP	37.07	35.31
Term assurance (325 / 330)		44.48	42.37
Income protection (360 / 365)		71.67	68.26
Income protection claims in payment (385)		0.00	0.00
Annuity (400)		44.48	42.37
UWP savings endowment (510)	RP	74.14	70.61
	PUP	37.07	35.31
UWP target cash endowment (515)	RP	74.14	70.61
	PUP	37.07	35.31
UWP regular premium pension (525/545)	RP	123.56	117.69
	PUP	37.07	35.31
UWP single premium pension (525/545)		37.07	35.31
UWP group regular premium pension (525/545)		75.09	75.87
UWP group single premium pension (525/545)		75.09	75.87

where:

RP Regular premium policies
SP Single premium policies
PUP Paid up policies

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 And Inflation Assumptions

There are no unit growth rate assumptions as there is no linked business.

Future expenses are assumed to increase at 2.9% p.a. for contracts administered by Capita. In addition, expenses are assumed to increase by 9.7% followed by RPI+1% p.a. after the end of the agreement with Capita in 2013.

The following rates are used for conventional contracts (excluding immediate annuities) administered by Pearl Group Management Services (PGMS):

	Current Valuation	Previous Valuation
2010	5.3%	4.2%
2011	5.0%	3.9%
2012	0.8%	(0.3)%
2013	(0.2)%	(0.1)%
2014	0.1%	(0.6)%
2015	17.6%	15.2%

and at RPI+1% p.a. thereafter.

The following rates are used for immediate annuities administered by PGMS:

	Current Valuation	Previous Valuation
2010	RPI + 6.0%	RPI + 6.0%
2011	RPI + 6.0%	RPI + 6.0%
2012	RPI + 1.0%	RPI + 1.0%
2013	RPI + 1.0%	RPI + 1.0%
2014	RPI + 1.0%	RPI + 1.0%
2015	(2.6)%	(10.1)%

and at RPI+1% p.a. thereafter.

(8) Future Bonus Rates

The company is a realistic basis life firm and as such, in accordance with INSPRU 1.2.9(R), no allowance has generally been made for future reversionary bonuses.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date (but see paragraph 4 (10) below).

(10) Other Material Assumptions

Expense assumptions do make an implicit allowance for the effect of expected future lapses. The inflation assumptions set out in paragraph 4 (7) have been adjusted to allow implicitly for lapses.

Provision has been made in the value of liabilities held for guaranteed benefits included in the terms of contracts in force at the valuation date.

For with-profits contracts, unitised with-profits contracts and with-profits deposit administration contracts the excess of the annual premium over the net premium not required to meet expenses is available to provide future bonuses.

For accumulating with-profits contracts, the published reserve basis applies a market value adjustment where one applies in practice.

(11) Allowance for Derivatives

No contracts have liabilities that have been calculated by reference to derivative assets. We have a holding of swaptions to hedge against the risk of interest rate falls affecting the guaranteed annuity option reserves.

(12) Effect of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

For contracts with benefits expressed as cash but which have a guaranteed minimum annuity rate the reserve was calculated assuming that the benefit at maturity was the higher of:

(i) the cash amount, and

(ii) the value of the guaranteed annuity, using mortality rates appropriate for deferred annuities and the valuation interest rate as shown for that contract (but subject to a maximum of the re-investment rate).

It is assumed that 95% of policyholders exercise the guaranteed annuity option and that 20% of policyholders exercising the option take the maximum tax free cash.

Product Name	GAO Reserve £m	Min Duration years	Max Duration years	Guaranteed Annuity Rate % cash sum	Type of annuity	Retirement Age
Indiv Arr 1st and 2nd Series	1.1	0.0	28.0	6.0	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	1.1	0.0	26.0	4.9	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	1.0	0.0	21.0	3.9	Joint Life 50%	60.0
Indiv Arr 1st and 2nd Series	0.9	0.0	28.0	8.0	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	0.8	0.0	26.0	5.3	Joint Life 50%	61.0
Indiv Arr 1st and 2nd Series	0.7	0.0	26.0	6.4	Joint Life 50%	64.0
Indiv Arr 1st and 2nd Series	0.6	0.0	27.0	7.6	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	0.4	0.0	18.0	9.5	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	0.4	0.0	25.0	4.5	Joint Life 50%	62.0
Indiv Arr 1st and 2nd Series	0.4	0.0	25.0	9.5	Single Life	65.0
Indiv Arr 1st and 2nd Series	0.3	0.0	25.0	8.8	Single Life	62.0
Indiv Arr 1st and 2nd Series	0.1	0.0	17.0	11.1	Single Life	65.0
Indiv Arr 1st and 2nd Series	0.1	0.0	24.0	7.3	Single Life	60.0
Indiv Arr 1st and 2nd Series	0.1	0.0	20.0	7.3	Joint Life 50%	61.0
Indiv Arr 1st and 2nd Series	0.1	0.0	21.0	7.0	Joint Life 50%	60.0
Seda Series 3 - Individual	12.4	0.2	34.4	5.3	Single Life	75.0
Seda Series 3 - Individual	1.3	1.6	34.4	6.5	Single Life	75.0

A portfolio of Swaptions is held to hedge against the risk of falling interest rates.

(2) Guaranteed Surrender and Unit-linked Maturity Values

Guaranteed surrender values – the reserves for these do not exceed the materiality limits.

(3) Guaranteed Insurability Options

Guaranteed insurability options - the reserves for these do not exceed the materiality limits.

(4) Other Guarantees and Options

(a) Provision was made for any guarantees and options (other than investment performance guarantees) on the following basis.

Flexible endowment policies were valued at the higher of the net liabilities assuming maturity at:

(i) the next early maturity option with the relevant guarantees, or

(ii) the maximum term.

Conversion and guaranteed insurability options under convertible term policies have been provided for by increasing reserves over those that would have been required for term policies.

Policies previously written in 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.

(b) For contracts with benefits expressed as an annuity but which have an option to secure a cash fund the reserve was calculated assuming that the benefit at maturity was the higher of:

(i) the annuity applied to the guaranteed cash option, and

(ii) the value of the annuity, using mortality rates appropriate for deferred annuities and the valuation interest as shown for that contract (but subject to a maximum of the reinvestment rate).

It is assumed that 95% of policyholders exercise the guaranteed annuity option and that 20% of policyholders exercising the option take the maximum tax free cash.

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 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 £14.0m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.0
Explicit allowances for other maintenance expenses	12.4
Implicit allowances	1.6

(2) Implicit Allowances

Implicit allowances cover investment expenses and are allowed for by a reduction in the valuation interest rate based on the rates actually charged by Ignis Asset Management.

Fixed interest	0.08%
Property	0.35%
Cash	0.03%

(3) Form 43 Comparison

The maintenance expenses in paragraph 6 (1) are not significantly different from line 14 of Form 43.

(4) New Business Expense Overrun

As the office is closed to new business the expense incurred is not a material amount and as a result, it was not deemed necessary to hold a further specific reserve.

(5) Maintenance Expense Overrun

Specific expense reserves have not been calculated for LASPEN Managed Fund contracts.

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

An additional reserve of £3.3m has been set up in respect of the Capita contract to allow for the potential cost of renegotiating the contract at the renewal date. No such reserve is considered necessary in respect of the Pearl Group Management Services contract since the contract allows for Alba IT costs to fall to Britannic With-Profits business unit cost levels, which has not been allowed for in the expense assumptions.

No additional allowance has been made for redundancy costs or management service agreement termination costs.

(6) Non-attributable expenses

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

	Matching Assets			
	Liabilities *	Same Currency	Other Currency	Mismatching Percentage
Currency	£m	£m	£m	
Sterling (£)	1,549.2	1,444.0	18.5	1.3%
Euro (€)	63.7	58.5	5.5	8.6%
US ($)	2.6	2.6	0.0	0.5%

* Includes liabilities in respect of the deposits received from reinsurers as shown in Form 14.

The Alba With-Profits Fund has in total UK sterling denominated assets to the value of 102.29% of its UK sterling liabilities. The company has US Dollar assets to the value of 149.08% of its US Dollar liabilities and Euros assets to the value of 118.80% of its Euro liabilities.

The returns provided to Euro and US dollar with-profits policyholders are determined by reference to the same assets as are used for its sterling with-profits policies.

(2) Other Currency Exposures

"Other currency" grouping was not required in paragraph 7 (1).

(3) Currency Mismatching Reserve

No explicit currency mismatching reserve is held.

(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 reserve is required for mismatching. Liabilities are analysed by duration and currency and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

8. OTHER SPECIAL RESERVES

There are no special reserves exceeding the lesser of £10m and 0.1% of total mathematical reserves.

A reserve has been set up for extra increases in annuities being paid as a result of the changes in HM Revenue and Customs Limit rules.

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

<u>Immediate Annuities (Treaty 1)</u>

(d) XL Re Ltd (UK Branch).

(e) The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement. The assets matching this liability are held in a collateral account over which Alba With-Profits Fund has a charge.

(f) No premiums were paid by the company under this 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) Total mathematical reserves ceded under the treaty amount to £424.4m as at the valuation date.

(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.

Immediate Annuities (Treaty 2)

(d) **XL Re Ltd (UK Branch).**

(e) The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement. The assets matching this liability are held in a collateral account over which Alba With-Profits Fund has a charge.

(f) No premiums were paid by the company under this 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) Total mathematical reserves ceded under the treaty amount to £182.6m as at the valuation date.

(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.

Non Profit Deferred Annuities

(d) **American International Reinsurance Company Ltd (AIRCO)**

(e) The treaty reassures 100% of the liability under the closed book of non profit deferred annuity business covered by the agreement. The assets matching this liability are held in a collateral account over which Alba With-Profits Fund has a charge.

(f) No premiums were paid by the company under this 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) Total mathematical reserves ceded under the treaty amount to £453.6m as at the valuation date.

(k) There is no retention under the treaty.

(l) The reinsurer is not 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.

Guaranteed Annuity Options

(d) **Britannic With-Profits Fund**

(e) The agreement reinsures the cost of meeting guaranteed annuity options not yet vested at the valuation date exercised under with and non profit policies written with a cash benefit and guaranteed annuity option in the Ordinary Long Term fund in return for a premium of 75% of the cost of meeting any such option on the assumption that the option is exercised to the maximum extent and assuming all such options are exercised. The treaty reassures the company's liability in respect of guaranteed annuity options such that Alba With-Profits Fund's liability is restricted to a maximum of 75% of the option.

(f) The premiums payable by the company under the treaty during the year were £3.9m.

(g) There is no deposit back arrangement.

(h) The treaty is open to new business.

(i) There are no undischarged obligations.

(j) Total mathematical reserves ceded under the treaty amount to £12.9m as at the valuation date.

(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 but is a subfund of PLL.

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

(o) No commission is payable on the reinsurance premium.

(p) This is not a financing reassurance treaty.

10. REVERSIONARY (OR ANNUAL) BONUS

Bonus was allocated at the rates set out below at the date of this investigation.

Policies previously written in BLA

	Math reserves	Reversionary Bonus rates for current year		Reversionary Bonus rates for previous year		Total g'tee bonus for current year
		Sum Assured	Bonus	Sum Assured	Bonus	
Assurances	£m					
UK and overseas sterling life series A,B,H,D,K	144.6	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Annuities						
Annual Premium Self Employed Deferred Annuities Series 2 & 3	62.6	0.00%	0.00%	0.00%	0.00%	0.00%
Single Premium Self Employed Deferred Annuities Series 2 & 3	12.6	0.00%	0.00%	0.00%	0.00%	0.00%

Group Deposit Administration Contracts

The following rates were applied to these contracts for the valuation year.

	Nestegg	Nestegg 32
	£m	£m
Mathematical reserve	71.4	9.1
Compounded annual rate for previous year	1.00%	1.00%
Compounded annual rate for current year	2.00%	2.00%
Total guarantee bonus for current year	0.00%	0.00%

Growth Pensions

A total of £0.0m was distributed to policyholders. The mathematical reserves totalled £13.2m.

Growth Pension surplus is normally distributed annually by reference to an allocated share of assets to each group policy. The allocation of assets is adjusted each year according to the amount of new investment made in respect of each policy, and gives effect to changes in market value. Any bonus declared would be distributed to the policyholder as an amount of premium to be re-applied to the policy on "controlled funding" principles.

Bonuses, if payable, would be allocated in each case in respect of each annual premium due since the previous declaration subject, in the case of deferred life annuities (pension business) only, to payment of any premium outstanding at 31 December required to complete payment of a full year's premium.

Policies previously written in BLL

	Math reserve	Basic Sum Assured	Bonus	Basic Sum Assured	Bonus	Total g'tee bonus for current year
		Current Valuation		Previous Valuation		
Life assurance	£m					
All classes	86.5	0.00%	0.00%	0.00%	0.00%	0.00%
Non Genesis Annual Premium pension Contracts	9.0	0.00%	0.00%	0.00%	0.00%	0.00%
Genesis Premium Rate Annual Premium Contracts	25.9	0.00%	0.00%	0.00%	0.00%	0.00%
Buyouts and Genesis premium rate business Single Premium Contracts.	221.1	0.00%	0.00%	0.00%	0.00%	0.00%

Policies previously written in BLAS

	Math reserve	Current Valuation		Previous Valuation		
		Basic Sum Assured	Bonus	Basic Sum Assured	Bonus	Total g'tee bonus for current year
	£m					
UK Life Assurance Contracts	76.6					
UK Life Assurance Contracts – LAS low cost endowments	49.6	0.00%	0.00%	0.00%	0.00%	0.00%
UK Annual Premium Pension and Annuity Contracts	72.1	0.00%	0.00%	0.00%	0.00%	0.00%
UK Single Premium Pension and Annuity Contracts	35.6	0.00%	0.00%	0.00%	0.00%	0.00%
Republic of Ireland Annual Premium & Annuity Contracts	8.4	0.00%	0.00%	0.00%	0.00%	0.00%
Republic of Ireland Single Premium & Annuity Contracts	8.5	0.00%	0.00%	0.00%	0.00%	0.00%

Unitised with-profits contracts – bonus allocated to fund balances in addition to any guaranteed rate.

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous year	Total g'tee bonus for current year
	£m			
Life Fund (0% guarantee)	6.9	0.00%	0.00%	0.00%
Pension Fund (4% guarantee)	18.4	0.00%	0.00%	4.00%
Pension Fund (0% guarantee)	35.6	0.00%	0.00%	0.00%

Unitised Capital Guarantee Fund – bonus allocated to fund balances.

	Math reserves	Reversionary Rate for Current Year	Reversionary Bonus Rate for Previous	Total g'tee bonus for current year
	£m			
Unitised Capital Guarantee Fund	20.9	2.12%	2.61%	0.00%

Britannic Industrial Branch Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

There are no policies to which market value reductions can be applied.

(2) Premiums on Reviewable Protection Policies

There are no policies with reviewable premiums.

(3) Non-profit Deposit Administration

There are no deposit administration contracts.

(4) Service Charges on Linked Policies

There are no linked policies.

(5) Benefit Charges on Linked Policies

There are no linked policies.

(6) Accumulating With-Profits Charges

There are no accumulating with-profits policies.

(7) Unit Pricing of Internal Linked Fund

Not applicable

(8) Tax Deductions From Internal Linked Funds

Not applicable

(9) Tax Provisions for Internal Linked Funds

Not applicable

(10) Discounts on Unit Purchases

Not applicable

4. VALUATION BASIS

(1) Valuation Methods

All policies are valued using a gross premium method. The mathematical reserves are calculated as the value of future benefits and expenses less the value of future expected office premiums. No allowance for future lapses is made.

