APPENDIX 9.4

PHOENIX LIFE LIMITED

Abstract of Valuation Report

1. INTRODUCTION

(1) Valuation Date

The valuation relates to 31 December 2011.

(2) Previous Valuation

The previous valuation under Rule 9.4 related to 31 December 2010.

On 1 January 2011 all the business within the long term fund of Phoenix & London Assurance Limited ("PALAL") was transferred into a new fund SAL With-Profits Fund within PLL under Part VII of the Financial Services and Markets Act 2000. Where reference is made to a previous valuation in respect of this business transferred into PLL on 1 January 2011, this refers to the valuation carried out in PALAL at 31 December 2010.

(3) Interim Valuations

No interim valuations (for the purposes of Rule 9.4) have been carried out since 31 December 2010.

2. PRODUCT RANGE

In the remainder of this Appendix and Appendix 9.4A, the products are identified by their current fund 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

- **or** the 2009 fund merger (see the Company's 2009 FSA Returns):

  "SMA"Scottish Mutual Assurance Limited
  "SPL" Scottish Provident 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
SAL 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; and 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 the 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 2011 to 30 June 2011

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		-1.00%		
1993	11.00%	6.50%	29.50%	45.00%
1994	15.00%	23.00%	33.50%	50.00%
1995	22.50%	31.00%	42.00%	59.00%
1996	18.50%	26.00%	36.50%	51.50%
1997	15.50%	20.50%	31.50%	44.50%
1998	9.00%	10.50%	24.00%	34.50%
1999	3.00%	3.50%	16.00%	24.00%
2000	1.50%	3.50%	14.50%	21.50%
2001	6.50%	8.00%	19.50%	28.00%
2002	17.50%	25.50%	26.50%	37.00%
2003	23.00%	28.50%	28.00%	39.50%
2004	20.00%	26.50%	23.00%	32.50%
2005	16.50%	20.00%	15.50%	22.00%
2006	11.00%	14.00%	10.50%	15.50%
2007	10.50%	12.00%	9.50%	13.50%
2008	10.00%	13.50%	10.00%	14.00%
2009	8.50%	11.50%	8.00%	11.50%
2010	4.00%	5.50%	3.50%	4.50%
2011	0.00%	0.00%	0.00%	0.00%

Applicable 1 July 2011 to 31 December 2011:

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		-3.50%		
1993	10.00%	3.50%	30.00%	46.50%
1994	14.00%	22.00%	34.00%	52.00%
1995	21.50%	31.50%	42.00%	61.50%
1996	17.50%	27.00%	36.50%	53.00%
1997	14.00%	20.50%	32.00%	45.50%
1998	8.00%	9.50%	24.50%	35.00%
1999	2.00%	3.00%	16.50%	24.50%
2000	0.50%	2.50%	14.50%	22.00%
2001	5.50%	6.00%	20.00%	28.50%
2002	16.00%	26.50%	26.50%	38.00%
2003	21.50%	29.50%	28.50%	40.50%
2004	19.00%	27.50%	23.50%	33.00%
2005	15.50%	20.00%	16.00%	22.50%
2006	10.00%	13.50%	11.00%	16.00%
2007	9.50%	10.50%	9.50%	14.00%
2008	9.00%	12.50%	10.00%	14.50%
2009	7.50%	10.50%	8.50%	12.00%
2010	4.00%	5.50%	3.50%	5.50%
2011	0.00%	0.00%	0.00%	0.00%

(b) Other with-profits business

For the Unitised Capital Guaranteed Fund business, from 1 January 2011 to 9 March 2011 a market value reduction of 5% was applied, and from 10 March 2011 to 31 December 2011 a market value reduction of 0% was applied.

For the Nestegg (post 1988) business, from 1 January 2011 to 31 December 2011 a market value reduction of 2.5% was applied.

For the ex BLA / Crusader With Profits Performance Fund business, from 9 March 2011 to 31 December 2011 no market value reduction was applied

For the ex BLA / Crusader With Profits Pension Fund business, from 1 January 2011 to 31 December 2011 no market value reduction was applied.

For the Assured Growth Scheme business, individual scheme specific market value reductions were applied, where applicable, throughout 2011.

(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

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

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 linkednon-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 at the face value of units for linked benefits and by a gross premium method for non linkednon-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	1.43%	2.30%
Non Profit	1.70%	2.50%
General Annuity Fund		
With profit Deferred Annuities	3.09%	4.75%
Non profit Deferred Annuities	2.12%	2.80%
Immediate Annuities	3.59%	3.70%
Pension Business Fund		
New With Profit AP Deferred Annuities	3.09%	3.60%
New With Profit SP Deferred Annuities	3.09%	3.60%
Old With Profit AP Deferred Annuities	3.09%	4.75%
Old With Profit SP Deferred Annuities	3.09%	4.00%
Non Profit AP Deferred Annuities	2.12%	2.80%
Non Profit SP Deferred Annuities	2.41%	4.60%
Immediate Annuities	3.59%	3.70%
Laserplan	3.09%	4.00%
Group Pension Plan	3.09%	1.80%
PHI Fund		
Non-claims	4.00%	4.00%
Claims in Payment	3.37%	3.70%

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 was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

	Standard		
	Term		
Credit Rating	5	10	20
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £2.7m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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	2012	2022	2032	2042	2052	2062
40	2.25%					
50	1.89%	2.85%				
60	1.45%	2.48%	3.07%			
70	2.61%	1.80%	2.40%	2.69%		
80	3.63%	2.11%	1.77%	2.14%	2.17%	
90	1.41%	2.01%	1.58%	1.59%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%
Female	**2012**	**2022**	**2032**	**2042**	**2052**	**2062**
40	2.40%					
50	2.85%	3.08%				
60	1.84%	3.29%	3.18%			
70	2.65%	2.51%	2.79%	2.70%		
80	3.37%	2.41%	2.10%	2.18%	2.17%	
90	1.37%	2.00%	1.69%	1.62%	1.63%	1.63%
100	1.08%	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 Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	24.12	26.47	24.28	26.05
	75	75	14.72	16.61	14.86	15.85
Deferred annuities	45	65	27.25	29.49	26.72	28.80
	55	65	25.66	28.01	25.20	27.32

(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	Previous Valuation
		£	£
CWP savings endowment (product code 120)	RP	90.75	86.32
	PUP	45.37	43.16
CWP target cash endowment (125)	RP	90.75	86.32
	PUP	45.37	43.16
CWP pensions (155/165)	RP	151.24	143.87
	SP/PUP	45.37	43.16
Term assurance (325 / 330)		54.45	51.79
Income protection (360 / 365)		87.72	83.45
Income protection claims in payment (385)		0.00	0.00
Annuity (400)		54.45	51.79
UWP savings endowment (510)	RP	90.75	86.32
	PUP	45.37	43.16
UWP target cash endowment (515)	RP	90.75	86.32
	PUP	45.37	43.16
UWP regular premium pension (525/545)	RP	151.24	143.87
	PUP	45.37	43.16
UWP single premium pension (525/545)		45.37	43.16
UWP group regular premium pension (525/545)		77.93	76.29
UWP group single premium pension (525/545)		77.93	76.29

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.

For the current valuation the investment expense assumptions agreed with the assets manager are unchanged, the base fees are as follows:

Investment expense (gross of tax)	Current valuation	Previous valuation
LASER, BL/BLA Controlled Funding, High g'tee WP Pens & LAS Cash Bonus	0.08%	0.08%
Ex-BLA Deposit Admin & ex-LAS Deposit Admin	0.09%	0.09%
Ex-BL Deposit Admin & UCGF	0.10%	0.10%
Other WP	0.11%	0.11%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a provision of £1.3m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(7) Unit Growth Rates And Inflation Assumptions

There are no unit growth rate assumptions on the residual linked business as the reserve held is the face value of the units.

Future expenses are assumed to increase at 2.2% p.a. for contracts administered by Capita. In addition, expenses are assumed to increase by 5.8% 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):The following rates are used for contracts administered by PGRMS:

	Current Valuation	Previous Valuation
2012	(0.1)%	0.7%
2013	(0.7)%	(0.3)%
2014	(0.4)%	0.0%
2015	18.3%	18.3%

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

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

	Current Valuation	Previous Valuation
2012	RPI + 1.0%	RPI + 1.0%
2013	RPI + 1.0%	RPI + 1.0%
2014	RPI + 1.0%	RPI + 1.0%
2015	4.0%	(0.3)%

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 allow 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 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, where a matching additional reserve is also held.

(12) Effect of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2010.

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	2.2	0.0	26.0	6.0	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	2.0	0.0	24.0	4.9	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	2.1	0.0	19.0	3.9	Joint Life 50%	60.0
Indiv Arr 1st and 2nd Series	1.7	0.0	26.0	8.0	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	1.7	0.0	24.0	5.3	Joint Life 50%	61.0
Indiv Arr 1st and 2nd Series	1.3	0.0	24.0	6.4	Joint Life 50%	64.0
Indiv Arr 1st and 2nd Series	1.2	0.0	25.0	7.6	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	0.6	0.0	16.0	9.5	Joint Life 50%	65.0
Indiv Arr 1st and 2nd Series	0.8	0.0	23.0	4.5	Joint Life 50%	63.0
Indiv Arr 1st and 2nd Series	0.6	0.0	23.0	9.5	Single Life	65.0
Indiv Arr 1st and 2nd Series	0.4	0.0	23.0	8.8	Single Life	61.0
Indiv Arr 1st and 2nd Series	0.2	0.0	15.0	11.1	Single Life	65.0
Indiv Arr 1st and 2nd Series	0.3	0.0	18.0	7.3	Single Life	60.0
Indiv Arr 1st and 2nd Series	0.2	0.0	18.0	7.3	Joint Life 50%	61.0
Indiv Arr 1st and 2nd Series	0.2	0.0	19.0	7.0	Joint Life 50%	60.0
Seda Series 3 - Individual	2.7	0.5	32.4	5.6	Single Life	75.0
Seda Series 3 - Individual	23.2	0.4	32.4	6.8	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 twelve 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 £14.3m. This is composed of the following elements shown below.

	£m
Explicit allowances for investment expenses	1.3
Explicit allowances for other maintenance expenses	11.7
Implicit allowances	1.3

(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 Resolution Ignis Asset Management.

Asset Type	Current valuation (%)	Previous valuation (%)
UK Gilts	0.080	0.080
UK Corporate Bonds	0.080	0.080
UK Index Linked Bonds	0.075	0.075
EU Gilts	0.100	0.100
EU Corporate Bonds	0.110	0.110
Property	0.200	0.200
Cash	0.085	0.085

(3) Form 43 Comparison

The maintenance expenses in paragraph 6 (1) differ from line 14 of Form 43 mainly due to:

- £(0.7)m due to the difference in actual expenses during 2011 and projected expenses in 2012.
- £1.1m of performance related investment fees which are not included in table 6(1).

(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 is held 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 Resolution 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

The non-attributable expenses relate to project costs which are high level estimates.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 (£)	1,594.2	1,585.5	16.3	1.0%
Euro (€)	57.6	51.4	0.0	10.0%
US ($)	2.2	2.2	0.0	0.0%

* 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 104.77%of its UK sterling liabilities. The company has US Dollar assets to the value of 179.11% of its US Dollar liabilities and Euros assets to the value of 114.61% 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. are as follows:

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 £404.4m 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) The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.

(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 £177.4m 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) The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.
(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 £557.5m 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) The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.
(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 £4.3m.

(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 £38.6m 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 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

		Reversionary Bonus rates for current year		Reversionary Bonus rates for previous year		Total g'tee bonus for current year
	Math reserves	Sum Assured	Bonus	Sum Assured	Bonus	
Assurances	£m					
UK and overseas sterling life series A,B,H,D,K	91.4	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Annuities						
Annual Premium Self Employed Deferred Annuities Series 2 & 3	83.7	0.00%	0.00%	0.00%	0.00%	0.00%
Single Premium Self Employed Deferred Annuities Series 2 & 3	14.5	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	65.7	12.1
Compounded annual rate for previous year	1.00%	1.00%
Compounded annual rate for current year	1.25%	1.25%
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 £14.8m.

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	62.2	0.00%	0.00%	0.00%	0.00%	0.00%
Non Genesis Annual Premium pension Contracts	11.5	0.00%	0.00%	0.00%	0.00%	0.00%
Genesis Premium Rate Annual Premium Contracts	29.5	0.00%	0.00%	0.00%	0.00%	0.00%
Buyouts and Genesis premium rate business Single Premium Contracts.	264.0	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	44.6					
UK Life Assurance Contracts – LAS low cost endowments	27.9	0.00%	0.00%	0.00%	0.00%	0.00%
UK Annual Premium Pension and Annuity Contracts	86.7	0.00%	0.00%	0.00%	0.00%	0.00%
UK Single Premium Pension and Annuity Contracts	42.2	0.00%	0.00%	0.00%	0.00%	0.00%
Republic of Ireland Annual Premium & Annuity Contracts	7.8	0.00%	0.00%	0.00%	0.00%	0.00%
Republic of Ireland Single Premium & Annuity Contracts	6.1	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)	6.0	0.00%	0.00%	0.00%
Pension Fund (4% guarantee)	16.8	0.00%	0.00%	4.00%
Pension Fund (0% guarantee)	34.2	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 year	Total g'tee bonus for current year
	£m			
Unitised Capital Guarantee Fund	20.3	4.51%	4.11%	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	2.08%	2.48%
Non profit	2.08%	2.08%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Credit Rating	Standard Term		
	5 year	10 year	20 year
AAA	4.3	12.3	15.2
AA	19	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £0.2m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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.

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 Banking Group 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

There has been a significant real reduction in the expense charge for non-premium-paying policies which has arisen because the rate of run-off of a product grouping for which no charge is made by the outsourcers has been lower in 2011 than for other non-premium-paying policies, hence reducing the average charge per policy overall.

The per-policy expenses are shown in the table below.