The valuation data is grouped for certain policies where premiums ceased some years ago and individual policy data is not available. The data is grouped by age at entry, term and year of entry.

For additional benefits granted under the Industrial Assurance (Life Assurance Premium Relief) Regulations 1977, 95% of the premium relief due for the remainder of the tax year has been deducted from the value of the increased sum assured.

The reserves allow for the maturity guarantee of a return of premiums on certain endowment policies.

(2) Valuation Interest Rates

The valuation interest rates used are:

Product Group	Current Valuation	Previous Valuation
With-profit	2.47%	3.02%
Non profit	2.85%	2.66%

(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%.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

(4) Mortality Basis

The mortality bases are:

Product Group	Current Valuation	Previous Valuation
With-profit	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
Non profit	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult

(5) Morbidity Basis

Not applicable

(6) Expense Basis

Product Group	Per Policy Expense Current Valuation		Per Policy Expense Previous Valuation	
	Premium paying	Non premium paying	Premium paying	Non premium paying
	£	£	£	£
With-profits (105 / 130)	23.51	7.69	37.85	7.53
Non profit (310)	n/a	7.69	n/a	7.53

(7) Unit Growth Rates And Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

The allowance made for expense inflation is:

Product Group	Current Valuation	Previous Valuation
With-profits policies	5.08%	4.04%
Non profit policies	4.58%	3.54%

(8) Future Bonus Rates

No future bonuses are assumed in the mathematical reserves.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

All policies subject to a contingent debt have been valued using true ages and the actual sums assured.

The mathematical reserve is not less than the surrender value or transfer value which a policyholder might reasonably expect to receive, but excluding any element relating to final bonus.

(11) Allowance For Derivatives

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. In addition there are a few assets having the effect of a derivative contract and these do not impact the long term business insurance liabilities.

(12) Effect Of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

There are no guaranteed annuity rate options.

(2) Guaranteed Surrender and Unit-linked Maturity Values

Minimum surrender values are applied to both whole of life and endowment policies in accordance with the Industrial Assurance Act 1923. The mathematical reserves allow for policy surrender values as described in paragraph 4 (8) above. These surrender values exceed the 1923 Act minimum amounts. The amount of the additional reserve included in Form 51 to ensure the mathematical reserve is no less than the current surrender value is shown in the table below.

These policies are conventional with-profits products therefore a market value reduction does not apply. Policyholders may not make increments to these policies.

Product Name	Basic Reserve	Guarantee Reserve	In force premium per annum
	£m	£m	£m
IB policies	378.1	0.3	23.2

(3) Guaranteed Insurability Options

Not applicable

(4) Other Guarantees and Options

The maturity value of endowments issued from 6 April 1999 is guaranteed to be at least equal to the premiums paid. The method and basis of valuation is described in paragraph 4 above and the guarantee is valued on all relevant policies.

These endowments are conventional with-profits products therefore a market value reduction does not apply. Policyholders may not make increments to these policies

Product Name	Basic Reserve	Spread of outstanding durations	Guarantee Reserve	Guarantee Amount	In force premiums
	£m	years	£m	£m	£m
Industrial Branch Endowment	42.3	1 to 16	11.9	78.9	6.1

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 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 £8.1m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.0
Explicit allowances for other maintenance expenses	7.6
Implicit allowances	0.5

(2) Implicit Allowances

The implicit allowances represent the allowance for future investment expenses. These are calculated as the expected investment management charges based on the current asset mix and yields applied to the mathematical reserves.

(3) Form 43 Comparison

The aggregate expense loading arising in the next 12 months is significantly different from the maintenance expense in Form 43 line 14 and is shown in the table below.

	F43.14	table 6(1)	ratio
Homogeneous risk group	(a) £m	(b) £m	(a)/(b)
Endowment & whole life	11.5	8.1	142%
Total	11.5	8.1	142%

The expenses in line 14 of Form 43 are higher than the expenses in table 6(1). The Form 43 expenses are based on the expenses incurred during 2009, whilst the aggregate expense loading are those expected to be incurred over the 12 months of 2010. Since there has been a significant reduction in expense charges due to the closure of the Home Services premium collection mechanism, the charges in the next 12 months will be significantly reduced.

(4) New Business Expense Overrun

Since the company is not actively seeking new business, there is no new business strain and no additional reserve is required.

(5) Maintenance Expense Overrun

The mathematical reserves include explicit allowance for future expenses inflating in line with the current management services agreements. These expenses exclude future redundancy costs. An additional reserve of £3.0m is established to cover the risk that there is a one-off 20% increase in per policy expenses when the current management services agreement is reviewed.

(6) Non-attributable expenses

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

All liabilities are denominated in sterling and are backed by sterling denominated assets

Currency	Math Reserves	Matching assets
	£m	£m
Sterling (£)	399.3	399.3
Euro (€)	0.0	0.0
Total	399.3	399.3

(2) Other Currency Exposures

All liabilities are denominated in sterling.

(3) Currency Mismatching Reserve

There is no significant mismatching of assets and liabilities by currency and so no reserve is made to cover this risk.

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

PLL is a realistic basis reporting company and as such there is no resilience capital requirement.

(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 reserve is required for mismatching. Liabilities are analysed by duration and currency and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

8. OTHER SPECIAL RESERVES

There are no special reserves exceeding the lesser of £10m and 0.1% of total mathematical reserves.

9. REINSURANCE

(1) Facultative Reinsurance

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

There are no reinsurance treaties in force.

10. REVERSIONARY (OR ANNUAL) BONUS

Bonus series	Math reserves	Reversionary bonus rate for current year	Reversionary bonus rate for previous year	Total guaranteed bonus rate for current year
	£m			
Industrial Branch	342.0	0.45%	0.44%	0.45%

Britannic With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Market value reductions may be applied to unitised with-profits and smoothed return business for non-protected exits such as surrenders, transfers and early or late retirements. Market value reductions may not be applied for protected exits which generally include, death, maturity, surrender at a guarantee date and retirement at the selected retirement date. The times at which a market value reduction may be applied have previously been fully described in the product range information provided in previous annual returns.

Market value reductions are applied and calculated on an individual policy basis, based on that particular policy's individual circumstances, including the policy's premium history and investment conditions over the duration of the policy and those prevailing at the time of non-protected exit. Consequently a statement of the period for which market value reductions were applied and a summary of the policy years of entry to which it was applied is not available.

During 2009, market value reductions were applied to claims to some degree for all types unitised with-profits and smoothed return business.

(2) Premiums on Reviewable Protection Policies

There are no policies with reviewable premiums.

(3) Non-profit Deposit Administration

There are no deposit administration policies in force.

(4) Service Charges on Linked Policies

There have been no changes to service charges on linked policies.

(5) Benefit Charges on Linked Policies

There have been no changes to benefit charges on linked policies.

(6) Accumulating With-Profits Charges

There were no changes to benefit charges on accumulating with-profits policies in the period.

(7) Unit Pricing of Internal Linked Funds

The internal linked funds are held within the Non Profit Fund.

(8) Tax Deductions from Internal Linked Funds

The tax deductions are described in the Non Profit Fund Section.

(9) Tax Provisions for Internal Linked Funds

The tax provisions are described in the Non Profit Fund Section.

(10) Discounts on Unit Purchases

Not applicable

4. VALUATION BASIS

(1) Valuation Methods

Policies previously written in BA

The valuation methods used to calculate the mathematical reserves for each significant product group are described below. Unless otherwise stated, a prospective valuation method has been used and all policies are valued individually.

Conventional Business

All main classes of conventional business are valued using a gross premium method. The mathematical reserves were calculated as the value of future benefits and expenses less the value of future expected office premiums. No allowance for future lapses is made.

The mathematical reserve for guaranteed annuity option business reinsured from the Alba With-Profits Fund is based on the excess of the value of the deferred annuity compared to the cash amount. The underlying assumption is that 95% of policyholders exercise the option and that 20% of the policyholders exercising the option take the maximum tax-free cash. These assumptions are at least as prudent as the requirement in INSPRU 1.2.66(G).

The mathematical reserve includes reserves for lapsed policies which may be reinstated under the company's non-forfeiture regulations by payment of arrears. The mathematical reserves are reduced by the premium in arrears.

The reserves for contracts providing terminal illness benefit allow for the payment of death benefit a year early and for the loss of a year's premiums.

The reserves allow for the maximum estimated future cost of the concession granted to policies at the time of withdrawal of life assurance premium relief.

The mathematical reserves for the with-profits annuity is the value of projected future cashflows allowing for future annuity payments, future expenses, shareholder profit and loss transfers and tax on future declared investment return distributions. The future annuity payments allow for the smoothing of annuity payments down to the level supported by the valuation interest rate.

Unitised Business

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

(i) The minimum of (a) and (b) below:

a. The face value of units, which is the number of units including attaching bonus units allocated up to the valuation date valued at £1.00 each. This is the full value guaranteed at maturity, guarantee date, death, selected retirement age or on withdrawals under the regular withdrawal scheme; and

b. The shadow fund value, which is the value of accumulated premiums less policy charges at the earned investment rate.

(ii) A prospective value calculated by discounting projected future cashflows and allowing for future expenses. In the projection, there is no allowance for future reversionary bonuses. For regular premium paying policies, the reserves are based on:

a. 50% of the higher of the reserve calculated assuming that regular premiums continue to be paid at the current level and the reserve if premiums increase automatically in line with policy conditions; and

b. 50% of the reserve calculated assuming that premiums cease and the policy becomes paid up at the valuation date.

The non-unit reserve for mortality cover for regular premium policies is equal to at least eighteen times the current monthly charge for these benefits.

The mathematical reserve for the overseas with profit bond (series I) makes no allowance for future bonus.

For the smoothed return With-Profit Bond invested in series B2 units, the mathematical reserves allow for future reversionary bonus supported by the valuation interest rate after allowing for the management charges. Allowance is made for the period during which the reversionary bonus rates are reduced to supportable levels after allowing for the smoothed policy value and guaranteed policy value as appropriate and smoothed investment returns.

Mortality charges are not guaranteed and can be varied at short notice. Policyholders would reasonably expect any increases in charges to be justified by significant adverse actual experience. The reserves make no allowance for changes in future mortality charges.

Ex- Britannic Hybrid Policies

Policies investing in unitised with-profits units may also invest in unit linked units in the Non Profit Fund. All unit linked liabilities are fully maintained in the Non Profit Fund. This includes both the unit reserve and sterling reserves (in respect of unit linked liabilities) covering future expenses and mortality costs.

Ex-BULA Unit Linked Business

There has been a reinsurance arrangement between the Britannic With-Profits Fund and the Non Profit Fund relating to some ex-BULA unit linked business. This business has been recaptured by the Non Profit Fund and it no longer appears within the Britannic With-Profits Fund.

Stakeholder Unit Linked Business

The stakeholder pension business remains in the Britannic With-Profits Fund. The unit liabilities are fully reinsured to the Non Profit Fund. The sterling reserves are maintained in the Britannic With-Profits Fund.

Policies previously written in Century

For with-profits whole life and endowment assurance contracts, the reserve was calculated using the net premium method of valuation with a Zillmer adjustment. The net premiums were limited to a maximum percentage of the office premium as follows:

Ex-NEL With Profit Assurances	95%
Ex-Prosperity Whole Life Assurances	85%
Ex-Prosperity Endowment Assurances	95%
Ex-Sentinel With-Profit Assurances	65%

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.

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

<u>Non-linked Deferred Annuities</u>

For ex-Sentinel with-profits deferred annuity contracts the reserve was calculated using the net premium method of valuation. The net premiums were limited to a maximum of 90% of the office premium.

For ex-NEL with-profits 'untied' and 'tied' deferred annuities, the mathematical reserve has been ascertained for each policy by deducting from the present value of the cash option and annuity respectively and the present value of an amount not less than the return on death, if any, the present value of the net premiums receivable. The net premium method of valuation was used, the net premium so calculated being restricted to a maximum of 95% of the annualised office premium. No Zillmer adjustment was made.

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.

The reserve for paid up or single premium policies was increased by 6.25% to provide for future expenses relating to those policies.

(2) Valuation Interest Rates

The valuation interest rates used for the main groups of policy are:

Product Group		Current Valuation	Previous Valuation
Policies previously written in BA			
Conventional Life Business			
With-profits and non profit assurances	discount rate	4.07%	5.20%
With-profits deferred annuity	in deferment	4.75%	4.00%
	in payment	4.26%	3.55%
Conventional Pensions Business			
With-profits deferred annuity	in deferment	4.75%	4.00%
	in payment	4.26%	3.55%
Non profit deferred annuity	in deferment	3.79%	3.30%
	in payment	4.26%	3.55%
With-profits annuity	discount rate	4.20%	4.00%
Guaranteed annuity options	in deferment	3.79%	3.30%
	in payment	4.26%	3.55%
Unitised Life Business			
Single premium whole life (portfolio)	unit growth	3.63%	3.20%
	discount rate	3.63%	3.20%
Single premium whole life (series B2, FWL)	unit growth	3.63%	3.20%
	discount rate	3.63%	3.20%
Regular premium endowment - savings	unit growth	3.63%	3.20%
	discount rate	3.63%	3.20%
Regular premium ISA	unit growth	4.75%	3.20%
	discount rate	4.75%	3.20%
Unitised Pensions Business			
Individual pensions	unit growth	4.20%	4.00%
	discount rate	4.20%	4.00%
Overseas Business			
Single premium series I (Irish life)	unit growth	4.20%	4.00%
	discount rate	4.20%	4.00%
Unit linked pensions			
Stakeholder	unit growth	4.92%	4.17%
	discount rate	4.75%	4.00%
Product Group		**Current Year**	**Previous Year**
Policies previously written in Century			
With-profits whole life and endowments	discount rate	4.07%	5.20%
Non linked deferred annuity with profits	in deferment	4.75%	4.00%
	in payment	4.26%	3.55%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(c) Approved Securities:

No reduction

(d) 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 haricut, 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 haircuts 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%.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

(4) Mortality Basis

Policies previously written in BA

The mortality bases for the main classes of business are:

Policies previously written in BA

Product Group	Current Valuation	Previous Valuation
Conventional Life Business		
With-profits and non profit assurances	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
With-profits deferred annuity		
in deferment	85% AMC00 ult 85% AFC00 ult	85% AMC00 ult 85% AFC00 ult
in payment	56% PCMA00 62% PMFA00	52% PCMA00 58% PMFA00
Conventional Pensions Business		
With-profits deferred annuity		
in deferment	85% AMC00 ult 85% AFC00 ult	85% AMC00 ult 85% AFC00 ult
in payment	56% PCMA00 62% PMFA00	52% PCMA00 58% PMFA00
Non profit deferred annuity		
in deferment	85% AMC00 ult 85% AFC00 ult	85% AMC00 ult 85% AFC00 ult
in payment	56% PCMA00 62% PMFA00	52% PCMA00 58% PMFA00
With-Profits Annuity		
	Modified PMA 92 Modified PFA 92	Modified PMA 92 Modified PFA 92
Guaranteed annuity options		
	90% PMA92 MedCoh 90% PFA92 MedCoh	90% PMA92 MedCoh 90% PFA92 MedCoh
Unitised Life Business		
Single premium whole life	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
Single premium whole life series B2	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
Regular premium endowment savings	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
Unitised Pensions Business		
Individual pensions	165% AMC00 ult 154% AFC00 ult	165% AMC00 ult 154% AFC00 ult
Overseas Business		
Single premium series I	110% AMC00 ult 110% AFC00 ult	110% AMC00 ult 110% AFC00 ult
Unit Linked Pensions		
Stakeholder	165% AMC00 ult 154% AFC00 ult	165% AMC00 ult 154% AFC00 ult

The expectation of life and longevity improvement factors for the with-profits annuity for the current year are:

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 expectation of life and longevity improvement factors for the with-profits annuity for the previous year were:

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

The longevity improvement factors used for post vesting mortality assumptions for the current year 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%	0.00%	1.08%	1.08%	1.08%	1.08%

The expectation of life for with-profits deferred annuity for the current and previous year are:

Expectation of life from age 65 for current age	Current Valuation	Previous Valuation
Male aged 45	43.2	43.9
Male aged 55	35.1	35.7
Female aged 45	44.7	45.3
Female aged 55	36.3	36.8

The mortality tables used for with-profits deferred annuity for the current year are PCMA00/PCFA00.

Policies previously written in Century

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

Product Group	Current Valuation	Previous Valuation
With-Profits Whole Life and Endowment Assurance		
Base Table	81% A67/70 Ult	81% A67/70 Ult
R6A (peak) AIDS allowance	33%	33%
Age deduction for females	3 years	3 years
With-Profits Deferred Annuity - in deferment		
Base Table	45% A67/70 Ult	43% A67/70 Ult
R6A (peak) AIDS allowance	33%	33%
Age deduction for females	3 years	3 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 other reserves for possible detrimental changes in mortality or morbidity rates have been made.

(5) Morbidity Basis

There is not a significant amount of business with critical illness cover.

(6) Expenses

The following tables shows the gross attributable expenses per policy.

Product Group	Per Policy Expense	
	Current Valuation (£)	Previous Valuation (£)
CWP savings endowment (120)		
Premium paying	42.79	40.89
Single premium/paid up	21.40	20.45
CWP target cash endowment (125)		
Premium paying	42.79	40.89
Single premium/paid up	21.40	20.45
CWP pensions (155/165)		
Premium paying	71.32	68.15
Single premium/paid up	21.40	20.45
UL pension (725)		
Regular premium	54.41	n/a
Single premium/paid up	54.21	n/a
UWP Bond (500) - Series B		
Regular premium	42.79	40.89
Single premium/paid up	21.40	20.45

Product Group		
	Current Valuation % Basic Units	Previous Valuation % Fund Expense
UWP Bond (500)		
Premium paying	0.48	0.47
Single premium/paid up	0.48	0.47
UWP savings endowment (510)		
Premium paying	0.48	0.47
Single premium/paid up	0.48	0.47
UWP pension (525 / 545)		
Regular premium	0.48	0.47
Single premium/paid up	0.48	0.47
UL pension (725)		
Regular premium	n/a	0.47
Single premium/paid up	n/a	0.47

The Fund has a Management Services Agreement (MSA) with Pearl Group Management Services (PGMS) with regard to the administration of all its policies. Since December 2008 the MSA has been renegotiated for some business.

For the December 2008 valuation the expenses payable to PGMS for the unitised business within this fund these changed from fixed amounts to a percentage of the funds under management, as this was a proxy for how the new MSA would look. This unitised business included unitised with profits and stakeholder pension business.

The new MSA was finalised in December 2009 and only the unitised with profit business in the Fund is now subject to this new agreement. For this business, expenses will be paid on a percentage of basic units in force basis. All other business in the Fund will remain under the previous MSA and have expenses on a per policy basis.

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

There are no zillmer adjustments for the policies to which the above expenses apply. The following table shows the zillmer adjustments for other premium paying policies where the reserve was calculated using the net premium method of valuation:

Product Group	Current Valuation	Previous Valuation
CWP savings endowment (120)	3.00%	3.00%

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

The expense assumptions for deferred annuities and non-premium paying assurances where the net premium method was used were as follows:

Product Group	Current Valuation	Previous Valuation
	% of reserve	% of reserve
CWP savings endowment (120)	2.25%	2.25%
Deferred annuities (390)	6.25%	6.25%

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

(7) Unit Growth Rates And Expense Inflation

Policies previously written in BA

Product Group	Current Valuation	Previous Valuation
Unit growth rates		
Pensions business	4.92%	4.17%
Expense inflation		
With profit policies	5.08%	4.04%
Stakeholder Pension policies	4.58%	3.54%

(8) Future Bonus Rates

No future bonuses are assumed in the mathematical reserves for conventional and unitised with-profits business other than for minor specific reserves in respect of Century Ex-Prosperity contracts and the Britannic smoothed return with-profits bond invested in series B2 units.

For the Britannic With-Profits Bond the average smoothed return applicable at 1 January 2010 was 4.98%.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

All policies subject to a contingent debt have been valued at true ages and the actual sums assured.

Policies issued subject to an extra premium have been valued at true ages and for policies previously written in BA an additional reserve of one year's extra premium and for policies previously written in Century an additional reserve of 150% of one year's extra premium have been established.

The mathematical reserve is not less than the surrender value or transfer value that a policyholder might reasonably expect to receive, but excluding any element relating to terminal bonus.

(11) Allowance for Derivatives

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 except as described in paragraph 5 (1) below.

(12) Effect of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

Policies previously written in BA

The reinsurance accepted in respect of guaranteed annuity options referred to in paragraph 4 (1) and shown on Form 51 relates to the liability arising when the annuities vest in the Alba With-Profits Fund in the future.

Policies previously written in Century

The liabilities for guaranteed annuity rate options 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 guaranteed annuity options is therefore virtually all intrinsic value, and if a stochastic method had been used, the reserves thus calculated would not be materially different from the values reported.

The main assumptions used to value guaranteed annuity options were:

Valuation interest rate p.a.	Pre-vesting	4.75%
	Post-vesting	4.26%
GAO take-up rate*		95%
Mortality		As in 4 (4)
Payment expense allowance		4%

*The GAO take-up rate is calculated using the assumption that 20% of policies take 25% of their fund as cash at retirement for all outstanding durations.

Details of guaranteed annuity options that were in force at the valuation date are shown in the table below:

Product	Basic Reserve	O/S Durn Spread	Gtee Reserve	GAO Rate	Incrs Yes/No	Ann. Form	Ret. Ages
	£m	years	£m	%cash sum			
Ex-Sentinel Dfd.Ann	2.0	1-30	1.0	10.25%	No	*	60-75

*The guaranteed annuity option rates shown are for a male age 65, monthly level annuity, payable in advance with 5 year guarantee period – other options are available.

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

(2) Guaranteed Surrender and Unit-linked Maturity Values

There are no policies with a unit linked maturity guarantee in force. Details of policies with guaranteed surrender values are described below.

Product	Basic Reserve	Guarantee Reserve	Guaranteed amount	In force premium per annum
	£m	£m	£m	£m
Portfolio investment Bond	182.9	0.0	182.9	0.0
With Profit Bond (series B2)	11.0	0.0	11.0	0.0
With Profit Bond (series I)	50.0	0.0	50.0	0.0

<u>Portfolio Investment Bond</u>

(a) The general method and basis of valuation are described in paragraph 4. The policies are valued assuming the benefits are paid as death benefits at age 100 as this is more onerous than allowing for surrender on a guarantee date. No additional surrender guarantee reserve is required.

(b) (i) product name, (ii) basic reserve, (iv) guarantee reserve, (v) guaranteed amount and (vii) in force premiums are shown in the table above.

(iii) and (vi)

On surrender at a guarantee date, with-profits units and bonus units have a guaranteed value of £1.00. In addition, for policies issued from 28 May 1997, the surrender value at the guarantee date in respect of the with-profits benefits will not be less than the premium applied to purchase those benefits. The guarantee date varies by date of issue of the policy:

Date of issue	Guarantee dates
Prior to 12 July 1994	Fifth and subsequent policy anniversaries
12 July 1994 to 6 April 1999	Fifth and subsequent quinquennial policy anniveraries
From 6 April 1999	Tenth and subsequent policy anniversaries

(viii) No increments can be made to the policy.

With Profits Bond (series B2)

(a) The general method and basis of valuation are described in paragraph 4.

(b) (i) product name, (ii) basic reserve, (iv) guarantee reserve, (v) guaranteed amount and (vii) in force premiums are shown in the table above.

(iii) and (vi)

This policy invests in the With-Profits Fund and participates in surplus in the With-Profits Fund by the allocation of smoothed investment returns. Each contribution has two separate values, the smoothed value and the guaranteed value, together with an underlying unsmoothed value. The smoothed value is the contribution increased or decreased by the smoothed investment return net of the initial charge and annual management charge. The guaranteed value is initially 75% of the smoothed value and will be increased such that it is equal to 75% of the previous highest smoothed value.

The full or partial withdrawal value at a guarantee date is the higher of the smoothed value and the guaranteed value.

The guarantee dates are the 5th and subsequent quinquennial policy anniversaries.

(viii) No increments can be made to the policy.

With Profits Bond (Series I)

(a) The general method and basis of valuation are described in paragraph 4.

(b) (i) product name, (ii) basic reserve, (iv) guarantee reserve, (v) guaranteed amount and (vii) in force premiums are shown in the table above.

(iii) and (vi)

This policy invests in the With-Profits Fund and reversionary bonus vests on a daily basis at a rate declared at the previous valuation date in anticipation of surplus that would otherwise emerge following the previous valuation.

The full withdrawal value at a guarantee date is the full value of the units including reversionary bonus added to date.

The guarantee dates are the 7th and subsequent policy anniversaries.

(viii)No increments can be made to the policy.

(3) Guaranteed Insurability Options

(a) For policies previously written in BA, a reserve of £0.6m is established to cover the cost of guaranteed insurability options. This is calculated as 5% of the office premiums plus 0.1% of the sum at risk for these policies.

No business that was previously written in Century contains any guaranteed insurability, continuation or conversion options.

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

(4) Other Guarantees and Options

For BA endowments issued from 6 April 2000, the maturity value is guaranteed to be at least equal to the premiums paid. The method and basis of valuation is described in paragraph 4 above and the guarantee is valued on all relevant policies.

Product	Basic Reserve	Spread of outstanding durations	Guarantee Reserve	Guarantee Amount	In force premiums
	£m		£m	£m	£m
Ordinary Branch Endowment	26.8	1-24	6.8	52.9	4.2

Policyholders may not make increments to these policies.

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 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 £18.1m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.1
Explicit allowances for other maintenance expenses	4.0
Implicit allowances	14.0

(2) Implicit Allowances

The basis for calculating the implicit allowances within 6 (1) is outlined in section 4, the main elements of the calculation being:

(a) the margin between the office premium and the net premium for prospectively valued contracts where the net premium method has been employed;

(b) margins expressed as a percentage of certain non-linked reserves e.g. certain single premium and paid up assurances where a net premium valuation method has been employed; and

(c) allowance for investment management charges which is calculated as the expected investment management charge for the next financial year applied to the mathematical reserves in Form 50.

(d) the expenses for UWP business as set out in the new MSA with PGMS.

(3) Form 43 Comparison

The aggregate expense loading arising in the next 12 months is significantly different from the maintenance expense in Form 43 line 14 as shown in the table below:

	F43.14	table 6(1)	ratio
Homogeneous risk group	(a) £m	(b) £m	(a)/(b)
Policies previously written in BA	25.1	17.3	145%
Policies previously written in Century Life		0.7	0%
Total	25.1	18.1	138%

One of the key reasons why the expenses in line.14 of Form 43 are significantly higher than the expenses in table 6(1). Form 43 includes £5.1m expenses relating to the maintenance of the Wythall Green Property.

The Wythall Green Property expense is exceeded by the rental income from the property by a significant margin and the net amount is treated as investment income in the valuation rather than being included in the valuation expense allowances.

The remaining £1.9m difference is mostly explained by :

- The investment expenses allowances in table 6(1) above are also only based on the reserves held and ignore the surplus assets in the Fund.
- The run off of the business each year. The BWP Fund is closed to new business so the modelled expenses in the 12 months following the valuation date will be lower than actually incurred in the previous year.
- The transfer of most of the most of the unit linked business in the BWP Fund to the Non Profit Fund during 2009. Expenses for this block of business will have been incurred during 2009 no allowance is required for future years.

After adjusting for these other expenses the expense loadings are not materially different to the expenses in Form 43.

(4) New Business Expense Overrun

Since the company is not actively seeking new business, except for contractual increments, it does not expect to incur any material strain in writing new business so no additional reserve is required.

(5) Maintenance Expense Overrun

The mathematical reserves include explicit allowance for future expenses inflating in line with the current management services agreements. These expenses exclude future redundancy costs. An additional reserve of £3.1m is established to cover the risk that there is a one-off increase in per policy charges when the current management services agreement is reviewed in 2014.

The equivalent reserve held at the previous valuation was £26.7m. The significant reduction reflects the fact that the new MSA which covers most of the business in the BWP Fund (i.e. UWP business) is "evergreen" which means there is no contractual obligation to review the MSA in the future and (unless both the BWP Fund and PGMS both agree to changes) the MSA cannot be renegotiated. This has enabled a significant release of the MSA expense contingency reserve.

(6) Non-attributable expenses

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

The mathematical reserves are mostly in sterling and are mostly matched by assets in sterling realisable in the United Kingdom.

The table shows the results.

Currency	Mathematical Reserves *	Backed by assets
	£m	£m
Sterling (£)	3,556.7	3,556.7
Other currencies	51.0	51.0
Total	3,607.6	3,607.6

(2) Other Currency Exposures

See paragraph 7 (1).

(3) Currency Mismatching Reserve

A subfund of euro-denominated assets is maintained in respect of euro-denominated liabilities. There is no significant mismatching of assets and liabilities by currency and so no reserve is made to cover this risk.

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

PLL is a realistic basis company and therefore the resilience capital requirement does not apply.

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

No applicable

(6) Resilience Capital Requirement

Not applicable

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

No reserve is required for mismatching. Liabilities are analysed by duration and currency and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

8. OTHER SPECIAL RESERVES

The special reserves exceeding £10m are:

Description	Reserve
	£m
Data	10.2
Pensions Review	18.5
Pension Scheme	34.7

Data

The data contingency reserve covers additional liabilities which may arise in connection with data errors affecting the long-term business and is calculated having regard to past experience.

Pension Review Reserve

This £18.5m contingency reserve covers the expected additional benefits or compensation payable to certain personal pension policyholders where best advice rules may not have been adhered to.

The valuation basis for calculating the liability relating to the expected cost of guarantees where the value of the personal pension is promised to match the value of the associated occupational pension scheme is consistent with that set out in paragraph 4.

The reserve for other compensation payments is based on prudent assumptions about the expected number of payments and the average compensation amount per case. The assumptions take into account current experience. No discounting to the date of settlement is applied.

Pension Scheme Risk Reserve

The Britannic With-Profits Fund has a degree of exposure to the risks within the Pearl Group Pension Scheme. This includes exposure to longevity risk and potential pension scheme costs arising when the terms of the management services agreement are reviewed in 2014.

These risks can be mitigated by the scheme surplus in the first instance, but there are some potential liabilities for the With-Profits Fund. It is possible that the scheme actuary will strengthen the longevity assumptions in the scheme valuation at some point to bring assumptions more in line with longevity assumptions in the regulatory valuation increasing the risk.