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)	17.67	7.99	16.26	8.24
Non profit (310)	n/a	7.99	n/a	8.24

For the current valuation the investment expense assumptions are based on the investment fee scale agreed with the asset manager. The base fees are as follows:

Type of Asset	Current Valuation		Previous Valuation	
	Growth %	Matched %	Growth %	Matched %
Equities	0.150	0.150	0.150	0.150
Overseas Equities	0.208	0.212	0.208	0.212
Property	0.200	0.200	0.200	0.200
Gilts	0.079	0.079	0.079	0.079
Other Fixed Interest	0.080	0.080	0.080	0.080
Cash	0.085	0.085	0.085	0.085

The expenses above are shown gross and, for life fund business, are netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a provision of £0.4m. At the previous valuation these additional services had been allowed for explicitly as a provision of £1.2m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(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	4.49%	5.00%
Non profit policies	3.99%	4.50%

(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. On surrender, the fund aims to pay out 100% of asset share. 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.

Product Name	Mathematical Reserve Excluding Guarantee	Guarantee Reserve	In force premium per annum
	£m	£m	£m
IB policies	272.6	0.2	12.5

(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 WP Endowment	32.0	1-15	6.8	51.0	3.5

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 £5.3m. This is composed of the following elements.

All IB products	£m
Explicit allowances for investment expenses	0.1
Explicit allowances for other maintenance expenses	5.0
Implicit allowances	0.3

(2) Implicit Allowances

The implicit allowances represent the allowance for base 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 and the maintenance expense in Form 43 line 14 are shown in the table below. Due to the significant run-off rate of the business, expense loadings available for the coming year would be expected to be below the actual level of expenses incurred in the past year.

	F43.14	table 6(1)	ratio
Homogeneous risk group	**(a) £m**	**(b) £m**	**(a)/(b)**
Endowment & whole life	6.6	5.3	124%
Total	6.6	5.3	124%

(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 £2.5m 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

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 (£)	273.6	273.6
Total	273.6	273.6

(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

The special reserves exceeding 0.1% of total mathematical reserves are outlined in the table below.

Description	Reserve
	£m
Data	1.5
Litigation	0.6
Project and other costs	0.6
MSC Expense Review	2.5
Costs falling outside MSAs	0.5
Solvency II	0.6
Strachan report	0.4
Capita Regulatory Buyout	0.6
Asset Management Services	0.4

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.

MCS Expense Review

This is described in paragraph 6(5).

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	229.8	0.53%	0.50%	0.53%

The rates shown are weighted averages as the rates of reversionary bonus vary between 0.25% and 1.7% depending on year of entry.

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 2011, market value reductions were applied to claims to some degree for all types of 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.

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	2.40%	3.89%
With-profits deferred annuity	in deferment	2.98%	4.66%
	in payment	2.30%	3.78%
Conventional Pensions Business			
With-profits deferred annuity	in deferment	2.98%	4.66%
	in payment	2.30%	3.78%
Non profit deferred annuity	in deferment	2.30%	3.46%
	in payment	2.30%	3.78%
With-profits annuity	discount rate	2.98%	3.74%
Guaranteed annuity options	in deferment	2.30%	3.46%
	in payment	2.30%	3.78%
Unitised Life Business			
Single premium whole life (portfolio)	unit growth	2.40%	3.28%
	discount rate	2.40%	3.28%
Single premium whole life (series B2, FWL)	unit growth	2.40%	3.28%
	discount rate	2.40%	3.28%
Regular premium endowment - savings	unit growth	2.40%	3.28%
	discount rate	2.40%	3.28%
Regular premium ISA	unit growth	2.98%	4.43%
	discount rate	2.98%	4.43%
Unitised Pensions Business			
Individual pensions	unit growth	2.98%	3.74%
	discount rate	2.98%	3.74%
Overseas Business			
Single premium series I (Irish life)	unit growth	2.98%	3.74%
	discount rate	2.98%	3.74%
Unit linked pensions			
Stakeholder	unit growth	2.94%	4.45%
	discount rate	2.94%	4.46%
Product Group		**Current Year**	**Previous Year**
Policies previously written in Century			
With-profits whole life and endowments	discount rate	2.40%	3.89%
Non linked deferred annuity with profits	in deferment	2.98%	4.66%
	in payment	2.30%	3.78%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

<u>Fixed Interest</u>

(c) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Credit Rating	Standard Term		
	5 year	10 year	20 year
AAA	4.3	12.3	15.2
AA	19	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £4.8m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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:

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% RMV00 61% RFV00	63% RMV00 64% RFV00
Conventional Pensions Business		
With-profits deferred annuity		
in deferment	85% AMC00 ult 85% AFC00 ult	85% AMC00 ult 85% AFC00 ult
in payment	56% RMV00 61% RFV00	63% RMV00 64% RFV00
Non profit deferred annuity		
in deferment	85% AMC00 ult 85% AFC00 ult	85% AMC00 ult 85% AFC00 ult
in payment	56% RMV00 61% RFV00	63% RMV00 64% RFV00
With-Profits Annuity		
	Modified PMA 92 Modified PFA 92	Modified PMA 92 Modified PFA 92
Guaranteed annuity options		
	97.4% PMA00 MedCoh 90.3% PFA00 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	High	Seriously ill
					Impairment		
Male aged 65	26.94	24.42	26.11	22.20	21.76	17.63	14.81
Male aged 75	17.33	15.17	17.13	13.34	14.62	10.33	8.40
Female aged 65	29.59	27.27	25.11	20.98	20.43	16.17	18.95
Female aged 75	19.35	17.25	15.45	11.89	12.04	9.04	10.83

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	High	Seriously ill
					Impairment		
Male aged 65	26.79	24.26	25.94	22.03	21.55	17.42	14.60
Male aged 75	17.20	15.04	16.99	13.21	14.47	10.18	8.25
Female aged 65	29.48	27.15	24.97	20.84	18.98	15.98	18.77
Female aged 75	19.25	17.14	15.33	11.79	10.59	8.91	10.70

The longevity improvement factors used for post vesting mortality assumptions for the current year are:

Males	**2012**	**2022**	**2032**	**2042**	**2052**	**2062**
40	2.25%					
50	1.89%	2.85%				
60	1.45%	2.48%	3.07%			
70	2.61%	1.80%	2.40%	2.69%		
80	3.63%	2.11%	1.77%	2.14%	2.17%	
90	1.41%	2.01%	1.58%	1.59%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Females	**2012**	**2022**	**2032**	**2042**	**2052**	**2062**
40	2.40%					
50	2.85%	3.08%				
60	1.84%	3.29%	3.18%			
70	2.65%	2.51%	2.79%	2.70%		
80	3.37%	2.41%	2.10%	2.18%	2.17%	
90	1.37%	2.00%	1.69%	1.62%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

The expectations 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	26.2	21.9
Male aged 55	24.6	21.9
Female aged 45	28.5	25.5
Female aged 55	27.1	25.5

The mortality tables used for with-profits deferred annuity for the current year are RFV00/RMV00.

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	45% 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 show the gross attributable expenses per policy.

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	(£)	(£)
CWP savings endowment (120)		
Premium paying	47.52	44.48
Single premium/paid up	23.77	22.25
CWP target cash endowment (125)		
Premium paying	47.52	44.48
Single premium/paid up	23.77	22.25
CWP pensions (155/165)		
Premium paying	79.21	74.13
Single premium/paid up	23.77	22.25
UL pension (725)		
Regular premium	60.20	56.34
Single premium/paid up	60.20	56.34
UWP Bond (500) - Series B		
Regular premium	47.52	44.48
Single premium/paid up	23.77	22.25

Product Group		
	Current Valuation	Current Valuation
	% Basic Units	% Basic Units
UWP Bond (500)		
Premium paying	0.57	0.53
Single premium/paid up	0.57	0.53
UWP savings endowment (510)		
Premium paying	0.57	0.53
Single premium/paid up	0.57	0.53
UWP pension (525 / 545)		
Regular premium	0.57	0.53
Single premium/paid up	0.57	0.53

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	Current 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	Current 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%.

For the current valuation the investment expense assumptions have been updated to allow for the impact of a new investment fee scale agreed with the asset manager. The base fees are as follows:

Type of Asset	Current Valuation		Previous Valuation	
	Growth %	Matched %	Growth %	Matched %
Equities	0.150	0.150	0.150	0.150
Overseas Equities	0.208	0.212	0.208	0.212
Property	0.200	0.200	0.200	0.200
Gilts	0.079	0.079	0.079	0.079
Other Fixed Interest	0.080	0.080	0.080	0.080
Cash	0.085	0.085	0.085	0.085

The investment expenses for life fund business are netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a provision of £4.5m. At the previous valuation these additional services had been allowed for as a provision of £8.8m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(7) Unit Growth Rates and Expense Inflation

Policies previously written in BA

Product Group	Current Valuation	Previous Valuation
Unit growth rates		
Pensions business	2.94%	4.45%
Expense inflation		
With profit policies	4.49%	5.00%
Stakeholder Pension policies	3.99%	4.50%

(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 2012 was 2.92%.

(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	2.98%
	Post-vesting	2.30%
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	2.26	1-29	1.1	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	94.5	0.0	94.5	0.0
With Profit Bond (series B2)	8.8	0.0	8.8	0.0
With Profit Bond (series I)	20.1	0.0	20.1	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 5^{th} 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 £0.44m 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	15.4	1-22	3.5	28.2	1.9

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 £17.0m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.6
Explicit allowances for other maintenance expenses	2.8
Implicit allowances	13.6

(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;

(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 and the maintenance expense in Form 43 line 14 are shown in the table below. Due to the run-off rate of the business, expense loadings available for the coming year would be expected to be below the actual level of expenses incurred in the past year.

	F43.14	**table 6(1)**	**ratio**
Homogeneous risk group	**(a) £m**	**(b) £m**	**(a)/(b)**
Policies previously written in BA	25.3	16.7	152%
Policies previously written in Century Life		0.4	0%
Total	25.3	17.0	148%

The difference between the expenses in line.14 of Form 43 and the expenses in table 6(1) can be explained by the following.

- Form 43 includes £3.2m 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 investments expenses allowances in table 6(1) above are also only based on the reserves held and ignore the surplus assets in the Fund and do not allow for any additional investment performance fees as the valuation basis only assumes base returns will be earned.
- 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.

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 £3.2m 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 also £3.2m

(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 (£)	3,304.4	3,304.4
Other currencies	20.1	20.1
Total	3,324.6	3,324.6

(2) Other Currency Exposures

See paragraph 7 (1).

(3) Currency Mismatching Reserve

A sub-fund 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 0.1% of the mathematical reserves (ie £3.3m) are:

Description	**Reserve**
	£m
Data	11.0
Litigation	6.6
Project and other costs	5.8
Pensions Review	15.0
VAT	12.6
Pension Scheme	25.0
Credit default Peak 1 provision	4.8
Asset Management Services	4.5

<u>Pension Scheme Reserve</u>

To cover Pension Scheme longevity risks a Regulatory Peak provision of £33m is retained in PLL. Of this £33m provision £25m applies to BWP. The provision has increased significantly from the previous valuation following reconsideration of the longevity risk.

9. REINSURANCE

The treaty now only includes unit linked stakeholder pensions business. The remaining property linked liabilities under life and pension's 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 £1.34m.

(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 £36.3m.

(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	289.5	0.458%	0.449%	0.458%
Life Deferred Annuities	20.6	0.791%	0.731%	0.791%
Pensions Deferred Annuities	114.5	0.970%	0.941%	0.970%
Unitised With-Profits				
Life Regular Premium	8.9	0.000%	0.000%	0.000%
Life Single Premium	94.6	0.000%	0.000%	0.000%
Pensions	2,438.8	1.000%	1.000%	1.000%
Irish life - Euro denominated	0.0	1.760%	2.200%	1.760%
New WP bond (smoothed returns)	9.5	3.430%	4.440%	3.430%
WP annuity	12.5	2.830%	4.140%	2.830%
Policies previously written in Century				
Ex - Sentinel				
Simple Bonus	7.8	4.75%	4.75%	4.75%
Compound - assurances	0.2	3.80%/3.80%	3.80%/3.80%	3.80%/3.80%
Compound - deferred annuities	2.3	3.80%/3.80%	3.80%/3.80%	3.80%/3.80%
Ex-NEL				
Simple Bonus	20.7	6.00%	6.00%	6.00%
Compound Bonus	18.4	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 2.83% and average guaranteed uplift applied for 2010 was 2.31%.

Phoenix With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Unitised With Profit Bond

These policies were sold between June 1996 and September 2001.

Separate MVRs are calculated for each month of entry. The following table contains the months of entry for which MVRs were applied during 2011 and also the periods when MVRs were applied in 2011.

Bonds sold in	MVRs applied in period during 2011
Dec 2000	1 Sep to 30 Nov
Sep 2000	1 Jan to 31 Dec
Aug 2000	1 Sep to 30 Nov
Jul 2000	1 Sep to 31 Dec
Apr 2000	1 Jan to 31 Jan; 1 Sep to 31 Dec
Jan 2000	1 Dec to 31 Dec
Dec 1999	1 Jan to 31 Jan; 1 Sep to 31 Dec
Aug 1998	1 Jan to 31 Jan; 1 Apr to 31 May; 1 Jul to 31 Jul; 1 Sep to 31 Dec
Jul 1998	1 Dec to 31 Dec
Feb 1998 to Jun 1998	1 Jan to 31 Dec
Jan 1998	1 Dec to 31 Dec
Oct 1997	1 Jan to 31 Dec
Sep 1997	1 Jan to 28 Feb; 1 Apr to 31 May; 1 Sep to 31 Dec
Aug 1997	1 Jan to 31 May
Jun 1997	1 Dec to 31 Dec
Mar 1997	1 Sep to 31 Dec
Feb 1997	1 Dec to 31 Dec

Lifestyle Bond

These policies were sold between February 2001 and December 2001.