A reserve of £34.7m is held in the Britannic With-Profits Fund to cover future this risk. This represents 75% of the total reserve and is an increase on the £19.7m held at the previous valuation due to a strengthening of the provision due to the scheme being in deficit.

9. REINSURANCE

The treaty now only includes unit linked stakeholder pensions business. The remaining property linked liabilities under life and pensions contracts have been transferred to the Non Profit Fund since the previous valuation.

(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 relevant reinsurance treaties in force at the valuation date are described below.

(d) **Non Profit Fund of Phoenix Life Limited**

(e) The treaty covers property linked benefits under Stakeholder pension contracts on a 100% quota share basis.

The treaty is subject to an experience adjustment in respect of pensions business whereby the reinsurance premium to be paid is reduced by the product charges (i.e. management fee and difference between the policy premiums and the bid value of the units allocated) and increased by the policy related, investment management and other expenses the reinsurer incurs in respect of these policies.

(f) The premiums payable by the insurer during the year are £1.55m.

(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 £31.6m.

(k) 0% of the property linked benefits relating to new policies being reinsured are retained by the insurer.

(l) The reinsurer is authorised to carry on insurance business in the UK.

(m) The reinsurer is not a connected company of the insurer, but is a subfund of PLL.

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

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

(p) The treaty is not a financing arrangement.

10. REVERSIONARY (OR ANNUAL) BONUS

Bonus Series	Math reserves £m	Reversionary Bonus Rate for Current Year %	Reversionary Bonus Rate for Previous year %	Total g'tee bonus for current year %
Policies previously written in BA				
Conventional				
Assurances	324.3	0.416%	0.431%	0.416%
Life Deferred Annuities	13.2	0.659%	0.647%	0.659%
Pensions Deferred Annuities	84.0	0.879%	0.832%	0.879%
Unitised With-Profits				
Life Regular Premium	14.4	0.000%	0.000%	0.000%
Life Single Premium	183.0	0.000%	0.000%	0.000%
Pensions	2,571.6	1.000%	1.000%	1.000%
Irish life - Euro denominated	50.0	1.760%	3.750%	1.760%
New WP bond (smoothed returns)	11.9	3.490%	7.410%	3.490%
WP annuity	13.9	3.070%	7.380%	3.070%
Policies previously written in Century				
Ex - Sentinel				
Simple Bonus	7.1	4.75%	4.75%	4.75%
Compound - assurances	4.5	3.80%/3.80%	3.80%/3.80%	3.80%/3.80%
Compound - deferred annuities	2.0	3.80%/3.80%	3.80%/3.80%	3.80%/3.80%
Ex-NEL				
Simple Bonus	25.1	6.00%	6.00%	6.00%
Compound Bonus	19.8	6.00%	6.00%	6.00%
Ex-Prosperity				
All contracts	5.3	3.35%/4.00%	3.35%/4.00%	3.35%/4.00%

Notes

(a) The unitised with-profits bonus is the percentage addition per annum to basic and bonus units in force as at 31 December and allows for the period the units had been in force during that year.

(b) The reversionary bonus for conventional business previously written in BA is a simple bonus scale where the addition for the year depends on the duration in force.

(c) The smoothed return allocated to the Britannic With Profits Bond is declared quarterly and varies by unit series which is based on policy date of commencement and rate shown is the weighted average applied.

The average declared return applied for the with-profits annuity was 3.07% and average guaranteed uplift applied for 2009 was 1.44%.

Phoenix With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Unitised With Profit Bond
Market value reductions have been applied throughout the year.

These policies were sold between June 1996 and September 2001 and all policy years of entry have been subject to market value reductions.

Lifestyle Bond
Market value reductions have been applied throughout the year.

These policies were sold between February 2001 and December 2001 and have been subject to market value reductions.

UK With Profit Bond (Pre 1997)
Market value reductions have been applied throughout the year.

These policies were sold between January 1992 and December 1996 and all policy years of entry have been subject to market value reductions.

Isle of Man With Profit Bond (Pre 1999)
Market value reductions have been applied throughout the year.

These policies were sold between December 1992 and December 1998 and all policy years of entry have been subject to market value reductions.

Living Pensions
The following products within the Living Pensions range have a unitised with-profits option:

- Living Pensions Personal Pension
- Living Pensions Personal Option Policy
- Living Pensions Top Up Pension

Market value reductions have been applied throughout the year.

These policies were sold between April 1996 and December 1996 although remained open to increments until April 2001.

Unitised With-Profits Pensions
The following products within the unitised with-profits pensions range have a unitised with-profits option:

- Executive Pension Plan
- Company Pension Scheme
- Company Additional Pension Scheme
- Individual Personal Pension Plan

- Group Personal Pension Plan
- Personal Additional Pension Plan

Market value reductions have been applied throughout the year.

These policies were sold between January 1995 and April 2001 although remain open to increments.

<u>Pensions Solutions</u>
The following products within the Pensions Solutions range have a unitised with-profits option:

- Individual Personal Pension Plan
- Group Personal Pension Plan
- Contracted-in Money Purchase Plan
- Executive Pension Plan
- Trustee Investment Plan

Market value reductions have been applied throughout the year.

These policies were sold between April 2001 and December 2002 although remain open to increments.

(2) Premiums on Reviewable Protection Policies

There were no changes to premiums on non-linked reviewable protection policies since the previous valuation date. The amount of the mathematical reserves at the valuation date was £0.6m.

(3) Non-profit Deposit Administration

There are no non-profit deposit administration policies.

(4) Service Charges on Linked Policies

The linked policies that were previously in the Fund are now in the Non Profit Fund and the changes in charges are disclosed in that section of the abstract.

(5) Benefit Charges on Linked Policies

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

(6) Accumulating With-Profits Charges

The following expenses, which are notionally charged to specimen policy asset shares when determining terminal bonus or market value reductions for accumulating with-profits policies, have changed:

Annual maintenance expenses (net of policy fee where applicable), which changed from £34.12 to £36.94.

Charges apply to all accumulating with-profits business, except Lifestyle Bond. The mathematical reserves at the valuation date amount to £1,376m.

(7) Unit Pricing of Internal Linked Funds

Not applicable

(8) Tax Deductions From Internal Linked Funds

Not applicable

(9) Tax Provisions for Internal Linked Funds

Not applicable

(10) Discounts on Unit Purchases

M & G Securities Limited - Authorised Unit Trust

The Company receives a 1% discount on the cost of purchasing units in excess of £1,000. Policyholders do not benefit from this discount. There is no discount to the Company on the sale of units. The company does not receive any rebate of the annual management charge on its holdings in the unit trust.

4. VALUATION BASIS

(1) Valuation Methods

The valuation methods used are as follows:

Gross Premium Method

Reserves for policies other than for those products included in the section "Accumulating With-Profits Policies" or where the gross mathematical reserves and gross annual premium do not exceed the lesser of £10m or 1% of the total gross mathematical reserves have been established using a prospective gross premium method applied to each policy.

Accumulating With-Profits Policies

Reserves for accumulating with-profits policies on Form 52 have been calculated for each policy as the greater of:

(i) the discounted value of:

(a) the guaranteed benefits at the maturity date or guarantee point allowing for future reversionary bonus rates in accordance with the table in paragraph 4 (7) (which is consistent with treating customers fairly); and

(b) assumed future expenses per paragraph 4 (6).

(ii) the lower of:

(aa) the amount that would reasonably be expected to be paid if the policyholder exercised his option to take a cash sum on the valuation date, having regard to the representations of the company; and

(bb)the amount in (aa) disregarding all discretionary adjustments.

Calculation Notes

Where annuity benefits are payable to any spouse that may exist at the date of death of the annuitant, we assume that 90% are married with the female 3 years younger than the male life.

(2) Valuation Interest Rates

The valuation interest rates used are as follows:

Product Group	**Current Valuation**	**Previous Valuation**
Valuation Interest Rates – Life		
With-Profits – Endowments	3.86%	4.11%
With-Profits – Other	2.84%	2.72%
With-Profits Bond	2.84%	2.72%
With-Profits Deferred Annuity		
- Regular Premium	3.51%	3.41%
- Single Premium/ Paid-Up Initial Rate	4.44%	5.56%
- Single Premium/ Paid-Up Reinvestment Rate	3.87%	3.41%
Non Profit – Endowments	3.82%	4.48%
Non Profit – Other	2.49%	2.61%
Non Profit Deferred Annuity	3.87%	3.41%
Annuities in Payment (new GAF)	4.30%	5.04%
Annuities in Payment (old GAF)	4.77%	5.60%

Valuation Interest Rates – Pension		
With-Profits Deferred Annuity		
- Regular	3.51%	3.41%
- Single Premium/ Paid-Up Initial Rate	4.44%	5.56%
- Single Premium/ Paid-Up Reinvestment Rate	3.87%	3.41%
Profit Plus Fund - accumulating units	3.53%	3.41%
- initial units	3.28%	3.16%
With-Profits Group Endowments	3.51%	3.41%
Other Assurances	3.51%	3.41%
Annuities in Payment	4.77%	5.60%
Non Profit Assurances	3.51%	3.41%
Non Profit Deferred Annuities	3.51%	3.41%
RPI Linked Deferred Annuities	0.44%	0.97%
RPI Linked Annuities in Payment	0.44%	0.97%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction

(b) Other Securities

AA 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:

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%. deduction from the yield to reflect the default risk based on analysis by Moody's and dependent on the credit rating of the security per the table below:

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

(4) Mortality Basis

The mortality bases used for the valuation were:

Product Group	Current Valuation	Previous Valuation
Endowment and Whole of Life	80.6% AM92 83.8% AF92	80.6% AM92 83.8% AF92
Term Assurances - aggregate	71.5% TM92 93.2% TF92	71.5% TM92 93.2% TF92
Term Assurances – non-smoker	66.0% TM92 77.4% TF92	66.0% TM92 77.4% TF92
Term Assurances – smoker	132.0% TM92 148.7% TF92	132.0% TM92 148.7% TF92
Pensions pre-vesting and pension term assurances	48.3% AM92 54.5% AF92	48.3% AM92 54.5% AF92
Life Annuities currently in Payment	Modified IM80 c2010 Modified IF80 c2010	Modified IM80 c2010 Modified IF80 c2010
Pension Deferred Annuities post vesting	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020
Pension Immediate Annuities	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020

Life annuities currently in payment

The expectation of life under the current (and previous year) valuation assumptions for sample ages are:

	Current Year		Previous Year	
Age	Males	Females	Males	Females
65	22.60	25.34	22.30	25.08
75	14.35	16.22	14.10	16.00

Pension annuities currently in payment

Specimen percentages of the base tables used for the current year (and previous year) valuation are:

	Current Year		Previous Year	
	Male	Female	Male	Female
At age 65	127.7%	123.5%	126.1%	120.8%
At age 75	76.1%	90.2%	75.5%	89.0%
At age 85	76.1%	94.3%	74.4%	91.6%
At age 95	79.7%	97.4%	76.8%	93.6%

Specimen annual improvement rates, dependent on calendar year, are:

Males	2010	2020	2030	2040	2050	2060
65	3.52%	2.69%	2.56%	2.98%	2.98%	2.98%
75	3.62%	3.09%	2.32%	2.37%	2.44%	2.44%
85	2.62%	2.33%	2.16%	1.88%	1.90%	1.90%
95	1.43%	1.39%	1.42%	1.39%	1.35%	1.35%

Females	2010	2020	2030	2040	2050	2060
65	2.51%	2.76%	2.92%	2.98%	2.98%	2.98%
75	3.05%	2.79%	2.44%	2.43%	2.44%	2.44%
85	1.93%	2.25%	2.06%	1.90%	1.90%	1.90%
95	1.24%	1.30%	1.41%	1.38%	1.35%	1.35%

The expectation of life under the current (and previous year) valuation assumptions for sample ages are:

	Current Year		Previous Year	
Age	Males	Females	Males	Females
65	25.02	26.55	25.72	26.74
75	15.57	16.80	15.69	16.73

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

Sample percentages of the base tables used for the current year (and previous year) valuation are:

	Current Year		Previous Year	
	Male	Female	Male	Female
At age 55	488.9%	455.0%	474.5%	441.1%
At age 65	127.7%	123.5%	126.1%	120.8%
At age 75	76.1%	90.2%	75.5%	89.0%
At age 85	76.1%	94.3%	74.4%	91.6%
At age 95	79.7%	97.4%	76.8%	93.6%

Specimen annual improvement rates, dependent on calendar year, are:

Males	2010	2020	2030	2040	2050	2060
55	2.23%	2.39%	3.23%	3.25%	3.25%	3.25%
65	3.52%	2.69%	2.56%	2.98%	2.98%	2.98%
75	3.62%	3.09%	2.32%	2.37%	2.44%	2.44%
85	2.62%	2.33%	2.16%	1.88%	1.90%	1.90%
95	1.43%	1.39%	1.42%	1.39%	1.35%	1.35%

Females	2010	2020	2030	2040	2050	2060
55	1.83%	3.11%	3.24%	3.25%	3.25%	3.25%
65	2.51%	2.76%	2.92%	2.98%	2.98%	2.98%
75	3.05%	2.79%	2.44%	2.43%	2.44%	2.44%
85	1.93%	2.25%	2.06%	1.90%	1.90%	1.90%
95	1.24%	1.30%	1.41%	1.38%	1.35%	1.35%

The expectation of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions for are:

Age	Current Year		Previous Year	
	Males	Females	Males	Females
45	28.32	29.87	30.02	30.45
55	26.65	28.25	28.01	28.70

(5) Morbidity Basis

Not applicable

(6) Expense Basis

The following table shows the gross attributable expenses per policy.

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Annuity (400)	17.73	15.98
All other policies	37.59	33.89

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 And Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

Future expenses are assumed to increase at 7.38% p.a.

(8) Future Bonus Rates

For conventional with-profits business there is no allowance for future bonuses.

For accumulating with-profits business the assumed reversionary bonus rates are:

Product	Current year	Current year +1	Current year +2
UWP Bond (pre August 2000)	0.50%	0.08%	0.00%
UWP Bond (post August 2000)	1.00%	0.17%	0.00%
Lifestyle Bond	1.00%	0.17%	0.00%
Profit Plus Fund	0.10%	0.00%	0.00%
UWP Pensions	1.00%	0.17%	0.00%

and for the UK With Profits Bonds (pre 1997) the rates are:

Tranche	Current year	Current year +1	Current year +2	Current year +3
1	1.75%	0.00%	0.00%	0.00%
2a	0.50%	0.00%	0.00%	0.00%
2b	0.50%	0.00%	0.00%	0.00%
3a	0.50%	0.00%	0.00%	0.00%
3b	0.50%	0.00%	0.00%	0.00%
4	0.50%	0.00%	0.00%	0.00%
5	0.50%	0.00%	0.00%	0.00%
6	0.50%	0.00%	0.00%	0.00%
6a	0.50%	0.00%	0.00%	0.00%
7	0.50%	0.00%	0.00%	0.00%
8	0.50%	0.00%	0.00%	0.00%
8a	1.00%	0.00%	0.00%	0.00%
8b	1.00%	0.00%	0.00%	0.00%
9	0.50%	0.00%	0.00%	0.00%
10	0.50%	0.00%	0.00%	0.00%

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

Not applicable

(11) Allowance for Derivatives

The fund holds a number of swaps in connection with its fixed interest assets. The effect of the swaps has been taken into account by adding the value of the fixed interest assets to the value of the swaps and adjusting the yield on the fixed interest assets to take account of the effect of the swaps. The effect of the swaps has been determined by assuming that the future yields are in accordance with the yields implied by the forward swap curve.