Separate MVRs are calculated for each month of entry. The following table contains the months of entry for which MVRs were applied during 2011 and also the periods when MVRs were applied in 2011.

Bonds sold in	MVRs applied in period during 2011
Feb 2001	1 Feb 2011 to 31 Jul 2011

UK With Profit Bond (Pre 1997)

These policies were sold in various different tranches between January 1992 and December 1996.

Separate MVRs are calculated for each tranche. The following table contains the tranches for which MVRs were applied during 2011, the dates between which those tranches of bonds were sold, and also the periods when MVRs were applied in 2011.

Bonds sold between	MVRs applied in period during 2011
11 May 1992 and 30 Aug 1992	1 Sep and 31 Dec
17 May 1993 and 31 Aug 1993	1 Sep and 31 Dec
1 Jul 1996 and 31 Dec 1996	1 Sep and 31 Dec

Isle of Man With Profit Bond (Pre 1999)

These policies were sold between December 1992 and December 1998.

Separate MVRs are calculated for each tranche. The following table contains the tranches for which MVRs were applied during 2011, the dates when those tranches of bonds were sold, and also the periods when MVRs were applied in 2011.

Bonds sold in	MVRs applied in period during 2011
Dec 1998	1 Jan to 31 Dec

Bonds sold in	MVRs applied in period during 2011
Apr 2007	1 Jan to 28 Feb
May 2007	1 Jan to 31 May
Jun 2007	1 Jan to 30 Jun
Jul 2007	1 Jan to 31 Jul
Aug 2007	1 Jan to 31 Aug
Sep 2007 to Nov 2007	1 Jan to 30 Nov
Dec 2007 to Mar 2009	1 Jan to 31 Dec
Apr 2009 to Jun 2009	1 Jan to 30 Nov
Jul 2009	1 Jan to 31 Aug
Aug 2009	1 Jan to 31 Jul
Sep 2009 to Oct 2009	1 Jan to 30 Jun
Nov 2009 to Jan 2010	1 Jan to 31 May
Feb 2010	1 Jan to 31 Mar
Mar 2010 to Jun 2010	1 Jan to 28 Feb
Jul 2010 to Nov 2010	1 Jan to 31 Jan

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

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

For these policies, separate MVRs are calculated for each year of entry. No Market value reductions were been applied during 2011.

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

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

For these policies, separate MVRs are calculated for each year of entry. No MVRs were applied in 2011 to policies sold between January 1995 and April 2001.

However, MVRs were applied in 2011 to increments taken out in 2010 and 2011

<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

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

Separate MVRs are calculated for each month of entry. No MVRs were applied to any months of entry between April 2001 and December 2002 when the products were sold.

However MVRs have been applied to the months of entry for some increments made after December 2002. These months of entry along with the periods for which MVRs were applied during 2011 are contained in the following table.

Bonds sold in	MVRs applied in period during 2011
Apr 2007	1 Jan to 28 Feb
May 2007	1 Jan to 31 May
Jun 2007	1 Jan to 30 Jun
Jul 2007	1 Jan to 31 Jul
Aug 2007	1 Jan to 31 Aug
Sep 2007 to Nov 2007	1 Jan to 30 Nov
Dec 2007 to Mar 2009	1 Jan to 31 Dec
Apr 2009 to Jun 2009	1 Jan to 30 Nov
Jul 2009	1 Jan to 31 Aug
Aug 2009	1 Jan to 31 Jul
Sep 2009 to Oct 2009	1 Jan to 30 Jun
Nov 2009 to Jan 2010	1 Jan to 31 May
Feb 2010	1 Jan to 31 Mar
Mar 2010 to Jun 2010	1 Jan to 28 Feb
Jul 2010 to Nov 2010	1 Jan to 31 Jan

(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 £55.07 to £57.24.

Charges apply to all accumulating with-profits business, except Lifestyle Bond. The mathematical reserves at the valuation date amount to £922m.

(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:

<u>Gross Premium Method</u>

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.

<u>Accumulating With-Profits Policies</u>

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.

<u>Calculation Notes</u>

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	2.47%	3.28%
With-Profits – Other	2.11%	2.85%
With-Profits Bond	2.09%	2.85%
With-Profits Deferred Annuity		
- Regular Premium	2.22%	3.46%
- Single Premium/ Paid-Up Initial Rate	3.54%	4.35%
- Single Premium/ Paid-Up Reinvestment Rate	3.55%	3.57%
Non Profit – Endowments	3.19%	3.43%
Non Profit – Other	1.91%	2.40%
Non Profit Deferred Annuity	2.42%	3.57%
Annuities in Payment (new GAF)	3.61%	3.88%
Annuities in Payment (old GAF)	3.99%	4.32%

Valuation Interest Rates – Pension		
With-Profits Deferred Annuity		
- Regular	2.22%	3.46%
- Single Premium/ Paid-Up Initial Rate	3.54%	4.35%
- Single Premium/ Paid-Up Reinvestment Rate	3.55%	3.57%
Profit Plus Fund - accumulating units	2.24%	3.46%
- initial units	1.99%	3.21%
With-Profits Group Endowments	2.24%	3.46%
Other Assurances	2.22%	3.46%
Annuities in Payment	3.99%	4.32%
Non Profit Assurances	1.85%	3.04%
Non Profit Deferred Annuities	1.85%	3.04%
RPI Linked Deferred Annuities*	-0.62%	0.23%
RPI Linked Annuities in Payment*	-0.62%	0.23%
PHI	1.85%	3.16%

* Valuation interest rates are real rates and not nominal rates.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(e) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Credit Rating	Standard Term		
	5 year	10 year	20 year
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the approach based on senior debt with no recovery.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £7.9m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

<u>Variable Interest</u>

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.

<u>Equities</u>

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 IM80 c2010	Modified IM80 c2010 Modified IF80 c2010
Pension Deferred Annuities post vesting	87.9% PCMA00 with CMI 2009 improvement factors 104.5% PCFA00 with CMI 2009 improvement factors	Modified PMA92 c2020 Modified PFA92 c2020
Pension Immediate Annuities	87.9% PCMA00 with CMI 2009 improvement factors 104.5% PCFA00 with CMI 2009 improvement factors	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	22.91	25.58	22.75	25.46
75	14.60	16.43	14.47	16.32

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	62.9%	80.0%	123.3%	120.4%
At age 75	56.6%	72.9%	73.4%	87.4%
At age 85	66.4%	84.7%	74.1%	76.1%
At age 95	77.6%	97.0%	78.9%	79.7%

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

Males	2012	2022	2032	2042	2052	2062
65	2.95%	3.03%	2.62%	2.98%	2.98%	2.98%
75	3.24%	2.60%	2.47%	2.40%	2.44%	2.44%
85	2.97%	2.13%	1.95%	1.90%	1.90%	1.90%
95	1.73%	1.47%	1.39%	1.36%	1.35%	1.35%

Females	2012	2022	2032	2042	2052	2062
65	2.45%	3.10%	2.89%	2.98%	2.98%	2.98%
75	2.72%	2.65%	2.54%	2.43%	2.44%	2.44%
85	2.33%	2.05%	1.99%	1.91%	1.90%	1.90%
95	1.47%	1.39%	1.38%	1.36%	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	25.25	25.21	26.72
75	15.48	15.54	15.74	16.32

<u>Deferred pension contracts (post vesting) including guaranteed annuity options.</u>

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	72.9%	87.5%	478.2%	446.9%
At age 65	62.9%	80.0%	123.3%	120.4%
At age 75	56.6%	72.9%	73.4%	87.4%
At age 85	66.4%	84.7%	74.1%	92.5%
At age 95	77.6%	97.0%	78.9%	96.6%

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

Males	2012	2022	2032	2042	2052	2062
55	2.81%	2.42%	3.25%	3.25%	3.25%	3.25%
65	2.95%	3.03%	2.62%	2.98%	2.98%	2.98%
75	3.24%	2.60%	2.47%	2.40%	2.44%	2.44%
85	2.97%	2.13%	1.95%	1.90%	1.90%	1.90%
95	1.73%	1.47%	1.39%	1.36%	1.35%	1.35%

Females	2012	2022	2032	2042	2052	2062
55	2.45%	3.04%	3.25%	3.25%	3.25%	3.25%
65	2.45%	3.10%	2.89%	2.98%	2.98%	2.98%
75	2.72%	2.65%	2.54%	2.43%	2.44%	2.44%
85	2.33%	2.05%	1.99%	1.91%	1.90%	1.90%
95	1.47%	1.39%	1.38%	1.36%	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	28.14	28.30	28.47	30.01
55	26.55	26.80	26.81	28.40

(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)	25.07	23.85
All other policies	53.17	50.58

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 life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. The MSA specifies fee inflation is RPIX +1.0% at 1 January each year.

For the current valuation the investment expense assumptions have been updated to allow for the impact of a new investment fee scale agreed with the asset manager. The base fees are as follows:

Investment expenses (Gross)	Current valuation	Previous valuation
UWP Bond 4 & Lifestyle Bond	0.159%	0.159%
Other Conventional	0.146%	0.146%
Non Profit business	0.080%	0.080%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a new provision of £5.1m. At the previous valuation these additional services had been allowed for implicitly within the investment expense assumption. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(7) Unit Growth Rates And Expense Inflation

There are no unit growth rate assumptions on the residual linked business as the reserve held is the face value of the units.

Future expenses are assumed to increase at 3.99% 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	2012	2013	2014+
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%	0.02%	0.00%
UWP Pensions	1.00%	0.17%	0.00%

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

Tranche	2012	2013	2014+
1	1.75%	0.00%	0.00%
2a	1.00%	0.00%	0.00%
2b	1.25%	0.00%	0.00%
3a	0.50%	0.00%	0.00%
3b	1.25%	0.00%	0.00%
4	0.50%	0.00%	0.00%
5	0.75%	0.00%	0.00%
6	0.00%	0.00%	0.00%
6a	0.00%	0.00%	0.00%
7	1.25%	0.00%	0.00%
8	2.50%	0.50%	0.00%
8a	1.00%	0.00%	0.00%
8b	0.25%	0.00%	0.00%
9	0.50%	0.00%	0.00%
10	0.50%	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 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) (a) below.

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 sum 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 2.53% 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.

Product Name	Basic Reserve £m	Spread of outstanding durations Years	Guarantee Reserve £m	Guaranteed Annuity Rate (Male at 65)	Increments	Form of annuity	Retirement Ages
Personal Retirement Plan (Pre 1978)	13.9	0 to 15	7.5	10.74%	No	Level – Single Life Twice annually in arrears No guarantee period	60 to 75
Personal Retirement Plan (Post 1978)	155.7	0 to 36	85.1	9.00%	No	Level – Single Life Annually in arrears No guarantee period	60 to 75
Personal Retirement Plan (Post 1988)	76.6	0 to 42	38.0	9.00%	No	Level – Single Life Annually in arrears No guarantee period	50 (*) to 75
Personal Retirement Plan (Eire)	23.4	0 to 29	14.1	9.25%	No	Level – Single Life Monthly in advance Five year guarantee period	50 to 75
Retirement Plan	104.6	0 to 30	73.5	11.11%	No	Level – Single Life Monthly in advance Five year guarantee period	50 (*) to 75
Convent Schemes	7.2	0 to 20	1.2	10.04%	Yes (**)	Level – Single Life Monthly in advance No guarantee period	60 to 70
Philips Scheme	6.7	0 to 30	3.9	10.00%	Yes (**)	Level – Single Life Monthly in advance Five year guarantee period	60 to 65

(*)From age 55 for retirements from 2011.

(**)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] × 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	£21.3m
(iii) Spread of Outstanding Durations	0 to 28
(iv) Guarantee Reserve	£0.8m
(v) Guaranteed Amount	£21.9m
(vi) MVR Free Conditions	MVRs do not apply
(vii) In Force Premiums	£0.4m
(viii) Increments	No

UWP Bond

(a) There is a "money back" guarantee on full surrender on the 10^{th} 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 4**	**Lifestyle Bond**
(ii) Basic Reserve	£36.1m	£33.0m
(iii) Spread of Outstanding Durations	0 to 3 years for guarantee	0 to 1 years for guarantee
(iv) Guarantee Reserve	£0.0m	£0.0m
(v) Guaranteed Amount	£37.3m	£33.0m
(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 (*)	£21.3m	£240.8m	£114.7m
(iii) Spread of Outstanding Durations	0 to 15 years	0 to 36 years	0 to 42 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	£1.1m	£0.8m
(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	£74.5m
(iii) Spread of Outstanding Durations	0 to 38 years
(iv) Guarantee Reserve	£1.7m
(v) Guaranteed Amount	£72.6m
(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	£1.2m
(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 loadings, grossed up for taxation where appropriate, expected to arise during the 12 months following the valuation date from explicit and implicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £21.3m. This is composed of the following elements:

	£m
Explicit allowances for investment expenses	0.6
Explicit allowances for other maintenance expenses	14.3
Implicit allowances	5.0
Non-attributable expenses	1.4

(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)	Difference
Homogeneous risk group	**(a) £m**	**(b) £m**	**(a)- (b)**
All products	25.2	21.3	3.9
Total	25.2	21.3	3.9

The amount reported on line 14 of Form 43 is £25.2m. Form 43 includes £3.1m of performance related investment fees which is not included in table 6(1). Allowing for this difference, the actual and expected is not significantly different.

(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 Pearl Group Management Services.

(6) Non-attributable Expense Reserves

The non-attributable expense reserve is the cost of certain planned projects of a non-recurring nature that are not covered by the standard fee under the management services agreement.

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 (£)	3,982.8	3,982.8
Other currencies	101.2	101.2
Total	4,084.0	4,084.0

(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	12.3
MER	4.6
Litigation reserve	7.4
Future projects reserve	6.5
Reassurance Default	8.0
Outsourcer Expenses	11.8
Credit Default Margin	7.9
Asset Management Services	5.1

Details of the other special reserves are set out below.

Data Contingency Reserve

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

Mortgage Endowment Review reserve

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

Litigation reserve

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

Litigation Reserve

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

Future projects reserve

Reserve for future projects, which is c

Litigation Reserve

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

Reassurance Default

Provision to cover the risk that a reassurer will default on its obligations.

Outsourcer Expenses

A combined reserve to capture the following:
(a) Potential increase in expenses should VAT become payable on the administrator's service fees
(b) Provision held to offset an accounting prepayment asset held to cover a transfer of risk payment made to an outsourced services provider and
(c) A negative provision to allow for existing (lower) MSA fees that apply up to August 2012 which have not been allowed for in the expense assumptions used in the long-term projections.

Asset Management Services Provision

This is a new provision at 31 December 2011, amounting to £5.1m. The provision has been calculated by capitalising the current additional service fees; an approximate capitalisation factor of 8 is used, reflecting term of the contract/run-off of the business. The additional service fees are allocated between entities in proportion to funds under management as at 31 December 2010.

Credit Default margin

A provision to allow for the impact of a 10% margin in the Peak 1 default assumption as at December 2011.

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.

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

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

(2) Reinsurance Treaties

The required details of 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 £17.5m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations.

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £127m.

(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 Phoenix group.

(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.

(i) Conventional With-Profits Policies

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)	937.9	0.25 / 0.25	0.25 / 0.25	0.00
Uniflex Endowment Assurances	22.0	0.2 / 0.2	0.20 / 0.20	0.00
Convent Schemes	8.4	0.2 / 0.2	0.20 / 0.20	0.00
Eire Life	6.0	0.25 / 0.25	0.25 / 0.25	0.00
UK Pensions	535.8	0.2 / 0.2	0.20 / 0.20	0.00
Eire Pensions	37.1	0.2 / 0.2	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	73.8	1.00	1.00	0.00
Profit Plus Fund	470.4	0.10	0.10	0.00
PlusPlan	163.2	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	3.75	3.75	3.75
2a	3.5	3.00	4.00	3.00
2b	0.4	3.25	3.75	3.25
3a	12.0	2.50	3.00	2.50
3b	1.0	3.25	3.50	3.25
4	8.3	2.50	2.50	2.50
5	3.4	2.75	3.00	2.75
6	1.3	0.50	0.50	0.50
6a	2.7	2.00	2.50	2.00
7	1.1	3.25	3.50	3.25
8	4.0	4.50	3.50	4.50
8a	3.9	3.00	3.00	3.00
8b	1.6	2.25	3.00	2.25
9	8.5	2.50	2.50	2.50
10	15.9	2.50	2.25	2.50
TOTAL	72.2			

(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	24.7	0.50	0.50	0.50
3	70.4	0.50	0.50	0.50
4	36.1	1.00	1.00	1.00
Lifestyle	33.0	1.00	1.00	1.00
TOTAL	164.3			

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

3. 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:

Month	MVR
Jan-11	0.0%
Feb-11	0.0%
Mar-11	0.0%
Apr-11	0.0%
May-11	0.0%
Jun-11	0.0%
Jul-11	0.0%
Aug-11	0.0%
Sep-11	0.0%
Oct-11	3.0%
Nov-11	2.0%
Dec-11	0.0%

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

4. 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	2.72%	3.00%
Pension	3.40%	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

(g) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(h) 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), net of an allowance for recovery on default, were:

	Standard		
Rating	**5 year**	**10 year**	**20 year**
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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.

There is currently no property investment in this fund.

(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	71.5% 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

For the current valuation the investment expense assumptions have been updated to allow for the impact of a new investment fee scale agreed with the asset manager. The base fees are as follows:

Investment Expenses	Current valuation	Previous valuation
	%	%
Life	0.08	0.08
Pension	0.10	0.10

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. Compared to the MSA at the previous valuation the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid to the outsourced service provider on a fixed charge basis.

The MSA specifies fee inflation to be RPIX +1.0% at 1 January each year down from RPIX + 1.4% in the previous agreement.

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.

5. 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 £3.8m has been established to meet the expected future cost of this guarantee. This has been calculated as the additional reserve required with respect to the amount by which the guaranteed unit growth rate, together with the management charge, exceeds the valuation interest rate.

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 £0.5m. 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	0.5

(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) of £0.5m is not significantly different from the total shown in line 14 of Form 43 of £0.49m.

(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 (£)	105.0	105.0
Other currencies	0.6	0.6
Total	105.6	105.6

(2) Other Currency Exposures

Liabilities totalling £0.6m 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.

8. OTHER SPECIAL RESERVES

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

Description	Reserve £m
Tax Provision	3.50
Litigation Contingency Reserve	0.30
Actuarial Systems Transformation	0.29
Solvency II	0.25
Outsourcer Expenses	0.11

Details of the other special reserves are set out below.

Tax Provision

A provision is held to cover an ongoing tax variance in the PLL 90 fund. This variance is due to the level of corporation tax assessed for the fund being in excess of the tax modelled and collected from asset shares.

Litigation Contingency Reserve

A contingency reserves is held for litigation
- For Regulatory Peak and the Realistic Peak the reserve established is 0.15% of the Net Asset Value
- For IFRS and MCEV the reserve is 0.05% of Net Asset Value

Actuarial Systems Transformation

This provision is to cover the costs of this project. The provision is based on the latest business case. The Regulatory Peak provision contains an additional 10% margin.
At the current valuation this provision was set equal to the provision from the previous valuation, less any related expenditure over the period.

Solvency II

The provision was originally established in December 2009, on all valuation bases, to cover the expected costs of the Solvency II project. The provision has been reduced in the current valuation in line with actual project spend in 2011.

Outsourcer Expenses

A provision is held to offset an accounting prepayment asset held to cover a transfer of risk payment made to an outsourced services provider. This will reduce in line with the prepayment asset and since there has been no prepayment during the year, the provision has not changed.

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	Math reserves £m	Reversionary Bonus Rate for Current Year %SA / %RB	Reversionary Bonus Rate for Previous year %SA / %RB	Total g'tee bonus for current year %
Ex-SLUK OB (conventional)				
Series A	1.0	1.7% / 0%	1.7% / 0%	0.00%
Series B	67.9	1.3% / 1.3%	1.3% / 1.3%	0.00%
Series C	2.4	1.3% / 1.3%	1.3% / 1.3%	0.00%
Ex-SLUK IB				
Pioneer Mutual	0.4	11% / 0%	9% / 0%	0.00%
Stamford cash bonus	0.6	3.25% / 0%	2.25% / 0%	0.00%
Other	7.1	6.5% / 0%	4.5% / 0%	0.00%
Ex-BULA				
Life	13.3	2.5% / 3.5%	2.5% / 3.5%	0.00%
Pensions	2.0	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

(i) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(j) 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), net of an allowance for recovery on default, were:

Credit Rating	Standard		
	Term		
	5 Yr	10 Yr	20 Yr
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at

an aggregated portfolio level; for this fund, bank subordinated debt adopted the approach based on senior debt with no recovery.

- For corporate bonds rated below B no value was taken for the yield.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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	85.0% AM92 116.0% AF92	85.0% AM92 116.0% AF92

Policies originally written in SLUK

Product Group	Current Valuation	Previous Valuation
Whole Life and Endowment	77.0% AM92 Females as above -3yrs	77.0% AM92 Females as above -3yrs
Deferred Annuities	82.5% IMA92 Females as above -3yrs	82.5% IMA92 Females as above -3yrs

Allowance for mortality improvements

Mortality improvement rates for valuing the post-vesting element of the deferred annuities are as follows and are based on the CMI Medium Cohort projection basis:

(%)	2012	2022	2032	2042	2052	2062
40	2.97%	0.00%	0.00%	0.00%	0.00%	0.00%
50	2.97%	2.65%	0.00%	0.00%	0.00%	0.00%
60	2.97%	2.65%	2.29%	0.00%	0.00%	0.00%
70	1.84%	1.55%	1.27%	1.01%	0.00%	0.00%
80	1.77%	0.92%	0.75%	0.59%	0.47%	0.00%
90	1.69%	0.51%	0.41%	0.33%	0.27%	0.21%
100	0.26%	0.21%	0.18%	0.15%	0.12%	0.10%

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	Previous
	£	£
Ex-Phoenix Assurances	94.27	67.26
Ex-Swiss Life UK	65.91	50.68

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.

For the current valuation the investment expense assumptions have been updated to allow for the impact of a new investment fee scale agreed with the asset manager. The base fees are as follows:

Business Group	Investment Expense (gross of tax)	
	Current Valuation	Previous Valuation
	%	%
Life	0.10%	0.10%
Pensions	0.13%	0.12%

In addition to the base fees, there is an explicit additional services fee which is allowed for as a new provision. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010 where the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid to the outsourced service provider on a fixed charge basis.

The new MSA specifies fee inflation to be RPIX +1.0% at 1 January each year. The previous MSA allowed for fee inflation at RPIX +3.8% for Ex-Phoenix business and RPIX +1.4% for Swiss WP business.

(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-Phoenix Assurances	4.99	5.50
Ex-Swiss Life UK	4.99	5.50

(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 £0.31m. This is composed of the following elements.

	£m
Explicit allowances for investment expenses	0.00
Explicit allowances for other maintenance expenses	0.16
Implicit allowances	0.15

(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 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)	Difference
Homogeneous risk group	[a] £m	[b] £m	[a]-[b] £m
All products	0.44	0.31	0.13
Total	0.44	0.31	0.13

The amount reported on line 14 of Form 43 is £0.44m. Form 43 includes £0.1m of performance related investment fees which is not included in table 6(1). Allowing for this difference, the actual and expected is not significantly different.

(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	Backed by assets
	£m	£m
Sterling (£)	30.3	30.3
Other currencies	0.0	0.0
Total	30.3	30.3

(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 Agreement	6.10
Fund Projection Issue	0.50
Actuarial Systems Transformation	0.29
Litigation	0.20
Solvency II	0.16
Asset Management Services	0.10
Outsourcer Expenses Risk Transfer Payment	0.03

Details of the other special reserves are set out below.

<u>Swiss Re Reinsurance Agreement</u>
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.

<u>Fund Projection Issues</u>
This provision is held for potential claims due to changes in the method used in projecting maturity values.

<u>Actuarial Systems Transformation</u>
Substantial costs are expected in relation to this project. The provision is based on the latest business case, which shows a significant increase in expected costs.

<u>Litigation</u>
Reserves for future litigation settlements and other similar costs, which is calculated with regard to past experience.

<u>Solvency II</u>
The provision was established in 31 December 2009 on all bases to cover the expected costs of the Solvency II project apportioned to PWP. It has been updated based on the latest business case. The provision was set as the 31 December 2010 provision less expenditure incurred over 2011.

Asset Management Services
This is a new provision at 31 December 2011, amounting to £0.1m. The provision has been calculated by capitalising the current additional service fees; a capitalisation factor of approximately 8 is used, reflecting term of the contract/run-off of the business. The additional service fees are allocated between entities in proportion to funds under management as at 31 December 2010.

Outsourcer Expenses Risk Transfer Payment
A provision is held to offset an accounting prepayment asset held to cover a transfer of risk payment made to an outsourced services provider. This will reduce in line with the prepayment asset.

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	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous year	Total g'tee bonus for current year
	£m	%	%	%
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.

SAL With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

The Company reserves the right to apply a Market Value Reduction (MVR) to policies that invest in the Unitised With Profits (UWP) Fund.

Mortgage Savings Plan, Regular Savings Plan and Universal Protection Plan

From 1 January 2011 to 30 June 2011, MVRs were only applied to regular premium policies or increments that commenced in calendar years 2005, 2006, 2007, 2009, 2010 or 2011. From 1 July 2011 to 31 December 2011, MVRs were only applied to premium-paying policies or increments that commenced in calendar years 2010 and 2011.

Unitised With Profits Bond

MVRs have been applied at some point during the period from 1 January 2011 to 30 June 2011 to policies or increments commencing between August 1997 and October 1997, between February 1998 and June 1998, or in August 1998. No MVRs were applied during the period from 1 January 2011 to 30 June 2011 to policies or increments commencing on other dates.

MVRs have been applied at some point during the period from 1 July 2011 to 31 December 2011 to policies or increments commencing in February 1997, March 1997 and June 1997, between August 1997 and October 1997 and between January 1998 and August 1998. No MVRs were applied during the period from 1 July 2011 to 30 December 2011 to policies or increments commencing on other dates.

UWP Group Pensions

MVRs have been applied at some point during the period from 1 January 2011 to 30 June 2011 to policies or increments commencing between 1 October 2010 and 31 March 2011. MVRs on these contracts have been applied between 1 October 2011 and 31 December 2011 to policies commencing between 1 January 2011 and 30 September 2011.

Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

MVRs have been applied from 1 January 2011 to 30 June 2011 to regular premium policies, single premium policies or increments commencing in years 2010 or 2011.

MVRs have been applied from 1 July 2011 to 31 December 2011 to regular premium policies, single premium policies or increments commencing in years 2010 or 2011.

(2) Premiums on Reviewable Protection Policies

There were no changes to premium rates on reviewable non-linked protection policies since the previous valuation.

(3) Non-profit Deposit Administration

There are no non-profit deposit administration policies.