A provision has been established equal to the time value of the swaptions, which are held in connection with guaranteed annuity options.

(12) Effect on Reserves of Changes in INSPRU Valuation Rules

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

(a) An additional reserve is calculated, where the value of the annuity is greater than the cash sum, using the assumptions set out in section 4 and, additionally, assuming:

- All policyholders will exercise the option.
- The percentage of the cash which will be used to purchase the annuity on guaranteed terms will be:

  30% for Convent Scheme contracts
  95% for Retirement Plans and Personal Retirement Policies (post 1978)

- The expenses of payment are 2.6% of the value of the annuity.

For Personal Retirement Policies issued between 1971 and 1978, where the policy only provides for a proportion of the benefit to be taken on guaranteed terms, the assumed proportion is in accordance with the policy conditions.

The liability is then increased, if necessary, so that it is not less than the economic value of the options determined from swaption prices assuming the same demographic assumptions. At the valuation date no increase was required.

(i) Product Name	(ii) Basic Reserve £m	(iii) Spread of outstanding durations Years	(iv) Guarantee Reserve £m	(v) Guaranteed Annuity Rate (Male at 65)	(vi) Increments	(vii) Form of annuity	(viii) Retirement Ages
Personal Retirement Plan (Pre 1978)	19.2	0 to 23	8.9	10.74%	No	Level – Single Life Twice annually in arrears No guarantee period	60 to 75
Personal Retirement Plan (Post 1978)	161.3	0 to 38	80.7	9.00%	No	Level – Single Life Annually in arrears No guarantee period	60 to 75
Personal Retirement Plan (Post 1988)	71.8	0 to 44	31.6	9.00%	No	Level – Single Life Annually in arrears No guarantee period	50 (*) to 75
Personal Retirement Plan (Eire)	25.0	0 to 31	13.5	9.25%	No	Level – Single Life Monthly in advance Five year guarantee period	50 to 75
Retirement Plan	129.5	0 to 32	79.5	11.11%	No	Level – Single Life Monthly in advance Five year guarantee period	50 (*) to 75
Convent Schemes	10.5	0 to 22	1.6	10.04%	Yes (**)	Level – Single Life Monthly in advance No guarantee period	60 to 70
Philips Scheme	7.3	0 to 31	3.9	10.00%	Yes (**)	Level – Single Life Monthly in advance Five year guarantee period	60 to 65

(b)

(*)From age 55 for retirements from 2010.

(**)There is no guaranteed annuity rate for increments.

(2) Guaranteed Surrender and Unit-linked Maturity Values

Uniflex

(a) For Uniflex policies (endowment-type policies maturing at age 65, included in Endowment assurance in Form 51) the basis for calculating surrender values on the 10th or any subsequent anniversary of the commencement of the policy is guaranteed.

The guaranteed surrender value available at the 10th or any subsequent policy anniversary is

[Basic Sum Assured + Reversionary Bonus] x t / n

where t = duration at the policy anniversary (in years)
n = original policy term (in years)

(b)

(i) Product Name	**Uniflex Endowment**
(ii) Basic Reserve	£21.7m
(iii) Spread of Outstanding Durations	0 to 30 years
(iv) Guarantee Reserve	£3.3m
(v) Guaranteed Amount	£24.9m
(vi) MVR Free Conditions	MVRs do not apply
(vii) In Force Premiums	£0.5m
(viii) Increments	No

UWP Bond

(a) Market value reductions are not applicable on encashment or partial surrender on the 10th policy anniversary for UWP Bonds commencing between September 1997 and July 2000. There is a "money back" guarantee on full surrender on the 10th policy anniversary for bonds commencing from August 2000 onwards.

The policy reserve is not less than the value of the benefits at the 10th policy anniversary calculated on the assumptions in Paragraph 4.

(b)

(i) Product Name	**UWP Bond Version 2**	**UWP Bond Version 3**
(ii) Basic Reserve	£32.7m	£256.3m
(iii) Spread of Outstanding Durations	0 to 1 years for guarantee	0 to 1 years for guarantee
(iv) Guarantee Reserve	£0.0m	£20.1m
(v) Guaranteed Amount	£36.1m	£264.6m
(vi) MVR Free Conditions	MVRs are not applicable on full or partial surrender on the 10th policy anniversary, on death or on regular withdrawals within certain limits	MVRs are not applicable on full or partial surrender on the 10th policy anniversary, on death or on regular withdrawals within certain limits
(vii) In Force Premiums	N/A	N/A
(viii) Increments	No	No

(i) Product Name	UWP Bond Version 4	Lifestyle Bond
(ii) Basic Reserve	£99.2m	£67.4m
(iii) Spread of Outstanding Durations	0 to 5 years for guarantee	1 to 3 years for guarantee
(iv) Guarantee Reserve	£0.3m	£0.0m
(v) Guaranteed Amount	£115.4m	£71.8m
(vi) MVR Free Conditions	On full surrender on the 10th policy anniversary the surrender value will be at least the original amount invested less any partial or regular withdrawals. There is no MVR on death or on regular withdrawals within certain limits	On full surrender on the 10th policy anniversary the surrender value will be at least the original amount invested less any partial or regular withdrawals. There is no MVR on death or on regular withdrawals within certain limits
(vii) In Force Premiums	N/A	N/A
(viii) Increments	Yes	Yes

Personal Retirement Policy / Personal Retirement Plan

(a) Policyholders may elect to retire at ages other than the retirement age selected at outset, on a guaranteed cash option basis, which varies with the actual retirement age. The ages that can be selected depends on the product.

(b)

(i) Product Name	Personal Retirement Policy (Pre 1978)	Personal Retirement Policy (Post 1978)	Personal Retirement Plan (Post 1988)
(ii) Basic Reserve (*)	£28.1m	£242.0m	£103.5m
(iii) Spread of Outstanding Durations	0 to 23 years	0 to 38 years	0 to 44 years
(iv) Guarantee Reserve (**)	£0.0m	£0.0m	£0.0m
(v) Guaranteed Amount	N/A	N/A	N/A
(vi) MVR Free Conditions	N/A	N/A	N/A
(vii) In Force Premiums	£0.1m	£1.4m	£1.0m
(viii) Increments	No	No	No

(*)The basic reserve above includes the guaranteed annuity reserve.

(**) The reserves established exceed the value of the liabilities if an alternative retirement date is selected.

Unitised With-Profits Pensions

The following products within the unitised with-profits pensions range have a unitised with-profits option:

- Executive Pension Plan
- Company Pension Scheme
- Company Additional Pension Scheme
- Individual Personal Pension Plan
- Group Personal Pension Plan
- Personal Additional Pension Plan

(a) Provided certain conditions apply, the policyholder can elect to take early retirement before the selected retirement age without penalty.

(b)

(i) Product Name	UWP Pensions
(ii) Basic Reserve	£82.5m
(iii) Spread of Outstanding Durations	0 to 40 years
(iv) Guarantee Reserve	£0.7m
(v) Guaranteed Amount	£81.2m
(vi) MVR Free Conditions	MVRs do not apply on retirement within 3 years of the selected retirement date, provided there has been a regular investment in the UWP Fund for at least 5 years, on death and ill health early retirement
(vii) In Force Premiums	£1.6m
(viii) Increments	Yes – existing policies and new members to existing plans in the case of group schemes

(3) Guaranteed Insurability Options

Various endowments purchased in connection with a mortgage include options to effect additional cover in certain circumstances without requiring additional evidence of health. Take-up of this option has been extremely low and no additional reserve is held.

Some of the term assurance policies include options to convert to other policies without requiring further evidence of heath. Take-up of this option has been extremely low and no additional reserve is held. The sum assured under the policies is less than £1bn.

(4) Other Guarantees and Options

None.

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense contributions loadings, grossed up for taxation where appropriate, expected to arising arise during the 12 months following the valuation date from explicit and implicit margins reserves made in the valuation basis areto meet expenses in fulfilling contracts in force at the valuation date is £18.9m. This is composed of the following elements:

	£m
Explicit allowances for investment expenses	0
Explicit allowances for other maintenance expenses	13.3
Implicit allowances	5.6

(2) Implicit Allowances

The implicit allowance has been calculated by applying the rate of the investment manager's fees to the reserves. This is funded by the margin between the risk-adjusted yield on the assets and the valuation rate of interest.

(3) Form 43 Comparison

The table below shows the difference between the amount in paragraph 6 (1) and that reported on line 14 of Form 43.

	F43.14	table 6(1)	ratio
Homogeneous risk group	**(a) £m**	**(b) £m**	**(a)/(b)**
All products	17.4	18.9	92%
Total	17.4	18.9	92%

The amount reported on line 14 of Form 43 is £17.4m. This is not significantly different from the £18.9m quoted above. The valuation assumes that yields on the assets are net of transaction costs so it is not necessary to reserve for them explicitly.

(4) New Business Expense Overrun

Since the company is closed to new business, except for contractual increments, it does not 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 paragraph 6 (1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the standard fees payable under a management services agreement plus a prudent allowance for costs that are not covered by these fees.

An allowance has been made for redundancy costs in respect of redundancies following compensation review exercises. The company is not liable for redundancy costs in general due to its outsourcing arrangement with Resolution Pearl Group Management Services.

(6) Non-attributable Expense Reserves

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

The mathematical reserves (other than liabilities for property linked benefits) after distribution of surplus comprise:

Currency	Mathematical Reserves	Backed by assets
	£m	£m
Sterling (£)	4,358.2	4,358.2
Other currencies	109.7	109.7
Total	4,467.9	4,467.9

(2) Other Currency Exposures

See table in paragraph 7 (1).

(3) Currency Mismatching Reserve

The liabilities in currencies other than sterling are matched by assets in the same currency. The currency mismatching reserve is therefore nil.

(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 for mismatching as investments are closely matched to the liabilities.

8. OTHER SPECIAL RESERVES

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

Description	Reserve
	£m
Data contingency reserve	13.0
Litigation reserve	7.8
Future projects reserve	8.4
Claims Reserves for certain pensions policies	10.5
Mortgage Endowment Review reserve	5.7

Details of the other special reserves are set out below.

Data contingency reserve

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

Litigation reserve

Reserves for future litigation settlements and other similar costs., which is calculated having with regard to past experience.

Future projects reserve

Reserve for future projects, which is calculated with regard to past experience.

Claims reserves for certain pension policies

Reserves for the cost of making additional payments on certain pension policies where the claim amounts previously paid were incorrect.

Mortgage Endowment Review reserve

Reserve that coves redress and project costs for the Mortgage Endowment Review.

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 reinsurance treaties in force at the valuation date are set out below.

(d) **Munich Re**
(e) Certain term assurances are 100% reinsured on original terms.
(f) The premiums payable by the insurer during the year are £19.8m.
(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 £120.6m.
(k) New business only arises from incremental policies or the exercising of options under existing contracts. Where such business is unit-linked then all of the business is reinsured and the Company's retention is nil.
(l) The reinsurer is authorised to carry on insurance business in the UK.
(m) The reinsurer is not a connected company of the insurer.
(n) No provision has been established for credit risk for any reassurances with other companies in the Pearl group. The company has provided £4.7m in respect of credit and legal risk under its other reinsurance treaties.
(o) No provision has been made under any of the treaties for any liability of the company to refund any amount of reinsurance commission in the event of the lapse or surrender of the contracts. Where such a liability exists, then the refund of commission will be more than offset by the return of the premium from the reinsurer.
(p) The treaty is not a financing arrangement.

10. REVERSIONARY (OR ANNUAL) BONUS

For policies entitled to participate, reversionary bonuses (except when otherwise specified) were allotted at the following rates.

<u>(i) Conventional With-Profits Policies</u>

The mathematical reserves and reversionary bonus rates are as follows:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous Year	Total g'tee bonus for current year
	£m	%	%	%
UK Life (excluding Uniflex)	1,221.5	0.25 / 0.25	0.25 / 0.25	0.00
Uniflex Endowment Assurances	25.0	0.20 / 0.20	0.20 / 0.20	0.00
Convent Schemes	12.1	0.20 / 0.20	0.20 / 0.20	0.00
Eire Life	9.2	0.25 / 0.25	0.25 / 0.25	0.00
UK Pensions	552.5	0.20 / 0.20	0.20 / 0.20	0.00
Eire Pensions	42.1	0.20 / 0.20	0.20 / 0.20	0.00

(*) The first rate applies to the sum assured and the second rate to the attaching bonus.

(ii) Accumulating With-Profits Policies (except With Profit Bonds)

The mathematical reserves and reversionary bonus rates are as follows:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous Year	Total g'tee bonus for current year
	£m	%	%	%
UWP Pensions	81.7	1.00	1.00	0.00
Profit Plus Fund	412.4	0.10	0.10	0.00
PlusPlan	162.7	0.10	0.10	0.00

(iii) UK With Profits Bond (pre 1997)

The mathematical reserves and reversionary bonus rates are as follows:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous Year	Total g'tee bonus for current year
	£m	%	%	%
1	4.6	1.75	2.00	1.75
2a	3.4	2.00	4.00	2.00
2b	0.5	1.75	3.75	1.75
3a	14.4	1.50	3.00	1.50
3b	0.9	1.50	3.00	1.50
4	9.0	0.50	2.00	0.50
5	3.6	1.00	2.25	1.00
6	1.4	1.00	1.50	1.00
6a	2.9	0.50	2.00	0.50
7	1.2	1.50	2.75	1.50
8	4.4	1.50	3.00	1.50
8a	4.3	1.00	2.00	1.00
8b	1.7	1.00	1.50	1.00
9	10.1	0.50	1.50	0.50
10	18.5	1.00	1.50	1.00
TOTAL	80.9			

(iv) Unitised With-Profits Bonds

The mathematical reserves and reversionary bonus rates are as follows:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous Year	Total g'tee bonus for current year
	£m			
2	32.8	0.50	0.50	0.50
3	256.6	0.50	0.50	0.50
4	99.7	1.00	1.00	1.00
Lifestyle	67.5	1.00	1.00	1.00
TOTAL	456.6			

For unitised with-profits life policies, the reversionary bonus is added daily in the form of growth of the unit price. Within a bonus series, bonus rates do not vary.

90% With-Profits Fund

11. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

During the year, market value reductions were applied to the ex-SLUK unitised with-profits pension policies as described below:

Applies from	Market Value Reduction
01-Jan	8%
01-Feb	9%
01-Mar	15%
01-Apr	14%
01-May	9%
01-Jun	7%
01-July	0%
01-Aug	0%
01-Sept	0%
01-Oct	0%
01-Nov	0%
01-Dec	0%

The market value reduction is a percentage of units applied in addition to any final bonus.

(2) Premiums on Reviewable Protection Policies

Not applicable

(3) Non-profit Deposit Administration

Not applicable

(4) Service Charges on Linked Policies

Not applicable

(5) Benefit Charges on Linked Policies

Not applicable

(6) Accumulating With-Profits Charges

Not applicable

(7) Unit Pricing of Internal Linked Funds

Not applicable

(8) Tax Deductions From Internal Linked Funds

Not applicable

(9) Tax Provisions for Internal Linked Funds

Not applicable

(10) Discounts on Unit Purchases

Not applicable

12. VALUATION BASIS

(1) Valuation Methods

Conventional with-profits
A net premium valuation has been used to value the business in the fund.

(2) Valuation Interest rates

The interest rates used for life business in the fund were as follows:

Product Group	Current Valuation	Previous Valuation
Life	3.00%	3.00%
Pension	3.75%	3.75%

The Life rates are netted down by 20% for tax.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(e) Approved Securities:

No reduction

(f) 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%.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

(4) Mortality Basis

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

Product Group	Current Valuation	Previous Valuation
Ex-SLUK OB	71.5% AM92 ult Females as above -3yrs	72% AM92 ult Females as above -3yrs
Ex-SLUK UWP	82.5% AM92 ult Females as above -3yrs	82.5% AM92 ult Females as above -3yrs
Ex-SLUK IB	28% ELT15(M) Females as above	28% ELT15(M) Females as above
Ex-BULA	99% AM92 ult 121% AF92 ult	99% AM92 ult 121% AF92 ult

Note that for all the above business, no additional mortality has been incorporated within the valuation and no separate reserve has been determined in respect of AIDS.

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

(5) Morbidity Basis

There are no significant groups of products where morbidity assumptions are used.

(6) Expense Basis

Policies previously written in SLUK

For premium-paying policies, where a net premium valuation is performed, the net premium is restricted to 90% of the office premium.

For unitised with-profits business, policies are written in the Non Profit Fund with the liability for the unitised with-profits investment element transferred to the 90% With-Profits Fund. All expenses are met by the Non Profit Fund.

Policies previously written in BULA (now ACI)

The following table shows the zillmer adjustments for premium paying policies where the reserve was calculated using the net premium method of valuation:

Product Group	Current Valuation	Previous Valuation
	%	%
CWP savings endowment (120)	1.65%	1.65%

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

(7) Unit Growth Rates and Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

All conventional business is valued on a net premium basis and expenses on unitised business are met by the Non Profit Fund so there are no expense inflation assumptions.

(8) Future Bonus Rates

No future bonuses are assumed in the mathematical reserves for conventional life business.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

There are no other material basis assumptions.

(11) Allowance for Derivatives

Not applicable

(12) Effects of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

13. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

There are no significant groups of business with guaranteed annuity rate options.

(2) Guaranteed Surrender and Unit-linked Maturity Values

Not applicable

(3) Guaranteed Insurability Options

Not applicable

(4) Other Guarantees and Options

For ex-SLUK unitised with-profits pension policies, there is a guarantee that the unit price will increase at not less than 4%p.a. An additional reserve of £4.351m has been established to meet the expected future cost of this guarantee. This has been calculated as the additional reserve required to fund the amount by which the guaranteed unit growth rate, together with the management charge, exceeds the valuation interest rate.

14. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 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 £0.9. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.0
Explicit allowances for other maintenance expenses	0.0
Implicit allowances	0.9

(2) Implicit Allowances

Implicit allowances for expenses include the difference between office and net premiums for regular premium policies which are valued on a net premium basis.

The implicit allowance for investment expenses has been calculated by applying the rate of the investment manager's fees to the reserves. This is funded by the margin between the risk-adjusted yield on the assets and the valuation rate of interest.

(3) Form 43 Comparison

The total amount of maintenance expenses shown in paragraph 6 (1) is in line with the total of £0.7m shown in line 14 of Form 43. The difference between the 2 figures is due to the valuation method of using net premiums, resulting in a higher valuation expense allowance.

(4) New Business Expense Overrun

Since the company is closed to new business, except for contractual increments, it does not 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 paragraph 6 (1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the fees payable under a management services agreement plus a prudent allowance for costs that are not covered by standard fees payable under the agreement.

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

Not applicable – all expenses are treated as attributable.

15. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

Currency	Mathematical Reserves	Backed by assets
	£m	£m
Sterling (£)	137.3	137.3
Other currencies	0.6	0.6
Total	137.9	137.9

(2) Other Currency Exposures

Liabilities totalling £0.611m have not been analysed. The proportion of these liabilities which are matched by assets in the same currency is 0%.

(3) Currency Mismatching Reserve

No currency mismatching reserve is necessary.

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

Not applicable

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

There are no significant territories outside the United Kingdom.

(6) Resilience Capital Requirement

Not applicable

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

No reserve is required for mismatching as investments are closely matched to the liabilities.

16. OTHER SPECIAL RESERVES

No further additional reserves exceed the lesser of £10m and 0.1% of total mathematical reserves.

17. 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 premiums were payable to a connected company reinsurer that was unauthorised to carry on insurance business in the UK.

(2) Reinsurance Treaties

Not applicable

18. REVERSIONARY (OR ANNUAL) BONUS

The reversionary bonus rates have been as follows:

Bonus Series	Math reserves £m	Reversionary Bonus Rate for Current Year %	Reversionary Bonus Rate for Previous year %	Total g'tee bonus for current year %
Ex-SLUK OB (conventional)				
Series A	2.1	1.70%/0%	1.70%/0%	0.00%
Series B	80.3	1.30%/1.30%	1.30%/1.30%	0.00%
Series C	2.8	1.30%/1.30%	1.30%/1.30%	0.00%
Ex-SLUK IB				
Pioneer Mutual	0.4	9.00%/0%	9.00%/0%	0.00%
Stamford cash bonus	0.6	2.25%/0%	2.25%/0%	0.00%
Other	4.6	4.50%/0%	4.50%/0%	0.00%
Ex-BULA				
Life	34.1	2.50/3.50%	2.50/3.50%	0.00%
Pensions	1.5	3.25%/3.25%	3.25%/3.25%	0.00%

For all bonus series, the first rate applies to the basic sum assured or annuity and the second rate to the attaching bonus.

For unitised with-profits policies, the reversionary bonus is added daily in the form of growth of the unit price.

100% With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Not applicable as there is no unitised with-profits business in the With-Profit Fund.

(2) Premiums on Reviewable Protection Policies

Not applicable

(3) Non-profit Deposit Administration

Not applicable

(4) Service Charges on Linked Policies

Not applicable

(5) Benefit Charges on Linked Policies

Not applicable

(6) Accumulating With-Profits Charges

Not applicable

(7) Unit Pricing of Internal Linked Funds

Not applicable

(8) Tax Deductions From Internal Linked Funds

Not applicable

(9) Tax Provisions for Internal Linked Funds

Not applicable

(10) Discounts on Unit Purchases

Not applicable

4. VALUATION BASIS

(1) Valuation Methods

<u>Conventional with-profits</u>
A net premium valuation has been used to value the business in the Fund.

(2) Valuation Interest rates

The interest rates used for life business in the fund were as follows:

Product Group	Current Valuation	Previous Valuation
Life	3.00%	3.00%

There is no pensions business in the fund.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction

(b) Other Securities

AA 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:

Rating	5 Yr	10 Yr	20 Yr
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	273.9	283
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 has then been applied to all but the "already defaulted" stocks by increasing the risk margin deduction by 25%.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

(4) Mortality Basis

Policies originally written in PAL

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

Product Group	Current Valuation	Previous Valuation
Whole Life and Endowment	85% AM92 116% AF92	86% AM92 112% AF92

Policies originally written in SLUK

Product Group	Current Valuation	Previous Valuation
Whole Life and Endowment	77% AM92 ult 77% AF92 ult	77% AM92 ult 77% AF92 ult
Deferred Annuities	82.5% IMA92 82.5% IFA92	82.5% IMA92 82.5% IFA92

Allowance for Disease

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 SLUK business in the Fund.

No explicit allowance is made for AIDS.

(5) Morbidity Basis

Not applicable

(6) Expense Basis

The following table shows the gross attributable expenses per policy.

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Ex-PAL	56.01	49.59
Ex-Swiss Life UK	44.22	80.17

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 And Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

The expense inflation assumptions are as follows:

Product Group	Expense Inflation per annum	
	Current Valuation	Previous Valuation
	%	%
Ex-PAL	8.38	7.34
Ex-Swiss Life UK	7.08	6.04

(8) Future Bonus Rates

No future bonuses are assumed in the mathematical reserves for conventional life business.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

There are no other material basis assumptions.

(11) Allowance for Derivatives

Not applicable

(12) Effects of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

Not applicable

(2) Guaranteed Surrender and Unit-linked Maturity Values

Not applicable

(3) Guaranteed Insurability Options

Not applicable

(4) Other Guarantees and Options

Not applicable

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 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 £0.4m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.0
Explicit allowances for other maintenance expenses	0.2
Implicit allowances	0.2

(2) Implicit Allowances

Implicit allowances for expenses include the difference between office and net premiums for regular premium policies which are valued on a net premium basis.

The implicit allowance for investment expenses has been calculated by applying the rate of the investment manager's fees to the reserves. This is funded by the margin between the risk-adjusted yield on the assets and the valuation rate of interest.

(3) Form 43 Comparison

The total amount of maintenance expenses shown in paragraph 6 (1) is not significantly different from the total shown in line 14 of Form 43.

(4) New Business Expense Overrun

Since the company is closed to new business, except for contractual increments, it does not 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 paragraph 6 (1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the fees payable under a management services agreement plus a prudent allowance for costs that are not covered by standard fees payable under the agreement.

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

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

Currency	Mathematical Reserves	Backed by assets
	£m	£m
Sterling (£)	31.0	31.0
Other currencies	0.0	0.0
Total	31.0	31.0

(2) Other Currency Exposures

There are no liabilities in other currencies.

(3) Currency Mismatching Reserve

No currency mismatching reserve is necessary.

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

Not applicable

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

There are no significant territories outside the United Kingdom.

(6) Resilience Capital Requirement

Not applicable

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

No reserve is required for mismatching as investments are closely matched to the liabilities.

8. OTHER SPECIAL RESERVES

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

Description	Reserve
	£m
Swiss Re reinsurance disagreement reserve	6.1
Litigation reserve	0.2

Details of the other special reserves are set out below.

Swiss Re reinsurance disagreement reserve
A reserve to cover potential costs of a dispute with Swiss Re with regards to a reinsurance arrangement. In the Fund a significant enhancement is made to asset shares on surrender, deaths and maturities. Swiss Re reinsure a small proportion of the direct policies held in this Fund and are challenging the high payouts they have had to make on five recent claims.

Litigation reserve
Reserves for future litigation settlements and other similar costs, which is calculated with regard to past experiemce

9. REINSURANCE

(1) Facultative Reinsurance

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

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

(2) Reinsurance Treaties

Not applicable

10. REVERSIONARY (OR ANNUAL) BONUS

The reversionary bonus rates have been as follows:

Bonus Series	Math reserves £m	Reversionary Bonus Rate for Current Year %	Reversionary Bonus Rate for Previous year %	Total g'tee bonus for current year %
Life Assurance* (SLUK)	1.9	3.0	3.0	0.0
Deferred Annuity* (SLUK)	0.2	4.5	4.5	0.0
Whole life & Endowment** (PAL)	21.1	5.0 / 8.0	5.0 / 8.0	0.0

The above bonus rates, where marked (*), apply to both the sum assured and the attaching bonus. For bonus series marked (**) the first rate applies to the sum assured and the second rate applies to the attaching bonus.

Scottish Mutual With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

The firm has the right to apply Smoothing Reductions to its Smoothed Investment Funds and market value reductions to the various series of with-profits units.

Market value reductions may be applied to unitised with-profits and smoothed return business for non-protected exits such as surrenders, transfers and early or late retirements. Market value reductions may not be applied for protected exits which generally include death, maturity, surrender at a guarantee date and retirement at the selected retirement date.

The market value reductions applied to business written were as follows:

Regular Premiums

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
February 2009	Business written in 1987 to 2008	Business written in 1985 to 2008
May 2009	Business written in 1987 to 2008	Business written in 1985 to 2008
July 2009	Business written in 1987 to 2008	Business written in 1985 to 2008
August 2009	Business written in 1987 to 2008	Business written in 1985 to 2008
September 2009	Business written in 1987 to 2004	Business written in 1989 to 2008
October 2009	Business written in 1988 to 2008	Business written in 1990 to 2001, 2003 to 2008

Single Premium

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
February 2009	Business written in 1994 to 2008	Business written in 1985 to 2008
May 2009	Business written in 1994 to 2008	Business written in 1985 to 2008
July 2009	Business written in 1994 to 2008	Business written in 1985 to 2008
August 2009	Business written in 1995 and 1997 to 2008	Business written in 1991 to 2008
September 2009	Business written in 1998 to 2001, 2006 to 2008	Business written in 1993 to 2002, 2004 to 2008
October 2009	Business written in 1994, 1995, 1997 to 2008	Business written in 1991, 1993 to 2002, 2004 to 2008

(2) Premiums on Reviewable Protection Policies

There are no reviewable protection policies.

(3) Non-profit Deposit Administration

No non-profit deposit administration business is transacted.

(4) Service Charges on Linked Policies

Policy fees on unit linked contracts were increased between 0.00% and 2.60% during 2009. Policy fees for majority of these contracts were increased by over 1%.

(5) Benefit Charges on Linked Policies

There have been no changes to benefit charges on linked policies since the previous valuation.

(6) Accumulating With-Profits Charges

There have been no changes to charges applied to accumulating with-profits policies since the previous valuation.

(7) Unit Pricing of Internal Linked Funds

Not applicable.

(8) Tax Deductions From Internal Linked Funds

Not applicable.

(9) Tax Provisions for Internal Linked Funds

Not applicable.

(10) Discounts on Unit Purchases

Not applicable

4. VALUATION BASIS

(1) Valuation Methods

It is assumed that annuities in payment 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 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.

For unitised with profit business the funded value of the units has been compared to the surrender value taking into account policyholders' reasonable expectations, and the lower of these two items has been valued. The result of this calculation is then compared with a valuation using the bonus reserve method and the larger of the two items is then taken as the reserve. For units with a guaranteed rate of bonus this guaranteed rate is allowed for in the bonus reserve valuation.

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. All non-linked with profit contracts have been valued using the gross premium method. Certain assurances accepted at an increased rate of premium are valued at correspondingly increased ages. A proportion of all other current extra premiums receivable is reserved.

(2) Valuation Interest rates

The valuation interest rates used were as follows:

Product Group		Current Valuation	Previous Valuation
Conventional Business			
Conventional with-profits life assurances		3.20%	3.60%
Conventional with-profits deferred annuities (single premium)	in deferment	3.75%	4.85%
	in payment	3.60%	4.80%
Conventional with-profits deferred annuities (regular premium)	in deferment	3.75%	4.30%
	in payment	3.60%	4.25%
Conventional with-profits immediate annuities	group	3.80%	5.60%
	individual	3.80%	5.60%
Unitised Business			
Unitised with-profits life assurances	non-unit reserves	3.25%	4.25%
	unit reserves	3.25%	4.25%
Unitised with-profits life pensions	non-unit reserves	3.75%	4.30%
	unit reserves	3.75%	4.30%
Unitised with-profits life assurances (overseas)	unit reserves	3.75%	4.85%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

<u>Fixed Interest</u>

(a) Approved Securities:

No reduction.