(4) Service Charges on Linked Policies

The policy charges for the following linked contracts have changed since the previous valuation:

Product	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Universal Protection Plan	3.45	3.65	5.80%
Mortgage Savings Plan and Regular Savings Plan	4.06	4.29	5.67%

For Individual Personal Pension Plan, Group Personal Pension Plan, Company Pension Scheme & Company Additional Pension Scheme the monthly policy charges changed as follows:

Contribution Type	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Regular premium and increments	0.00	0.00	n/a
Paid-up policies and policies on premium holidays (other than for Group Personal Pension Plan)	2.00	2.10	5.00%
Paid-up policies and policies on premium holidays for Group Personal Pension Plan	0.00	0.00	n/a
Single premium stand alone contracts issued before 16 October 1995	5.65	5.95	5.31%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.40	4.35%
Single premium stand alone contracts issued between 21 September 1998 and 9 April 2000	4.10	4.35	6.10%
Single premium stand alone contracts issued after 9 April 2000	3.60	3.80	5.56%

For Personal Additional Pension Plan the monthly policy charges changed as follows:

Contribution Type	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Regular premium policies issued before 29 January 1996	5.65	5.95	5.31%
Regular premium policies issued between 29 January 1996 and 9 April 2000	5.35	5.65	5.61%
Regular premium policies issued after 9 April 2000	3.60	3.80	5.56%
Paid-up policies and policies on premium holidays	2.00	2.10	5.00%
Single premium stand alone contracts issued before 16 October 1995	5.65	5.95	5.31%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.40	4.35%
Single premium stand alone contracts issued between 21st September 1998 and 9 April 2000	4.10	4.35	6.10%
Single premium stand alone contracts issued after 9 April 2000	3.60	3.80	5.56%

For Executive Pension Plan the monthly policy charges changed as follows:

Contribution Type	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Regular premium policies issued before 29 January 1996	5.65	5.95	5.31%
Regular premium policies issued after 29 January 1996	5.35	5.65	5.61%
Paid-up policies and policies on premium holidays	2.00	2.10	5.00%
Single premium stand alone contracts issued before 16 October 1995	5.65	5.95	5.31%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.40	4.35%
Single premium stand alone contracts issued after 20 September 1998	4.10	4.35	6.10%

(5) Benefit Charges on Linked Policies

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

(6) Accumulating With-Profits Charges

When determining terminal bonus or MVR's, expenses are notionally charged to the specimen policy asset shares in respect of Unitised with-profit bonds.

The maintenance expense allowance for the period 1 July 2011 to 31 December 2011 was £63.07 p.a. This compares with £46.50 p.a. for the period 1 January 2011 to 30 June 2011, £41.90 p.a. for the period 1 January 2010 to 30 June 2010 and £ 43.04 for the period 1 July 2010 to 31 December 2010.

A charge of 1.50% pa of asset share is taken from the asset share of all with-profits business other than Libra policies.

Investment expenses were charged according to the fee structure in following table between the current and the previous valuation.

	2011 Investment Expense	**Additional 2011 Service Charge**
Life UWP Bond	0.086% p.a.	0.020% p.a.
UWP Group Pensions	0.127% p.a.	0.025% p.a.

(7) Unit Pricing of Internal Linked Funds

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

Immediate Annuity Fund

Policyholder benefits consist of an annual annuity equal to the unit price multiplied by the number of units allocated to their policy. The unit price is calculated quarterly as the value of the fund, divided by the actuarial value of the units in issue.

The fund is closed to new business so no units are being created. Annuity payments and other expense are debited to the fund. Units are cancelled (and thus disregarded from the unit price calculation) when benefits stop being payable due to the death of the annuitant.

The assets of the fund mainly comprise shares in the UK Commercial Property Trust and money market funds. These assets are valued on a bid basis when determining the fund value.

Other Internal Linked Funds

Benefits attaching to other internal linked funds other than the Immediate Annuity Fund are wholly reassured ultimately to Phoenix Life Limited and the unit pricing of the funds is described in the Returns of that company.

(8) Tax Deductions From Internal Linked Funds

There is no deduction for tax within the Immediate Annuity Fund.

(9) Tax Provisions for Internal Linked Funds

There is no provision for tax within the Immediate Annuity Fund.

(10) Discounts on Unit Purchases

No commission is payable by the managers of F&C UK Equity OEIC on the purchase of units by the company. This OEIC backs the Family Fund and Equity Plan products of which only Equity Plan continues to purchase units.

4. VALUATION BASIS

(1) Valuation Methods

The valuation methods used are as follows:

Gross Premium Method

Reserves for policies other than those products included in the section "Other Products" or "Accumulating With-Profits Policies" have been established using a prospective gross premium method applied to each policy.

For with-profits policies an allowance has been made for policies being surrendered or being made paid-up in the future.

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.

Other Products

Where benefits under property linked policies are reassured to Phoenix Life Limited, the method of calculation is fully disclosed in the Returns of that company.

Progressive Protection Plan contracts have been valued as one year's premium for life cover and one and a half-year's premium for critical illness cover.

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.

Individual Permanent Health Insurance contracts with an extra premium have an additional reserve of 2 years' extra premiums.

(2) Valuation Interest Rates

The valuation interest rates used are as follows:

	Current Valuation	Previous Valuation
Life Business		
With-Profits Endowment Assurances	2.40%	2.37%
Other With-Profits Assurances	2.19%	2.27%
UWP Bond	2.19%	1.17%
Non-Profit Endowment Assurances	1.88%	2.39%
Other Non-Profits Assurances	2.19%	2.27%
Annuities in payment (new GAF)	3.20%	3.50%
Annuities in payment (old GAF)	3.63%	3.89%
Monies on Deposit	3.60%	3.60%
RPI Linked Annuities in payment (net)	-0.63%	0.19%
PHI		
Claims In Payment	2.40%	3.00%
Other	2.30%	3.00%

	Current Valuation	Previous Valuation
Pensions Business		
With Profits Pure Endowment & With Profits Deferred Annuities – Regular		
	3.05	3.75%
With Profits Pure Endowment & With Profits Deferred Annuities – Single premiums and paid-ups:		
Initial rate	3.56%	4.50%
Reinvestment rate	3.56%	4.50%
Annuities in Payment	3.63%	3.89%
RPI Linked Annuities in payment	-0.80%	0.27%
RPI Linked Deferred Annuities	-0.80%	0.27%
Group UWP	3.75%	3.75%
Non-Profit Assurances	2.41%	3.22%
Non-Profit Deferred Annuities		
Pre Vesting	2.41%	3.22%
Post Vesting	2.41%	3.22%
Monies on Deposit	4.50%	4.50%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

<u>Fixed Interest</u>

(a) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Credit Rating	Standard Term		
	5 year	10 year	20 year
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £8.6m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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.

All other assets producing income

The yield was reduced by 2.5% of the unadjusted yield.

(4) Mortality Basis

The valuation mortality bases (on ultimate rates) are as follows:

Product Group	Current Valuation	Previous Valuation
Endowment and Whole of Life Assurances	81% AM92 110% AF92	81% AM92 110% AF92
Term Assurance - aggregate	95% TM92 116% TF92	95% TM92 116% TF92
Term Assurance - non-smoker	79% TM92 95% TF92	79% TM92 95% TF92
Term Assurance - smoker	200% TM92 237% TF92	200% TM92 237% TF92
Pensions pre-vesting and pension term assurances	52.6% AM92 59.3% AF92	52.6% AM92 59.3% AF92
Life Annuities in Payment	Modified IM80 c2010 Modified IF80 c2010	Modified IM80 c2010 Modified IF80 c2010
Pensions post vesting	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020
Pensions immediate annuities	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020

Life annuities currently in payment

The mortality basis for the current (previous) year is:

Males:77.7% (77.7%) of IM80 (c=2010) improving at 1.5% (1.5%) p.a.
Females:79.0% (79.0%) of IF80 (c=2010) improving at 1.25% (1.25%) p.a.
The expectation of life under the current and previous valuation assumptions for sample ages are:

	Current Year		Previous Year	
Age	Males	Females	Males	Females
65	21.82	24.64	21.82	24.64
75	13.72	15.63	13.72	15.63

Pension annuities currently in payment

Specimen percentages of the base tables used for the current and previous years valuations are:

		Current valuation		Previous valuation	
		Male	**Female**	**Male**	**Female**
at age	65	118.8%	117.1%	123.3%	120.4%
at age	75	70.7%	84.8%	73.4%	87.4%
at age	85	72.0%	90.4%	74.1%	92.5%
at age	95	77.8%	95.4%	78.9%	96.6%

Specimen annual improvement rates for the current valuation, dependent on calendar year, are:

Males	**2012**	**2022**	**2032**	**2042**	**2052**	**2062**
65	2.95%	3.03%	2.62%	2.98%	2.98%	2.98%
75	3.24%	2.60%	2.47%	2.40%	2.44%	2.44%
85	2.97%	2.13%	1.95%	1.90%	1.90%	1.90%
95	1.73%	1.47%	1.39%	1.36%	1.35%	1.35%

Females	**2012**	**2022**	**2032**	**2042**	**2052**	**2062**
65	2.45%	3.10%	2.89%	2.98%	2.98%	2.98%
75	2.72%	2.65%	2.54%	2.43%	2.44%	2.44%
85	2.33%	2.05%	1.99%	1.91%	1.90%	1.90%
95	1.47%	1.39%	1.38%	1.36%	1.35%	1.35%

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

	Current Year		Previous Year	
Age	**Males**	**Females**	**Males**	**Females**
65	25.22	26.73	25.01	26.54
75	15.74	16.95	15.56	16.79

Deferred pension contracts (post vesting) including Guaranteed Annuity Options

Sample percentages of the base tables used for the current year and previous year valuations are:

		Current valuation		Previous valuation	
		Male	**Female**	**Male**	**Female**
up to age	55	464.8%	436.6%	478.2%	446.9%
at age	65	118.8%	117.1%	123.3%	120.4%
at age	75	70.7%	84.8%	73.4%	87.4%
at age	85	72.0%	90.4%	74.1%	92.5%
at age	95	77.8%	95.4%	78.9%	96.6%

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

Males	2012	2022	2032	2042	2052	2062
55	2.81%	2.42%	3.25%	3.25%	3.25%	3.25%
65	2.95%	3.03%	2.62%	2.98%	2.98%	2.98%
75	3.24%	2.60%	2.47%	2.40%	2.44%	2.44%
85	2.97%	2.13%	1.95%	1.90%	1.90%	1.90%
95	1.73%	1.47%	1.39%	1.36%	1.35%	1.35%

Females	2012	2022	2032	2042	2052	2062
55	2.45%	3.04%	3.25%	3.25%	3.25%	3.25%
65	2.45%	3.10%	2.89%	2.98%	2.98%	2.98%
75	2.72%	2.65%	2.54%	2.43%	2.44%	2.44%
85	2.33%	2.05%	1.99%	1.91%	1.90%	1.90%
95	1.47%	1.39%	1.38%	1.36%	1.35%	1.35%

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

	Current Age	Expectation of life from Age	Current Year		Previous Year	
			Males	Females	Males	Females
Deferred	45	65	28.47	30.01	28.31	29.85
annuities	55	65	26.82	28.40	26.64	28.23

(5) Morbidity Basis

For Individual Permanent Health Insurance the assumed inception & recovery rates are based on modified CMIR12. The percentages of CMIR12 for sample inception & recovery rates, based on a 12 month deferred period, are as follows:

Percentages of Inception rates for the modified CMIR12 table at current year

Age	Table	Current Year		Previous Year	
		Male	Female	Male	Female
25	CMIR12	89.00%	150.00%	89.00%	150.00%
35	CMIR13	89.00%	150.00%	89.00%	150.00%
45	CMIR12	37.00%	62.00%	37.00%	62.00%
55	CMIR12	48.00%	81.00%	48.00%	81.00%

Recovery rates expressed as a percentage of CMIR12 for all durations

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

Mortality for Individual Permanent Health Insurance has remained unchanged from the previous valuation at 76% TM92 for males and 76% TF92 for females.

(6) Expenses

The following table shows the gross attributable expenses per policy.

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Annuity	27.71	26.33
All other classes	58.75	55.83

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 life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. The MSA specifies fee inflation is RPIX +1.0% at 1 January each year.

The base fees are as follows:

Investment expenses (net of 20% tax for Life fund business)	Current valuation	Previous valuation
Conventional Life & UWP Bond	0.086%	0.086%
Conventional Pensions DA	0.108%	0.108%
Conventional Pensions PE (Libra and non-Libra policies)	0.116%	0.116%
UWP Group Pensions	0.127%	0.127%
Life Non Profit policies	0.064%	0.064%
Pensions Non Profit policies	0.080%	0.080%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a provision of £5.3m. At the previous valuation this provision was £11.0m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(7) Unit Growth Rates And Inflation Assumptions

The unit linked business is reassured to Phoenix Life Limited Non Profit Fund and the valuation basis is disclosed in that company's returns.

The assumption in relation to future levels of expense inflation is 3.99% p.a. at the current valuation compared to 4.62% p.a. at the previous valuation and 4.5% at YE10 valuation.

(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	2012 p.a	2013 p.a	2014& later p.a
Bonds	0.50%	0.08%	0.00%
Other life	0.50%	0.08%	0.00%
UWP Group pensions	2.00%	0.33%	0.00%
Other pensions	1.00%	0.17%	0.00%

(9) Persistency Assumptions

The Company anticipates voluntary premium discontinuances on the with-profits life and pension contracts specified in the table below; no voluntary discontinuances are assumed for other products.

Initial discontinuance rates are in accordance with the tables below and are assumed to reduce linearly to 5% of the initial rate at maturity/retirement.

For with-profits life products (excluding whole life) and with-profits pension products initial rates of discontinuance are:

Initial Surrender Rates (%)

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	-	2.1%	1.4%	1.4%
CWP target cash endowment	Surrender	-	2.8%	2.8%	2.8%
CWP Executive Pension	Pup	7.0%	7.0%	7.0%	7.0%
CWP Executive Pension	Surrender	3.5%	3.5%	3.5%	3.5%
CWP Personal pension - regular premium	Pup	3.8%	3.6%	2.1%	2.1%
CWP Personal pension regular premium	Surrender	1.5%	1.2%	1.8%	1.8%
CWP Personal pension single premium	Surrender	0.8%	1.1%	1.2%	1.2%

Policies becoming paid-up after the valuation date are assumed not to subsequently surrender.

For pension policies surrendering within 15 years of normal retirement date a proportion of surrenders are deemed to be early retirements with associated guaranteed annuity option entitlements. The proportion of surrenders assumed to be early retirements is 100% at normal retirement decreasing linearly to 0% 15 years prior to normal retirement.

(10) Other Material Assumptions

Not applicable.

(11) Allowance for Derivatives

The Company 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.

We hold a number of Swaption contracts to hedge against interest rate falls impacting the guaranteed annuity option reserves. Further details are provided in section 5 below.

We hold a number of Spreadlock contacts to assist in managing the risk of variation in the spreads on the Swap contacts that are held. These contacts do not directly impact the long term 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

(b) 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 sum which will be used to purchase the annuity on guaranteed terms will be :

85% for Pension Reserve contracts
85% for Personal Pension Scheme protected rights contracts
85% for Additional Pension Plan contracts
83% for Executive Benefits Plan and Retirement Security Plan
85% for Personal Pension Plan and Personal Pension Scheme contracts
85% for Transfer Plan

These are initial proportions and are assumed to increase linearly to 95% over 20 years.

Where the guaranteed annuity option may be exercised in different forms (e.g. with or without escalation, with or without spouse reversionary benefit) then suitable assumptions have been made regarding the proportion of policyholders electing for the various benefit format. Under certain contracts the spouse's annuity terms are not guaranteed under the policy.

- The expenses of payment are 1.88% of the value of the annuity

The reserves calculated as above have been compared with the market value of the options determined using a market consistent stochastic model (as used to determine the realistic value of options and guarantees for the realistic balance sheet). After adding a margin for prudence, if the aggregate market consistent value is higher than the reserves then the reserves are increased to provide a suitable margin over this cost. However, the reserves calculated as above produced a greater reserve than that calculated using the market consistent approach.

(b)

(i) Product Name	(ii) Basic Reserve £m	(iii) Spread of outstanding durations (yrs)	(iv) Guarantee Reserve £m	(v) Guaranteed Annuity Rate (Male at 65)	(vi) Increments	(vii) Form of annuity[2]	(viii) Retirement Ages
Additional Pension Plan	6.8	0 to 39	3.5	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Executive Benefit Plan	102.4	0 to 37	55.7	10.0% 7.6% 8.1% 5.6%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Retirement Security Plan	87.6	0 to 39	45.1	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Transfer Plan	209.5	0 to 32	79.7	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
PPP81	266.1	0 to 29	117.8	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Fowler	394.7	0 to 41	125.6	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Fowler (DSS)	808.7	0 to 33	108.9	10.0% 8.1% 8.3% 6.4%	Yes[1]	Level - single life Esc 3% - single life Level - 50% spouse Esc 3% - 50% spouse	Ages 60 to 75
Pensions Reserve	14.0	0 to 30	5.1	10.0% 8.1%	Yes[1]	Level - single life Level - 60% spouse	Ages 50 to 75

[1] Benefits secured by increments commencing after 1 December 1998, DSS payments received after 30 June 1999 or on payments received on Transfer Plan after 31 July 1999 do not include a guaranteed annuity option.
[2] Annuity is payable monthly in advance and guaranteed for 5 years. The forms of annuity represent the various forms assumed in the reserving calculation. Not all forms are necessarily contractual obligations and may represent a concession by the Company.

(2) Guaranteed Surrender and Unit-linked Maturity Values

UWP Bond

Policies established on the administration system after 29 September 1997 are wholly reassured with Phoenix Life Limited and the required disclosure for these policies may be found in the Returns of that company.

Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

UWP benefits secured are wholly reassured with Phoenix Life Limited and the required disclosure may be found in the Returns of that Company.

Guaranteed Unit-Linked Maturity Values

In respect of business retained by the Company there are no guaranteed unit-linked maturity values.

In respect of unit-linked business written by the Company and reassured to Phoenix Life Limited, the guarantees are fully described in the Returns of Phoenix Life Limited.

(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 health. 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 arising during the 12 months following the valuation date from explicit and implicit margins made in the valuation are:

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
All products	5.1	0.7	12.8	3.2	21.7
All expenses attributable	5.1	0.7	12.8	n/a	18.5
Total	5.1	0.7	12.8	3.2	21.7

(2) Implicit Allowances

The implicit allowances above are in respect of investment management expenses. They are based on the rate of investment fees payable to the investment manager applied to the amount of reserves. This implicit allowance is met by the difference 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 6 (1) is different from the total shown in line 14 of Form 43:

	F43.14	table 6(1)	Difference
Homogeneous risk group	(a) £m	(b) £m	(b) - (a)
All products	23.6	21.7	-1.8
Total	23.6	21.7	-1.8

The expense loadings in table 6 (1) are based on a smaller book of business due to the run-off of this closed fund than in form 43 line 14, though this is partially offset by the inclusion of an additional year's inflation compared to Form 43 line 14.

(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 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.

No costs of terminating the management services agreement have been allowed for because the contract is not cancellable by the services provider.

(6) Non-attributable expenses

The non-attributable expense reserve is the expected cost of certain planned projects of a non-recurring nature that are not covered by the standard fee under the management services agreement.

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 £m	Percentage matched in same currency
Sterling (£)	5,121.8	100%
Other	1.1	100%
Total	5,123.0	

(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)

Phoenix & London Assurance Limited, being a realistic basis life firm, is not required to calculate a resilience capital requirement under GENPRU 2.1.18R.

(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

Details of other special reserves are set out below:

Description	Reserve £m
Data Contingency Reserve	13.1
Tax credit reversal	14.7
Solvency II	3.8
Actuarial Systems Transformation	2.6
Outsourcer Expenses Risk Transfer	10.5
Additional services fee for asset management	0.0
10% margin in credit default rates	8.6
Asset Management Services	5.3

Additional Reserves

Additional reserves, exceeding the lesser of £10m and 0.1% of total mathematical reserves, comprise:

- Data contingency reserves for additional liabilities which may arise in connection with data errors affecting the long-term business.
- An asset of £18.9m is relation to group tax relief of notional case 1 losses is held in Form 13. The value of this tax benefit to the long term fund has been assessed to be £4.2m. A provision of £14.7m has therefore been made to allow for the difference.

o A provision to cover the costs of the Solvency II project apportioned to SAL.

o A provision to cover the costs of the Actuarial Systems Transformation project apportioned to SAL.

o A provision is held to offset an accounting prepayment asset held to cover a transfer of risk payment made to an outsourced services provider. This will reduce in line with the prepayment asset..

o A provision to cover additional service fees payable to the asset managers for other services that are not part of the investment management fee.

o A provision equivalent to holding a 10% margin in the long term average credit default rates in 4 (3) (b).

Asset Management Services Provision

This is a new provision at 31 December 2011, amounting to £5.3m. The provision has been calculated by capitalising the current additional service fees; an approximate capitalisation factor of 8 is used, reflecting term of the contract/run-off of the business. The additional service fees are allocated between entities in proportion to funds under management as at 31 December 2010.

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

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

(g) Not applicable since there are no deposit back arrangements under any of the treaties.

(h) All treaties are open to new business, other than those marked with an asterisk.

New business only arises from incremental policies or the exercising of options under existing contracts.

(i) There are no undischarged obligations.

(n) Credit risk arises from a possible failure of the reinsurer to meet its obligations. For reinsurers that are not connected companies the risk is not deemed material. No provision has been made for credit risk in respect of reassurances with other companies in the Phoenix group.

Legal risks arise from disputes regarding the operation of the treaties. Provision for any associated costs is by way of the litigation provision described in 8 above.

(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) There is a financing arrangement in place to provide support to the long-term fund. The details of the arrangement are described fully in note 1508.

For the purposes of the regulatory valuation no provision has been made for the contingent repayment of £113.6m from the long-term fund to the shareholder fund.

SAL With-Profits Fund

(d) Name of Reinsurer	(e) Type of Business	Type of Reinsurance	Extent of Cover	(f) Premiums £000s	(j) Reserve Ceded £m	(l) Authorised in UK	(m) Connected to Company
Revios Re	Individual Life Assurance	2nd Surplus	100,000	28.4	See Note 2	No	No
*Munich Reinsurance	Individual Life Assurance	1st Surplus (Risk Premium)	375,000	25.2	See Note 2	Yes	No
Phoenix Life Limited	Note 1 (a)	Original Terms	No maximum	7,308.1	0.0	Yes	Yes
Phoenix Life Limited	Note 1 (b)	Original Terms /Risk Premium	Max of 350,000	27,415.3	14.1	Yes	Yes
Phoenix Life Limited	Note 1 (c)	Original Terms	No maximum	7,592.6	-14.1	Yes	Yes
Hannover Re	Individual Life Assurance	2nd Surplus	200,000	80.1	See Note 2	Yes	No
Swiss Reinsurance	Individual Life Assurance	1st Surplus (Risk Premium)	1,125,000	423.9	See Note 2	Yes	No
GE Frankona	Individual Life Assurance	1st Surplus (Risk Premium)	375,000	192.9	See Note 2	Yes	No
*Pacific Life Re Limited	Individual Life Assurance	2nd Surplus (Risk Premium)	50,000	12.5	See Note 2	Yes	No

Note 1:

The treaties with Phoenix Life Limited include:

(a) The reassurance of the unit linked liability in respect of:

Lifetime Plan
Universal Protection Plan
Challenger Bond
Personal Pension Plan
Personal Pension Scheme
Executive Benefits Plan
Pension Reserve
Executive Pension Plan
Company Pension Scheme
Company Additional Pension Scheme
Individual Personal Pension Plan
Group Personal Pension Plan
Personal Additional Pension Plan;

This business is reinsured to the Phoenix Life Limited Non Profit Fund.

(b) The reassurance of certain with-profits endowments and Moneymaker contracts on original terms.

This business is reinsured to the Phoenix Life Limited 100% With Profits Fund.

The reassurance of some term assurance, Progressive Protection and PHI on original terms and Universal Protection Plans on risk premium terms and life cover benefits under unitised with profits pensions, MSP and RSP.

This business is reinsured to the Phoenix Life Limited Non Profit Fund.

(c) The reassurance of:

(i)UWP Bond business written after September 1997

(ii)The UWP liabilities for:

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

This business is reinsured to the Phoenix Life Limited Phoenix With-Profits Fund.

Note 2:

Reinsurance ceded external reserves total £10.5m. This total has not been split between the respective reinsurers.

10.REVERSIONARY (OR ANNUAL) BONUS

(1) Details of Bonus Rates

The following rates of reversionary bonus, which are independent of age and original term of the contract, were declared on the valuation date:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous year	Total g'tee bonus for current year
	£m	%	%	%
Category 1 Contracts	2,389.4	0.05/0.05	0.05/0.05	0.05/0.05
Category 2 Contracts	880.6	0.10/0.10	0.10 /0.10	0.10/0.10
UWP Group Pensions	15.5	2.00	2.00	0.00
UWP life[1]	32.1	0.50	0.50	0.00

[1] The Company also writes unitised with-profits business which is wholly reassured to Phoenix Life Limited. The reversionary bonuses applying to these contracts are fully described in the Returns of that company.

Category 1 contracts are:

Additional Pension Plan
Executive Benefit Plan
Jersey Prosperity Plan
Pension Reserve
Personal Pension Plan
Retirement Security Plan
Transfer Plan

Category 2 contracts are all other contracts entitled to participate in profits excluding unitised with-profits contracts.

(2) Unitised with-profits business unit price increases

For unitised with-profits life policies, the reversionary bonus is added daily in the form of growth of the unit price. For business retained by the Company the reversionary bonus rate was 0.5% throughout 2011. The business other than UWP Group Pensions continues to be reassured to Phoenix Life Limited is described in the Returns of that Company.

(3) Super compound bonus

The table in 10 (1) shows bonus rates expressed as X%/Y% where X% is the bonus rate applied to the sum assured and Y% is the bonus rate applied to the attaching bonuses.

(3) Bonus series

Within a bonus series bonus rates do not vary.

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.

During 2011 market value reductions were applied. A summary for the main business types follows.

Regular Premium

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
January 2011	Business written in 1987 to 2010	Business written in 1985 to 2010
February 2011	Business written in 1987 to 2010	Business written in 1985 to 2010
March 2011	Business written in 1987 to 2011	Business written in 1985 to 2011
April 2011	Business written in 1987 to 2011	Business written in 1985 to 2011
May 2011	Business written in 1987 to 2011	Business written in 1985 to 2010
June 2011	Business written in 1987 to 2011	Business written in 1985 to 2009
July 2011	Business written in 2003 to 2010	Business written in 2003 to 2010
August 2011	Business written in 2009 to 2010	Business written in 2003 to 2010
September 2011	Business written in 1993 to 2011	Business written in 1993 to 2011
October 2011	Business written in 1993 to 2011	Business written in 1993 to 2011
November 2011	Business written in 1993 to 2011	Business written in 1993 to 2011
December 2011	Business written in 1993 to 2011	Business written in 1993 to 2011

Single Premium

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
January 2011	Business written in 1994 to 2010	Business written in 1985 to 2010
February 2010	Business written in 1994 to 2010	Business written in 1985 to 2010
March 2011	Business written in 1994 to 2010	Business written in 1985 to 2011
April 2010	Business written in 1994 to 2011	Business written in 1985 to 2011
May 2010	Business written in 1994 to 2011	Business written in 1985 to 2011
June 2011	Business written in 1994 to 2011	Business written in 1985 to 2011
July 2010	Business written in 1995 to 2010	Business written in 1991 to 2010
August 2011	Business written in 1995 to 2010	Business written in 1991 to 2010
September 2011	Business written in 1994 to 2011	Business written in 1991 to 2011
October 2010	Business written in 1994 to 2011	Business written in 1991 to 2011
November 2011	Business written in 1994 to 2011	Business written in 1991 to 2011
December 2011	Business written in 1994 to 2011	Business written in 1991 to 2011

(2) Premiums on Reviewable Protection Policies

There are no reviewable protection policies.