(b) Other Securities:

AA 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%. deduction from the yield to reflect the default risk based on analysis by Moody's and dependent on the credit rating of the security per the table below:

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation, FTSE Index-linked gilt index. This cap applied both to approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

(4) Mortality Basis

The mortality assumptions for the current (and previous) valuation are:

Product Group		Current Valuation	Previous Valuation
CWP life assurances	non- smoker	61% AM92 ult1 72% AF92 ult	61% AM92 ult[1] 72% AF92 ult
	smoker	105% AM92 ult1 116% AF92 ult	105% AM92 ult[1] 116% AF92 ult
CWP pensions assurances (individual and group)		72% AM92 ult 66% AF92 ult	72% AM92 ult 66% AF92 ult
Deferred annuities (in deferment) (individual and group)		72% AM92 ult 66% AF92 ult	72% AM92 ult 66% AF92 ult
Immediate and deferred pensions annuities in payment		Modified PMA92 Modified PFA92	Modified PMA92 Modified PFA92
Unitised life business		77% AM80 ult1 77% AF80 ult	77% AM80 ult[1] 77% AF80 ult
Unitised pensions business		77% AM80 ult 77% AF80 ult	77% AM80 ult 77% AF80 ult

Pension annuities currently in payment.

Percentages of the life tables used under the current (and previous year) valuation assumptions at sample ages are:

	Current Year		Previous Year	
	Male	Female	Male	Female
At age 65	98.2%	100.9%	99.0%	108.0%
At age 75	98.2%	100.9%	99.0%	108.0%

Improvement factors for future calendar years assumed in the current valuation at sample ages are:

Males	2009	2019	2029	2039	2049	2059
65	3.32%	2.30%	2.53%	2.97%	2.98%	2.98%
75	3.79%	2.99%	2.12%	2.34%	2.44%	2.44%
85	2.36%	2.45%	2.10%	1.83%	1.90%	1.90%
95	1.22%	1.33%	1.43%	1.38%	1.35%	1.35%

Females	2009	2019	2029	2039	2049	2059
65	2.43%	2.58%	2.96%	2.97%	2.98%	2.98%
75	3.32%	2.78%	2.38%	2.43%	2.44%	2.44%
85	1.81%	2.42%	2.06%	1.88%	1.90%	1.90%
95	1.00%	1.27%	1.43%	1.38%	1.35%	1.35%

The expectation of life under the current (and previous year) valuation assumptions for sample ages are:

Age	Current Year		Previous Year	
	Males	Females	Males	Females
65	23.7	25.3	24.2	25.6
75	14.4	15.6	14.3	15.6

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

Percentages of the life tables used under the current (and previous year) valuation assumptions for deferred annuities at a sample age are:

	Current Year		Previous Year	
	Male	Female	Male	Female
At age 45	98.2%	100.9%	90.0%	90.0%
At age 55	98.2%	100.9%	90.0%	90.0%

Improvement factors for future calendar years assumed in the current valuation at sample ages are:

Males	2009	2019	2029	2039	2049	2059
45	1.20%	3.12%	3.25%	3.25%	3.25%	3.25%
55	1.69%	2.34%	3.18%	3.25%	3.25%	3.25%
65	3.32%	2.30%	2.53%	2.97%	2.98%	2.98%
75	3.79%	2.99%	2.12%	2.34%	2.44%	2.44%

Females	2009	2019	2029	2039	2049	2059
45	1.81%	3.18%	3.25%	3.25%	3.25%	3.25%
55	1.56%	3.14%	3.21%	3.25%	3.25%	3.25%
65	2.43%	2.58%	2.96%	2.97%	2.98%	2.98%
75	3.32%	2.78%	2.38%	2.43%	2.44%	2.44%

The expectation of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions are:

Age	Current Year		Previous Year	
	Males	Females	Males	Females
45	27.0	28.4	28.2	28.9
55	25.3	26.9	26.3	27.3

(5) Morbidity Basis

Not applicable.

(6) Expense Basis

The following table shows the gross attributable expenses per policy:

Product Group		Per Policy Expense	
		Current Valuation £ p.a.	Previous Valuation £ p.a.
Conventional business			
CWP savings endowment (120/125)	Premium-paying	40.97	39.63
	Paid-up	28.68	27.73
CWP pensions (155/165)	Premium-paying	52.85	51.12
	Paid-up	37.00	35.79
Unitised business			
UWP bond (500)		31.46	30.28
UWP savings endowment (510)	Premium-paying	37.81	40.32
	Paid-up	26.47	28.22
UWP regular premium pension (525/545)	Premium-paying	44.79	47.77
	Paid-up	31.36	33.43
UWP group regular premium pension (535)	Premium-paying	44.06	46.99
	Paid-up	30.85	32.89
UWP single premium pension (525/545)		31.36	33.43
UWP group single premium pension (535)		30.85	32.89

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

The renewal commission rate payable is 2.50% for applicable business.

(7) Unit Growth Rates and Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

Future expenses are assumed to increase at 5.58% p.a.

(8) Future Bonus Rates

Assumed future bonus rates are 0% for all business, with the exception of unitised with-profits policies invested in the unit series where there is a guaranteed minimum bonus rate of 3% (life business) or 4% (pensions business). In these cases, the guaranteed bonus rates are used in the valuation.

(9) Persistency Assumptions

The persistency rate assumptions are shown in the following table:

Product		Average lapse / surrender rate for the policy years			
		1 - 5	6 - 10	11 - 15	16 - 20
UWP With Profit Investment Bond	Surrender	10.0%	10.0%	10.0%	10.0%
UWP Select With Profits Bond	Surrender	20.0%	20.0%	20.0%	20.0%
UWP With Profit Investment Bonds	Partial withdrawals	2.5%	2.5%	2.5%	2.5%
UWP Select With Profits Bond	Partial withdrawals	3.0%	3.0%	3.0%	3.0%
UWP With Profits Bond	Partial withdrawals	5.0%	5.0%	5.0%	5.0%

(10) Other Material Assumptions

There are no changes in methods and assumptions since the previous valuation.

(11) Allowance for Derivatives

There are no changes in methods and assumptions since the previous valuation.

(12) Effects of Basis Changes

Not applicable.

5. OPTIONS AND GUARANTEES

(1) Guaranteed annuity rate options

Where a contract funding for cash has a guaranteed annuity option, the value of the guaranteed 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 of the guaranteed annuity option which may be less than 100%.

For Self Employed (S226) Personal Pensions, the take-up rate is:

80% for plans maturing immediately at the valuation date,
95% for plans maturing 20 years after the valuation date,
interpolated linearly between these limits for intermediate maturity dates.

A distribution of retirement ages has been assumed for these contracts, as shown in the table below :

Product	Basic Reserve	O/S Duration	Gtee Reserve	GAO Rate (male age 65)	Incrs Yes/No	Annuity Form	Ret. Ages
	£m	years	£m				
Self Employed (S226)	336.3	30.0	198.4	11.00%	Yes	Rate shown corresponds to annually in arrears. Annuity can be paid monthly, quarterly, half yearly, with/out escalation,single or joint life; if single life a 5 or 10 year guarantee can be added.	50-75 (with few exceptions)

* A sample guaranteed annuity rate is provided based on a single life level annuity paid annually in arrears, without guarantee. Other options are available.

(2) Guaranteed surrender and unit-linked maturity values

The Flexible Endowment contract is written as a with profit endowment assurance maturing on the policy anniversary prior to the sixty-fifth birthday. There are guaranteed early maturity values available from the tenth policy anniversary. The contracts are valued both as endowment assurances to age 65 and as endowment assurances for the appropriate guaranteed sum assured at the earliest guaranteed option date. The greater of the two values is held.

Product	Basic Reserve	O/S Duration	Gtee Reserve	Gtee Amount	MVA-conditi	In-force premiums	Incrs Yes/No
	£m	years	£m	£m		£m	
Flexible Endowment	3.85	36.9	6.6	16.1	n/a	0.3	No

(3) Guaranteed insurability options

There are no guaranteed insurability options.

(4) Other guarantees and options

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). 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 Self Employed (S226) Personal Pensions and Masterpolicy plans, the take-up rate assumed for the cash option is:

20% for plans maturing immediately at the valuation date
5% for plans maturing 20 years after the valuation date
Interpolated linearly between these limits for intermediate maturity dates

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 for Individual Pension Arrangements and Masterpolicy plans; for Self Employed (S226) Personal Pensions the distribution of retirements with age is the same as that shown in paragraph 5.(1).

The total 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
	£m	£m	£m
Self Employed (S226) Personal Pensions	7.7	8.3	0.6
Individual Pension Arrangements	194.1	198.6	4.5
Masterpolicy plans	180.6	193.2	12.6

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate gross of taxation amount available in the next 12 months, arising from margins in the valuation basis, to meet ongoing expenses from existing business is £14.8m. This is composed entirely of explicit allowances for other (non-investment) maintenance expenses

(2) Implicit Allowances

There is an implicit allowance in the valuation basis for investment expenses of 0.135% p.a.

(3) Form 43 Comparison

The maintenance expenses shown at line 14 of Form 43 are £20.5m. This includes £2.4m interest and £1.9m investment management expenses, leaving £16.2m of other expenses compared with the £14.8m in the margins on the valuation basis.

(4) New Business Expense Overrun

The company is no longer writing new business and so there is no requirement for a new business expense overrun reserve

(5) Maintenance Expense Overrun

The company has already closed to new business and the expense assumptions set out in paragraph 4.6 take account of this fact. There is thus no requirement for an additional expense overrun reserve allowing for future closure to new business.

(6) Non-attributable Expenses

Not applicable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

The reserves held by currency and the assets backing them are as follows:

Currency	Mathematical Reserves	Backed by assets
	£m	£m
Sterling (£)	2,577.6	2,577.6
Euro (€)	53.4	53.4
US ($)	3.4	3.4
Other currencies	0.0	0.0
Total	2,634.4	2,634.4

(2) Other Currency Exposures

No information required.

(3) Currency Mismatching Reserve

No reserve is held for currency mismatching. Any non-sterling-denominated assets are held within the fund as part of the diversified portfolio of investments. The discretionary nature of the payouts on with profit policies is such that they can vary with the returns on the assets and so there is no need to hold an additional reserve for currency mismatching.

(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 arises from the test on assets in INSPRU 1.1.34(2)(R). The liabilities are analysed by duration and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

8. OTHER SPECIAL RESERVES

Data costs	7.5
Litigation risks	4.5
Projects and other costs	4.9
VAT costs arising from outsourcers	0.8
Costs falling outside MSAs	0.3
TCF	0.0
Solvency II	0.7
Strachan Policy Review	0.0
Total Additional Reserves	18.7

9. REINSURANCE

(1) Facultative Reinsurance

No reassurance is ceded on a facultative basis to a reinsurer who is not authorised to carry on business in the UK.

(2) Reinsurance Treaties

There are no reinsurance treaties with reinsurance premiums and ceded reserves above the de minimis limits.

10. REVERSIONARY (OR ANNUAL) BONUS

The following table shows the gross reserves, excluding provisions and non-policy related reserves, for the with profit business along with the reversionary bonus for the current (and previous) years:

Bonus series	**Gross Mathematical reserves £m**	**Reversionary bonus rate (current year)**	**Reversionary bonus rate (previous year)**	**Total guaranteed bonus rate (for current year)**
Conventional business				
Conventional life assurance and general annuity business	202.6	0%	0%	0%
Conventional pension business	1147.7	0%	0%	0%
Unitised Business				
Unitised Life Series III	423.1	0%	0%	0%
Unitised Pensions Series I & II	211.7	4.00%	4.00%	4.00%
Other Unitised Pensions Series	430.6	0%	0%	0%
Unitised International Series I – £	2.0	0%	0%	0%
Unitised International Series I – $ or	56.8	0%	0%	0%
With Profit Annuity	120.8	3.00%	6.00%	3.00%

SPI With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

For the UK with-profits funds, market value reductions applied to business written were as follows:

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
Up to 8 February 2009	No MVA applied to this business.	Business written during calendar year 1998, 1999 and 2007.
9 February 2009 to 31 May 2009	Business written during all calendar years 1992 to 2008.	Business written during all calendar years 1986 to 2008.
1 June 2009 to 1 September 2009	Business written during calendar year 1995, 2000, 2006, 2007 and 2008	Business written during calendar year 1989, 1990, 1996, 1997, 1998, 1999, 2000, 2006, 2007 and 2008.
2 September 2009 to 6 October 2009	Business written during calendar year 2007.	Business written during calendar year 1997, 1998, 1999 and 2007.
7 October 2009 onwards	No MVA applied to this business.	Business written during calendar year 1997, 1998 and 1999.

For the Irish pensions with-profit funds, market value reductions applied to business written as follows:

Date	Irish Life With-Profits Funds	Irish Pensions With-Profits Funds
Up to 8 February 2009	No MVA applied to this business.	Business written from 1 Jan 1999 to 30 Sept 1999, and during calendar year 2007.
9 February 2009 to 31 May 2009	No MVA applied to this business.	Business written during all calendar years 1996 to 2008.
1 June 2009 to 1 September 2009	No MVA applied to this business.	Business written during calendar year 1998, 1999, 2005, 2006, 2007 and 2008.
2 September 2009 to 6 October 2009	No MVA applied to this business.	Business written during calendar year 1998, 1999, 2006, 2007 and 2008.
7 October 2009 onwards	No MVA applied to this business.	Business written during calendar year 1998, 1999, 2006 and 2007.

(2) Premiums on Reviewable Protection Policies

Not applicable.

(3) Non-profit Deposit Administration

Not applicable.

(4) Service Charges on Linked Policies

Not applicable.

(5) Benefit Charges on Linked Policies

Not applicable.

(6) Accumulating With-Profits Charges

There were no changes to charges applied to accumulating with-profits policies.

(7) Unit Pricing of Internal Linked Funds

Not applicable.

(8) Tax Deductions From Internal Linked Funds

Not applicable.

(9) Tax Provisions for Internal Linked Funds

Not applicable.

(10) Discounts on Unit Purchases

Not applicable.

4. VALUATION BASIS

(1) Valuation Methods

All conventional policies have been valued using a gross premium method. Policies granted a one-off increase in the sum assured as at the valuation date have been valued allowing for this increase. Where appropriate, allowance has been made for payments in accordance with reassurance treaties.

For unitised with-profits policies, the reserves have been calculated as the greater of:

- (i) the discounted value of the guaranteed benefits, including any future reversionary bonuses where a guaranteed rate of bonus applies; and
- (ii) the lower of:
  - (a) the amount that would reasonably be expected to be paid if the policyholder exercised his option to take a cash sum on the valuation date having regard to the representation of the Company, and;
  - (b) the amount in (a) disregarding all discretionary adjustments.

Additional non-unit reserves are held for unitised with-profits policies, based on cash flow calculations for individual policies, which ensure that there are no future negative cash flows.