(3) Non-profit Deposit Administration

Transactions on non-profit deposit administration business has totalled £6.54m since the previous valuation.

(4) Service Charges on Linked Policies

Policy fees on unit linked contracts were increased between 0.00% and 2.33% during 2011. 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 on 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 (Single Premium)		1.30%	1.65%
Conventional with-profits life assurances (Regular Premium)		1.35%	1.70%
Conventional with-profits deferred annuities (single premium)	in deferment	3.00%	3.60%
	in payment	2.85%	3.50%
Conventional with-profits deferred annuities (regular premium)	in deferment	2.95%	3.60%
	in payment	2.85%	3.50%
Conventional with-profits immediate annuities	group	3.00%	3.65%
	individual	3.00%	3.65%
Unitised Business			
Unitised with-profits life assurances	non-unit reserves	1.35%	1.70%
	unit reserves	1.35%	1.70%
Unitised with-profits life pensions	non-unit reserves	2.20%	3.05%
	unit reserves	2.20%	3.05%
Unitised with-profits life assurances (overseas)	unit reserves	2.20%	3.05%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

	Term		
Credit Rating	**5**	**10**	**20**
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £2.0m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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 and earnings yields of Lloyds TSB and Royal Bank of Scotland shares. These yields were 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 ult1 72% AF92 ult
	smoker	105% AM92 ult1 116% AF92 ult	105% AM92 ult1 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 PMA00 Modified PFA00	Modified PMA00 Modified PFA00
Unitised life business		77% AM80 ult1 77% AF80 ult	77% AM80 ult1 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	99.7%	97.3%	98.2%	100.9%
At age 75	99.7%	97.3%	98.2%	100.9%

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

Males	2012	2022	2032	2042	2052	2062
60	1.45%	2.48%	3.07%	3.07%	3.07%	3.07%
70	2.61%	1.80%	2.40%	2.69%	2.69%	2.69%
80	3.63%	2.11%	1.77%	2.14%	2.17%	2.17%
90	1.41%	2.01%	1.58%	1.59%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Females	2012	2022	2032	2042	2052	2062
60	1.84%	3.29%	3.18%	3.18%	3.18%	3.18%
70	2.65%	2.51%	2.79%	2.70%	2.70%	2.70%
80	3.37%	2.41%	2.10%	2.18%	2.17%	2.17%
90	1.37%	2.00%	1.69%	1.62%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

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	23.9	25.8	23.9	25.4
75	14.5	16.0	14.5	15.7

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	99.7%	97.3%	98.2%	100.9%
At age 55	99.7%	97.3%	98.2%	100.9%

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

Males	2012	2022	2032	2042	2052	2062
40	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
50	1.89%	2.85%	2.85%	2.85%	2.85%	2.85%
60	1.45%	2.48%	3.07%	3.07%	3.07%	3.07%
70	2.61%	1.80%	2.40%	2.69%	2.69%	2.69%
80	3.63%	2.11%	1.77%	2.14%	2.17%	2.17%

Females	2012	2022	2032	2042	2052	2062
40	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
50	2.85%	3.08%	3.08%	3.08%	3.08%	3.08%
60	1.84%	3.29%	3.18%	3.18%	3.18%	3.18%
70	2.65%	2.51%	2.79%	2.70%	2.70%	2.70%
80	3.37%	2.41%	2.10%	2.18%	2.17%	2.17%

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

	Current Year		Previous Year	
Age	Males	Females	Males	Females
45	27.0	28.9	27.1	28.5
55	25.4	27.4	25.4	27.0

(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 Paid-up	46.06 32.24	45.53 31.87
CWP pensions (155/165)	Premium-paying Paid-up	59.42 41.60	58.73 41.11
Unitised business			
UWP bond (500)		35.20	34.96
UWP savings endowment (510)	Premium-paying Paid-up	42.48 29.74	39.82 27.88
UWP regular premium pension (525/545)	Premium-paying Paid-up	50.33 35.23	47.18 33.03
UWP group regular premium pension (535)	Premium-paying Paid-up	49.51 34.66	46.41 32.49
UWP single premium pension (525/545)		35.23	33.03
UWP group single premium pension (535)		34.66	32.49

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

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

For the current valuation the investment expense assumptions have been updated to allow for the impact of a new investment fee scale agreed with the asset manager. The base fees are as follows:

Investment expense (gross of tax)	Current valuation	Previous valuation
CWP Life	0.132%	0.132%
CWP Pension	0.111%	0.111%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a new provision of £2.2m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(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 4.99% 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.

These assumptions have not changed since the previous valuation.

(9) Persistency Assumptions

No allowance is made for lapses, except in the Bonus Reserve Valuation calculations for the With Profits Bonds as shown:

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 other than those already discussed.

(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)	290.6	28.0	221.1	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)

(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	4.52	34.9	5.7	12.9	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	6.1	6.6	0.5
Individual Pension Arrangements	166.0	170.4	4.3
Masterpolicy plans	223.2	240.6	17.4

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 £14.2m. This is composed of explicit allowance of £11.5m for non-investment maintenance expenses and £2.7m for investment expenses.

(2) Implicit Allowances

There is an implicit allowance in the valuation basis for investment expenses. For conventional with-profits life business the allowance is 0.132% p.a. and for conventional with-profits pensions business the allowance is 0.111% p.a..

(3) Form 43 Comparison

The maintenance expenses shown at line 14 of Form 43 are £17.4m. This includes £5.2m investment management expenses and £12.2m in administrative expenses.

Form 43 includes: £1.6m of performance related investment fees, £0.6m of the investment manager's service fee (which is covered separately by a £6.1m provision) and £0.2m of investment expenses relating to 2010, none of which are included in paragraph 6.1.

(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 (£)	2,345.0	2,345.0
Euro (€)	14.5	14.5
US ($)	1.6	1.6
Other currencies	0.0	0.0
Total	2,361.0	2,361.0

(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

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

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	130.8	0.0%	0.0%	0.0%
Conventional pension business	1199.3	0.0%	0.0%	0.0%
Unitised Business				
Unitised Life Series I	2.1	3.0%	3.0%	3.0%
Unitised Life Series II	1.0	3.0%	3.0%	3.0%
Unitised Life Series III	221.3	0.0%	0.0%	0.0%
Unitised Pensions Series I	205.2	4.0%	4.0%	4.0%
Unitised Pensions Series II	226.2	4.0%	4.0%	4.0%
Unitised Pensions Series III	185.2	1.0%	0.0%	0.0%
Unitised Pensions Series VII	0.1	1.0%	0.0%	0.0%
Unitised International Series I – £	1.6	0.0%	0.0%	0.0%
Unitised International Series I – $	1.6	0.0%	0.0%	0.0%
Unitised International Series I – Euro	14.5	0.0%	0.0%	0.0%
With Profit Annuity	128.3	3.5%	3.0%	0.0%

SPI With-Profits Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

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

Date	UK Life With-Profits Business	UK Pensions With-Profits Business
From 4 January 2011 to 31 January 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1986-2010.
From 1 February 2011 to 28 February 2011	Business written from 1 November 1995 to 31 December 1995 and during calendar years 1996-2000, 2002-2006,	Business written during calendar years 1986-2010.
From 1 March 2011 to 31 March 2011	Business written during calendar year 2010.	Business written from 1 January 1986 to 30 June 1999 and during calendar year 2010.
From 1 April 2011 to 2 May 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1986-2010.
From 3 May 2011 to 31 May 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1986-2010.
From 1 June 2011 to 30 June 2011	Business written during calendar year 2010.	Business written from 1 January 1986 to 30 June 1999 and during calendar year 2010.
From 1 July 2011 to 31 July 2011	No MVA applied to this business.	Business written from 1 January 1998 to 30 June 1999.
From 1 August 2011 to 31 August 2011	No MVA applied to this business.	Business written from 1 January 1998 to 30 June 1999.
From 1 September 2011 to 30 September 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1992-1993 and 1998-2010.
From 1 October 2011 to 31 October 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1992-1993 and 1998-2010.
From 1 November 2011 to 30 November 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1992-1993 and 1998-2010.
From 1 December 2011 to 31 December 2011	Business written during calendar years 1992-2010.	Business written during calendar years 1998-2010.

For the Irish business written in the with-profits fund, market value reductions applied were as follows:

Date	Irish Life With-Profits Business	Irish Pensions With-Profits Business
From 4 January 2011 to 31 January 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 February 2011 to 28 February 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 March 2011 to 31 March 2011	Business written during calendar years 2007 and 2010.	Business written from 1 January 1996 to 30 September 1999 and during calendar years 2007 and 2010.
From 1 April 2011 to 2 May 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 3 May 2011 to 31 May 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 June 2011 to 30 June 2011	Business written during calendar years 2004, 2006-2007 and 2010.	Business written during calendar years 1996-2000, 2004, 2006-2007 and 2010.
From 1 July 2011 to 31 July 2011	No MVA applied to this business.	Business written from 1 January 1999 to 30 September 1999.
From 1 August 2011 to 31 August 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 September 2011 to 30 September 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 October 2011 to 31 October 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 November 2011 to 30 November 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.
From 1 December 2011 to 31 December 2011	Business written during calendar years 2001-2010.	Business written during calendar years 1996-2010.

(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 (UWP) 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		Previous Valuation	
		UK	Republic of Ireland	UK	Republic of Ireland
Conventional With-Profits (CWP)					
Conventional with-profits life assurances		2.30%	2.25%	2.85%	2.40%
Conventional with-profits pensions assurances		2.75%	3.10%	3.35%	3.20%
Conventional non-profit life term assurances		1.85%	0.85%	2.95%	1.15%
Conventional non-profits pensions assurances		2.64%	n/a	4.07%	n/a
Unitised With-Profits (UWP)					
Unitised with-profits life assurances	non-unit	1.90%	0.95%	2.45%	1.75%
	unit	2.30%	2.25%	2.85%	2.40%
Unitised with-profits pensions	non-unit	2.40%	1.15%	3.10%	2.20%
	unit	2.75%	3.10%	3.35%	3.20%

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

(c) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Credit Rating	5yr	10yr	15yr
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BBB	261.3	277.3	287.2
BBB	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.
- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £1.5m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

<u>Variable Interest</u>

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.

<u>Equities</u>

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

<u>Assurance contracts using modified tables</u>

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	1.025	1.025	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	99.7%	97.3%	98.2%	100.9%
At age 65	99.7%	97.3%	98.2%	100.9%
At age 75	99.7%	97.3%	98.2%	100.9%
At age 85	99.7%	97.3%	98.2%	100.9%
At age 95	99.7%	97.3%	98.2%	100.9%

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

Males	2012	2022	2032	2042	2052	2062
55	2.81%	2.42%	3.25%	3.25%	3.25%	3.25%
65	2.95%	3.03%	2.62%	2.98%	2.98%	2.98%
75	3.24%	2.60%	2.47%	2.40%	2.44%	2.44%
85	2.97%	2.13%	1.95%	1.90%	1.90%	1.90%
95	1.73%	1.47%	1.39%	1.36%	1.35%	1.35%

Females	2012	2022	2032	2042	2052	2062
55	2.45%	3.04%	3.25%	3.25%	3.25%	3.25%
65	2.45%	3.10%	2.89%	2.98%	2.98%	2.98%
75	2.72%	2.65%	2.54%	2.43%	2.44%	2.44%
85	2.33%	2.05%	1.99%	1.91%	1.90%	1.90%
95	1.47%	1.39%	1.38%	1.36%	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	27.1	28.9	27.1	28.5
55	25.5	27.4	25.4	27.0

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	2.440	5.358	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 With-Profits Business				
CWP savings endowment (120)				
- premium-paying	32.69	92.41	33.51	95.42
-single premium / paid-up	22.88	92.41	23.46	95.42
CWP pensions (165)				
- premium-paying	166.07	92.41	170.26	95.42
-single premium / paid-up	116.26	92.41	119.19	95.42
Unitised With-Profits Business				
UWP savings endowment (510)				
- premium-paying	28.60	N/A	29.18	N/A
-single premium / paid-up	20.03	N/A	20.44	N/A
UWP pension (525)				
- premium-paying	196.89	92.41	200.89	95.42
-single premium / paid-up	137.82	92.41	140.62	95.42

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

Investment Expense (Gross of Tax)	Current valuation	Previous valuation
Type of Business		
Conventional With-Profits (CWP)		
UK CWP Life	0.14%	0.14%
UK CWP Pensions	0.11%	0.11%
UK NP	0.08%	0.08%
IRE CWP Life	0.14%	0.14%
IRE CWP Pensions	0.13%	0.13%
IRE NP	0.10%	0.10%
Unitised With-Profits (UWP)		
UK UWP Life	0.14%	0.14%
UK UWP Pensions	0.12%	0.12%
IRE UWP Life	0.14%	0.14%
IRE UWP Pensions	0.13%	0.13%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a new provision of £2.4m. At the previous valuation this provision was £6.6m. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

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 4.99% 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	121.5	0 - 32	91.2	11.1% / 4.6% (UK) 11.1% / 9.1% / 4.6% (Ireland)	Yes	*	50-75
Simplified Pension Investment Funding Plan	67.4	0 - 14	29.8	10.0% / 4.5%	Yes	*	50-75
Select Executive & Personal Retirement Plan	21.0	0 - 41	10.4	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	111.6	0 - 34	1.6	64.7	n/a	2.8	No
Step-up Investment Plan	75.3	0 - 34	2.8	83.3	n/a	4.1	No
UK Early Option Mortgage Plans	37.9	0 - 23	0.7	57.8	n/a	3.5	No
Irish Options Plus Endowment Plan	13.4	0 - 35	0.3	9.4	n/a	0.3	No
Irish Capital Options	20.4	0 - 20	1.1	28.8	n/a	1.7	No
Irish Bonus Mortgage Plan	9.6	0 - 23	0.2	10.2	n/a	0.6	No
Deferred annuities (SEDA)	330.8	0 - 47	0.3	20.4	n/a	2.9	No
UK Capital Investment Bonds	58.3	0 - 74	0.0	47.0	On quin-quennial annivers-aries	0.0	No
Irish With-Profits Bonds	2.4	0 - 79	0.0	2.4	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 £6.97m. This is composed of the following elements:

	£m
Explicit allowances for investment expenses	0.00
Explicit allowances for other maintenance expenses	4.80
Implicit allowances for investment expenses	2.17

(2) Implicit Allowances

The implicit allowance for investment expenses has been calculated as a reduction in the valuation interest rate, which is the rate of the investment manager's fees. The expense by class of business is shown in the table above under paragraph 4 section (6) Expense Basis.