(2) Valuation Interest rates

The valuation interest rates used were as follows:

Product Group		Current Valuation UK	Current Valuation Republic of Ireland	Previous Valuation UK	Previous Valuation Republic of Ireland
Conventional Business					
Conventional with-profits life assurances		3.10%	2.45%	3.80%	3.85%
Conventional with-profits pensions assurances		3.75%	3.30%	4.45%	4.35%
Conventional non-profit life term assurances		2.95%	1.15%	2.15%	2.45%
Conventional non-profits pensions assurances		4.07%	n/a	3.30%	n/a
Unitised Business					
Unitised with-profits life assurances	non-unit	3.05%	1.25%	2.20%	2.45%
	unit	3.10%	2.45%	3.80%	3.85%
Unitised with-profits pensions	non-unit	3.85%	1.60%	2.75%	3.10%
	unit	3.75%	3.30%	4.45%	4.35%

Note: the valuation interest rates are shown net of tax for with-profits life business and non-profit life term assurance business but 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:

AA 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%.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

(4) Mortality Basis

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

Product Group		Current Valuation	Previous Valuation
Conventional endowment assurance (UK and overseas)	non-smoker	70% AM92 ult[1] 88% AF92 ult	70% AM92 ult[1] 88% AF92 ult
	smoker	141% AM92 ult[1] 176% AF92 ult	141% AM92 ult[1] 176% AF92 ult
	smoker status unknown	88% AM92 ult[1] 110% AF92 ult	88% AM92 ult[1] 110% AF92 ult
Conventional whole life assurances other than Bonus Mortgage Plan (UK and overseas)		Modified TM92 ult[1] Modified TF92 ult	Modified TM92 ult[1] Modified TF92 ult
Bonus Mortgage Plan		88% AM92 ult[1] 110% AF92 ult	88% AM92 ult[1] 110% AF92 ult
Conventional Capital Options and With-Profit Bond (overseas)		Nil Mortality	Nil Mortality
Conventional term assurance (UK and overseas)		Modified TM92 sel[1] Modified TF92 sel	Modified TM92 sel[1] Modified TF92 sel
Unitised assurances other than Flexible Mortgage Plan (UK and overseas)	non-smoker	70% AM92 ult[1] 88% AF92 ult	70% AM92 ult[1] 88% AF92 ult
	smoker	141% AM92 ult[1] 176% AF92 ult	141% AM92 ult[1] 176% AF92 ult
Flexible Mortgage Plan (UK)		Modified TM92 ult[1] Modified TF92 ult	Modified TM92 ult[1] Modified TF92 ult
Conventional deferred annuities (in deferment)	Overseas (group & individual)	Nil Mortality	Nil Mortality
	UK (individual)	Nil Mortality	Nil Mortality
	UK (group)	88% AM92 ult 110% AF92 ult	88% AM92 ult 110% AF92 ult
Simplified Pensions Investment Plan (in deferment)	UK and overseas	Nil Mortality	Nil Mortality
Linked deferred annuities (in deferment) and group pensions	Overseas	Nil Mortality	Nil Mortality
Deferred annuities in payment	UK and overseas, group and individual	Modified PMA00 Modified PFA00	Modified PMA00 Modified PFA00

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

Assurance contracts using modified tables

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 rates 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	0.990	1.720	0.715	1.343
55	2.549	6.481	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 other than Bonus Mortgage Plan – 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	1.025	1.025	0.892	0.892
55	2.917	2.917	2.406	2.406

Conventional whole life assurance other than Bonus Mortgage Plan – 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	1.190	1.221	0.942	1.877
55	3.116	4.485	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

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

Sample percentages of the base tables used for the current year (and previous year) valuation are:

	Current Year		Previous Year	
	Male	Female	Male	Female
At age 55	98.2%	100.9%	90.0%	90.0%
At age 65	98.2%	100.9%	90.0%	90.0%
At age 75	98.2%	100.9%	90.0%	90.0%
At age 85	98.2%	100.9%	90.0%	90.0%
At age 95	98.2%	100.9%	90.0%	90.0%

Specimen annual improvement rates, dependent on calendar year, are:

Males	2010	2020	2030	2040	2050	2060
55	2.23%	2.39%	3.23%	3.25%	3.25%	3.25%
65	3.52%	2.69%	2.56%	2.98%	2.98%	2.98%
75	3.62%	3.09%	2.32%	2.37%	2.44%	2.44%
85	2.62%	2.33%	2.16%	1.88%	1.90%	1.90%
95	1.43%	1.39%	1.42%	1.39%	1.35%	1.35%

Females	2010	2020	2030	2040	2050	2060
55	1.83%	3.11%	3.24%	3.25%	3.25%	3.25%
65	2.51%	2.76%	2.92%	2.98%	2.98%	2.98%
75	3.05%	2.79%	2.44%	2.43%	2.44%	2.44%
85	1.93%	2.25%	2.06%	1.90%	1.90%	1.90%
95	1.24%	1.30%	1.41%	1.38%	1.35%	1.35%

The expectation of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions are:

Age	Current Year		Previous Year	
	Males	Females	Males	Females
45	27.0	28.4	28.2	28.9
55	25.3	26.9	26.3	27.3

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

(5) Morbidity Basis

All morbidity assumptions are based on the reinsurer's rates for the relevant contract. Sample morbidity rates per 1000 lives are as follows.

Conventional endowment assurance (combined mortality and critical illness benefits) – current year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	1.030	1.209	0.863	0.774
35	1.078	1.737	1.316	1.623
45	2.429	5.315	2.726	4.697
55	7.840	14.896	7.645	11.184

Conventional endowment assurance (combined mortality and critical illness benefits) – previous year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	1.030	1.209	0.863	0.774
35	1.078	1.737	1.316	1.623
45	2.429	5.315	2.726	4.697
55	7.840	14.896	7.645	11.184

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

Flexible Mortgage Plan (combined mortality and critical illness benefits) – current year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	1.062	1.251	0.766	0.947
35	1.122	1.815	1.211	2.061
45	2.440	5.358	2.489	5.915
55	7.764	14.799	6.766	13.646

Flexible Mortgage Plan (combined mortality and critical illness benefits) – previous year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	1.062	1.251	0.766	0.947
35	1.122	1.815	1.211	2.061
45	2.446	5.378	2.489	5.915
55	7.764	14.799	6.766	13.646

Flexible Mortgage Plan (critical illness benefits only) – current year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.633	0.721	0.493	0.610
35	0.889	1.389	1.188	2.020
45	2.021	4.262	2.476	5.882
55	7.055	12.986	6.505	13.120

Flexible Mortgage Plan (critical illness benefits only) – previous year:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.633	0.721	0.493	0.610
35	0.889	1.389	1.188	2.020
45	2.021	4.262	2.476	5.882
55	7.055	12.986	6.505	13.120

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

(6) Expense Basis

The following table shows the gross attributable expenses per policy:

Product Group	Per Policy Expense			
	Current Valuation		Previous Valuation	
	UK (£)	Ireland (€)	UK (£)	Ireland (€)
Conventional business				
CWP savings endowment (120)				
- premium-paying	28.64	100.40	41.29	50.01
-single premium / paid-up	20.05	100.40	30.96	37.52
CWP pensions (165)				
- premium-paying	145.53	100.40	176.41	178.73
-single premium / paid-up	101.88	100.40	126.00	127.67
Unitised business				
UWP bond (500)			14.96	42.63
UWP savings endowment (510)				
- premium-paying	25.06	N/A	22.70	N/A
-single premium / paid-up	17.55	N/A	15.90	N/A
UWP pension (525)				
- premium-paying	172.53	100.40	172.53	102.98
-single premium / paid-up	120.77	100.40	120.77	72.10

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 And Expense Inflation

There are no unit growth rate assumptions as there is no linked business.

Future expenses are assumed to increase at 5.58% p.a.

(8) Future Bonus Rates

Assumed future bonus rates are 0% for all business, with the exception of unitised with-profits policies invested in the unit series where there is a guaranteed minimum bonus rate of 3% (life business) or 4% (pensions business). In these cases, the guaranteed bonus rates are used in the valuation.

(9) Persistency Assumptions

It is assumed that there are no lapses or surrenders and no policies are made paid-up after the valuation date.

(10) Other Material Assumptions

There are no other material basis assumptions.

(11) Allowance for Derivatives

Not applicable

(12) Effects of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

Guaranteed annuity rate options are included on the following contracts:

- Conventional pension pure endowments
- Simplified Pension Investment Funding Plan
- Select Executive and Personal Retirement Plans written in the Republic of Ireland prior to October 1998

For conventional pensions and the Simplified Pension Investment Funding Plan, the value of the guaranteed annuity at the vesting date is calculated based on the valuation mortality tables and interest rates set out in paragraphs 4 (4) and 4 (2) and is compared with the cash option (basic reserve). The total reserve is calculated as a weighted average of the reserves for the guaranteed annuity option and the cash option, based on the annuity take-up rate assumptions set out below. These assumptions take account of the guaranteed terms for escalating annuities, which are more onerous than those for level annuities.

Take-up rate assumptions:

Contract	Cash option	Level annuity	Escalating annuity
Conventional pure endowments	20%	40%	40%
Simplified Pension Investment Funding	0%	0%	100%

The reserves based on these assumptions are subject to a minimum of 95% of the reserves that would be held based on assumptions of 100% level annuities for conventional pure endowments and 100% escalating annuities for Simplified Pension Investment Funding Plan.

For the Select Executive and Personal Retirement Plans, 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	O/S Duration	Gtee Reserve	GAO Rate (male aged 65)	Incrs Yes/No	Ann. Form	Ret. Ages
	£m	years	£m				
Conventional Pension Pure Endowments	159.0	0 - 32	105.1	11.1% / 4.6% (UK) 11.1% / 9.1% / 4.6% (Ireland)	Yes	*	50-75
Simplified Pension Investment Funding Plan	83.2	0 - 14	34.0	10.0% / 4.5%	Yes	*	50-75
Select Executive & Personal Retirement Plan	27.2	0 - 41	14.8	9.1%	Yes, but guaranteed annuity rates do not apply.	*	60-70

* Sample guaranteed annuity rates are provided based on single life, level annuities paid monthly in advance and guaranteed for 5 years. Other options are available. For the Simplified Pension Investment Funding Plan, the basis of the annuity is decided at scheme level; for the other plans, policyholders may choose a different basis, e.g. with spouse's annuity, escalating payments or different payment frequency.

For Conventional Pensions, the guaranteed annuity rates were reduced in July 1999 in the UK and in both March and October 1998 in the Republic of Ireland. For the Simplified Pension Investment Funding plan, the guaranteed annuity rates were reduced in June 1999. The sample rates shown above are those applicable before and after these reductions.

(2) Guaranteed Surrender and Unit-linked Maturity Values

Additional reserves are held for the following guarantees. The additional reserves are deemed sufficient to cover the additional liability arising under the most onerous of the guarantee option dates in each case.

- Certain conventional endowment assurances (Selected Period Investment and Step-up Investment Plan) are written to mature on the policy anniversary before the 65th birthday but offer guaranteed early maturity values on each policy anniversary from the tenth onwards.

- UK Early Option Mortgage plans (with-profit endowment assurances) offer guaranteed early maturity options on any of the last five policy anniversaries.

- Irish Options Plus Endowment Plans (with-profit endowment assurances) offer guaranteed early maturity options on each policy anniversary from years 5 or 10 onwards.

- Irish Capital Options plans (with-profit endowment assurances) were available for terms of between 10 and 30 years (subject to a maximum age at expiry of 85) but with guaranteed early maturity options available on each policy anniversary from the fifth anniversary onwards.

- Irish Bonus Mortgage Plans offer guaranteed early maturity options on each policy anniversary from year 10 onwards.

- Certain conventional deferred annuities were written to retirement ages of 70 or 75 but with guaranteed early retirement factors from age 60.

No additional reserve is required for the following guarantees:

- UK Capital Investment Bonds investing in the Series I With-Profits Life Fund guarantee that no MVA will be applied on quinquennial policy anniversaries. There has been no new business since 1997 and so this business falls outside the commencement period for which MVAs apply.

- Irish With-Profits Bonds sold after March 1999 have a surrender value guarantee of a return of premium on the fifth policy anniversary. The amount of basic reserve held is greater than total premium in force, and so no additional reserve is required.

Product	Basic Reserve	O/S Duration	Gtee Reserve	Gtee Amount	MVA-free conditions	In-force premiums	Incrs Yes/No
	£m	years	£m	£m		£m	
Selected Period Investment	130.4	0 - 34	6.5	81.0	n/a	3.5	No
Step-up Investment Plan	73.3	0 - 34	7.9	101.3	n/a	5.1	No
UK Early Option Mortgage Plans	35.6	0 - 23	1.7	70.7	n/a	4.4	No
Irish Options Plus Endowment Plan	17.4	0 - 35	0.5	12.8	n/a	0.4	No
Irish Capital Options	33.7	0 - 20	2.0	51.3	n/a	3.5	No
Irish Bonus Mortgage Plan	12.4	0 - 23	0.3	15.0	n/a	1.0	No
Deferred annuities (SEDA)	363.9	0 - 47	0.6	26.5	n/a	4.7	No
UK Capital Investment Bonds	63.0	0 - 74	0.0	56.0	On quin-quennial annivers-aries	0.0	No
Irish With-Profits Bonds	4.7	0 - 79	0.0	4.7	n/a	0.0	No

(3) Guaranteed Insurability Options

Not applicable

(4) Other Guarantees and Options

Not applicable.

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 £9.18m. This is composed of the following elements:

	£m
Explicit allowances for investment expenses	0.00
Explicit allowances for other maintenance expenses	6.58
Implicit allowances	2.60

(2) Implicit Allowances

The implicit allowance for investment expenses has been calculated as a reduction in the valuation interest rate of 0.140%, which is the rate of the investment manager's fees.

(3) Form 43 Comparison

The total amount of maintenance expenses shown in paragraph 6 (1) is not significantly different from the total shown in line 14 of Form 43.

(4) New Business Expense Overrun

Since the company is closed to new business, except for contractual increments, it does not 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 paragraph 6 (1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the fees payable under a management services agreement plus a prudent allowance for costs that are not covered by standard fees payable under the agreement.

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

Not applicable – all expenses are treated as attributable.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

		Matching Assets		
	Mathematical Reserves	Same Currency	Other Currency	Mismatching Percentage
Currency	£m	£m	£m	
Sterling (£)	1,900.0	1,900.0	0.0	0%
Euro (€)	629.4	516.1	113.3	18%

(2) Other Currency Exposures

Not applicable

(3) Currency Mismatching Reserve

No currency mismatching reserve is necessary.

(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 reserve is required for mismatching. Liabilities are analysed by duration and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

8. OTHER SPECIAL RESERVES

No further additional reserves exceed the lesser of £10m and 0.1% of total mathematical reserves.

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 premiums were payable to a connected company reinsurer that was unauthorised to carry on insurance business in the UK.

(2) Reinsurance Treaties

Not applicable

10. REVERSIONARY (OR ANNUAL) BONUS

The reversionary bonus rates have been as follows:

Bonus series	Gross mathematical reserves £m	Reversionary bonus rate (current year)	Reversionary bonus rate (previous year)	Total guaranteed bonus rate (current year)
Conventional business				
Conventional assurances (life and pensions)	1,105.4	0%	0%	0%
Conventional individual deferred annuities and pure endowments (pensions)	653.3	0%	0%	0%
Unitised Business				
Unitised Life Series I	63.0	3%	3%	3%
Unitised Life Series II	41.8	0%	0%	0%
Irish Unitised Life Fund	5.4	0%	0%	0%
Unitised Pensions Series I	323.0	4%	4%	4%
Unitised Pensions Series II	109.2	0%	0%	0%
Irish Unitised Pensions Series I	17.7	4%	4%	4%
Irish Unitised Pensions Series II & III	23.2	0%	0%	0%
Simplified Pension Investment Funding Plan Tranche 5	32.4	5.25%	5.25%	5.25%
Simplified Pension Investment Funding Plan Tranche 6	36.7	4.5%	4.5%	4.5%
Simplified Pension Investment Funding Plan Tranche 7	37.6	0%	0%	0%

For unitised with-profits policies, the reversionary bonus is added daily in the form of growth of the unit price.