(3) Form 43 Comparison

The maintainance expenses shown at line 14 of Form 43 are £20.9m. This includes £14.61m in administrative expenses and £6.29m of investment management expenses.

Form 43 includes £2.13m of performance related investment fees (including £0.64m for 2010) and £0.6m of stocklending related investment fees which are not included in paragraph 6.1. Form 43 also includes £0.7m of additional service fees, a separate provision is set up to cover these additional fees.

Futher differences in the investment expense allowance is due to a limit on the investment expenses that can be charged to policyholders.

(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 (£)	1,699.6	1,603.4	96.2	6%
Euro (€)	425.7	425.7	0.0	0%

(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)	876.7	0%	0%	0%
Conventional individual deferred annuities and pure endowments (pensions)	600.7	0%	0%	0%
Unitised Business				
Unitised Life Series I	58.3	3%	3%	3%
Unitised Life Series II	31.3	1%	0%	0%
Irish Unitised Life Fund	3.0	1%	0%	0%
Unitised Pensions Series I	325.3	4%	4%	4%
Unitised Pensions Series II	102.8	1%	0%	0%
Irish Unitised Pensions Series I	13.7	4%	4%	4%
Irish Unitised Pensions Series II & III	16.7	1%	0%	0%
Simplified Pension Investment Funding Plan Tranche 4	1.5	6%	6%	6%
Simplified Pension Investment Funding Plan Tranche 5	22.4	5.25%	5.25%	5.25%
Simplified Pension Investment Funding Plan Tranche 6	32.6	4.5%	4.5%	4.5%
Simplified Pension Investment Funding Plan Tranche 7	32.0	3%	3%	3%
Simplified Pension Investment Funding Plan Tranche 8	9.1	0.5%	0.5%	0.5%

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

Non Profit Fund

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

Not applicable

(2) Premiums on Reviewable Protection Policies

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

Previous Company	Product	No of Policies	Annual Premium (£000s)	Range of increase From (%)	To (%)
BULA	Mortgage Cover Plan	576	209	0%	12%
BULA	Life Cover Plan	208	64	-3%	0%
BULA	Total Cover Plan	463	172	0%	0%

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

Previous Company	Product	No of policies	Annual premium in force (£000s)
Century	Ex-NAL Critical Illness Plan	8,016	1,970
BA	Decreasing term assurance	497	138
BA	Level Term assurance with critical illness	343	61
BA	Critical illness	1,170	249
BA	Pensions term assurance	4,275	687

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

Previous Company	Product	No of policies	Annual premium in force (£000s)
PLL	Progressive Protection Plan	6,369	22,667
PLL	Flexible Mortgage Plan	1,532	520

(3) Non-profit deposit administration contracts

Policies previously written in PAL

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

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

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

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

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

Month	Interest Rate %p.a.
January	3.51%
February	3.51%
March	3.51%
April	3.50%
May	3.49%
June	3.49%
July	3.48%
August	3.47%
September	3.45%
October	3.42%
November	3.41%
December	3.36%

Policies previously written in SLUK

The interest rates applied during 2011 on deposit administration contracts previously written in SLUK were 3.60% (standard) and 2.88% (dollar policies).

Policies previously written in Century

<u>Non profit Deposit Administration</u>

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

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

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

b) A basic credited rate increased by 1.5%.

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

The basic rates declared depend on the month in which the end of the policy year falls. The rates declared in the period covered by this return are 0.00% p.a. for each month.

<u>The Pensions 2000 Range (First Series)</u>

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

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

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

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

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

The basic rates declared depend on the month in which the end of the policy year falls. The rates declared in the period covered by this return are 0.00% p.a. for each month.

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

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

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

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

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

Century Group Deposit Administration

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

Century Personal Pension Plans - pre April 1980

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

Century Personal Pension Plans - post April 1980

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

Century Capital Pension Plans

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

Century Executive Pension Plans

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

Policies previously written in Alba, BULA, BRS, BA, SMA and SPL

There are no deposit administration policies in force.

(4) Service Charges on Linked Policies

Policies previously written in PLL, Alba, Century, BULA, SMA and SPL

The following table shows the range of changes to policy fees on unit-linked contracts during 2011:

Ex-Company	Minimum % increase	Maximum % increase
PLL	0.00%	6.35%
Alba	1.59%	4.89%
Century	-0.88%	4.39%
BULA	5.88%	8.70%
SMA	2.27%	5.77%
SPL	0.00%	6.98%

Policies previously written in BRS

There are no linked policies with service charges.

Policies previously written in BA

There are no linked policies in force.

(5) Benefit Charges on Linked Policies

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

(6) Accumulating With Profits Charges

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

(7) Unit Pricing of Internal Linked Funds

Policies previously written in PLL

(a) Method used for cancellation and creation of units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Method used to determine prices in the Old Building Society fund</u>

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

<u>Method used to determine prices of Group units in internal linked funds</u>

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

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

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

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

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

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

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

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

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

<u>(b) Different Pricing Bases</u>

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

<u>(c) Units in Collective Investment Schemes</u>

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

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

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

Policies previously written in Alba

<u>(a) Method used for cancellation and creation of units</u>

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

- All unit purchases are subject to a charge (representing the bid-offer spread) of typically 5%.

- There is currently no charge for one switch between funds every year (though the company reserves the right to introduce such a charge at any time). Charges are normally made for each switch after the first.

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

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

Asset	**Bid price**	**Offer Price**
Cash	Face value	Face value
Internal linked Fund	Bid	Bid
Fixed interest	Bid minus dealing	Offer plus dealing
Internal unit trust	Cancellation	Creation
External unit trust	Bid	Offer
Equity	Bid minus dealing	Offer plus dealing
Property	Market value minus sale costs	Market value plus purchase costs

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

<u>Calculating bid and offer values of the units</u>

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

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

(iii) Basis of valuation of assets

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

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

(iv) Timing of asset valuation

The Main Funds are valued at noon each day. Funds which are cross invested in other BLAS Funds are valued after pricing the principal Funds and therefore receive same day price.

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

(b) Different Pricing Bases

There are no differences applying to different policies.

(c) Collective Investment Schemes

This is covered in (a) above.

Policies previously written in Century

(a) Method used for cancellation and creation of units

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

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

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

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

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

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

(b) Different Pricing Bases

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

(c) Collective Investment Schemes

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

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

Policies previously written in BULA

(a) Method used for cancellation and creation of units

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

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

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

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

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

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

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

Ex-Unit Linked Fund: Stakeholder Pension

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

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

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

Ex-Unit Linked Fund: Pensions Managed Fund Business

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

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

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

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

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

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

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

- the lowest offer value of assets as at the close of the previous working day
- plus an estimate of the buying expenses incurred in purchasing an identical portfolio of assets
- plus investment income (net of tax for life funds)
- minus, for life funds, a provision for accrued realised and unrealised capital gains tax
- minus an amount in respect of accrued annual management charge.

The latter item is deducted weekly.

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

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

The latter is deducted weekly.

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

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

Ex-Non-Profit Fund: Capital and Super Plan

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

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

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

(b) Different Pricing Bases

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

(c) Collective Investment Schemes

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

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

Policies previously written in BRS

(a) Method used for cancellation and creation of units

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

(b) Different Pricing Bases

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

(c) Collective Investment Schemes

The units are not in collective investment schemes.

Policies previously written in BA

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

Policies previously written in SMA and SPL

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

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

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

<u>Method used for allocation and de-allocation of units</u>
The quoted offer price for a particular day is the Bare Price divided by (1 minus the initial charge) and rounded up by no more than 0.1p. The initial charge is typically 5 or 6%.

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

The prices used for transactions on a particular day are determined based on the asset position of the fund at 12pm on the previous working day (except Broker Managed Funds which are priced at close of business). The timing of the transaction relative to the time at which the policyholder requested the trade varies by product and is defined in the policy conditions. We no longer accept faxed instructions.

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

<u>(b) Different Pricing Bases</u>

Not applicable.

<u>(c) Collective Investment Schemes</u>

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

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

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

(8) Tax Deductions From Internal Linked Funds

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

Policies previously written in Alba

Tax on income

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

Tax on loan relationships

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

Capital Gains Tax (CGT) on other assets

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

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

In the case of deemed disposals, this is carried out at the end of each financial year and the tax deducted from the funds. Where a gain occurs subsequent to previous losses, those losses are used to offset the gain. Where a loss occurs subsequent to gains in the previous 2 years an amount of tax is credited back to the fund. Tax expected to be payable in current and future years as a result of a deemed disposal is removed from the fund in full but at a discounted rate, during the deemed disposal process. The rate at 31 December 2011 was 19.8%

Current liabilities are maintained in the fund which reflect the Fund's accrual of unrealised capital gains but this may be discounted to the extent that tax on them can be deferred. While a fund is valued on a bid basis in response to net outflow of policyholder money, the full rate of tax is applied to unrealised gains.

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

Policies previously written in Century and BULA

This includes policies transferred from Allianz Cornhill and the unit liabilities of BA policies which were reinsured to BULA.

Tax on income

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

Tax on loan relationships

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

Capital Gains Tax (CGT) on other assets

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

In the case of unit trusts, a deemed disposal is carried out at the end of each financial year and the tax deducted from the funds. Where a gain occurs subsequent to previous losses, those losses are used to offset the gain. Where a loss occurs subsequent to gains in the previous 2 years an amount of tax is credited back to the fund. Tax expected to be payable in current and future years as a result of a deemed disposal is removed from the fund in full but at a discounted rate, during the deemed disposal process. The rate at 31 December 2011 was 19.8%

Realised and unrealised capital gains are calculated as the difference between the sale proceeds and indexed pooled book cost or, in the case of unit trusts, the indexed pooled market value at the date of the latest deemed disposal with adjustments for any subsequent transactions. As at 31 December 2011, the realised provision is calculated at a rate of 19.8%. The unrealised provision is calculated at a discounted rate of tax where funds are primarily invested in assets subject to deemed disposal (19.8% at 31 December 2011), and the full 20% otherwise. Tax on realised gains is deducted at 20%.

All funds are currently priced on a bid basis except for the Capital and Super Plan Funds, which are priced on a mid basis. The tax on unrealised gains for these funds was provided for at 18% throughout most of 2011, increasing to 19.8% in December.

Policies previously written in BRS

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

Policies previously written in SMA and SPL

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

Tax on income

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

Tax on loan relationships

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

Capital Gains Tax (CGT) on other assets

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

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

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

For UK and Eire funds, as at 31 December 2011 the rate applying to net realised gains was 20%. Net unrealised gains were taxed at an appropriate rate (19.8% for UK funds and 19.5% for Eire funds) where funds were primarily invested in assets subject to deemed disposal, and 20% otherwise. No tax relief was being given where there were net losses. Deemed disposals were taxed at these same rates and income was taxed at 20%.

Other Policies

Tax on income

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

Tax on loan relationships

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

Tax on Realised Capital Gains

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

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

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

For deemed disposals, one seventh of the gain is provided for as above. The balance of the instalments is taxed at an appropriate rate (19.8% at 31 December 2011) and the provision is held within the fund. When the capital gains tax charge on a subsequent instalment falls due, the instalment is removed from this provision and treated as other realised tax charges described above.

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

Tax on Unrealised Capital Gains

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

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

(9) Tax Provisions for Internal Linked Funds

An additional reserve has been held at previous valuations due to a mismatch between the capital gains position of individual life linked funds and the overall position of the company. For the current valuation there was no mismatch and no reserve was held.

Policies previously written in PLL

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

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

This method applies to all types of units.

Policies previously written in Alba

These are covered in paragraph 3(8) above.

Policies previously written in Century

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

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

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

Policies previously written in BULA

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

The value of the assets of the linked funds is reduced by any tax due on realised gains (after taking account of unrelieved tax losses). For realised losses, no allowance has been made for any tax credit since July 2001.

For unrealised gains, (net of unrelieved tax losses) a provision for the tax charge has been made. For unrealised losses, no allowance has been made for any tax credit. Capital losses on each fund are treated individually.

Deemed disposals on unit trusts have been treated as realised gains.

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

The rate of tax levied on unrealised fixed interest gains was 20% of the unrealised amounts.

Policies previously written in BRS

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

Policies previously written in BA

There are no internal linked funds.

Policies previously written in SMA and SPL

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

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

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

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

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

(10) Discounts on Unit Purchases

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

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

These are detailed below:

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

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

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

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

Direct holdings of assets in PLL

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

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

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

External Fund links for the Lifestyle Bond previously written in PLL

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

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

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

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

External Fund links for Pensions Solutions Products previously written in PLL

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

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

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

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

Policies previously written in Alba, BULA, BRS and BA

No units are held that need to be reported.

Policies previously written in Century

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

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

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

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

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

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

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

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

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

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

Policies previously written in SMA

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

Policies previously written in SMA and SPL

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

4. VALUATION BASIS

(1) Valuation Methods

Policies previously written in PLL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Deposit administration contracts (PAL)</u>

The liability for Pension Plans was calculated as:

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

<u>Deposit administration contracts (SLUK)</u>

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

<u>Linked Contracts</u>

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

Unit liability – for all contracts, the unit liabilities were taken as the number of units deemed allocated in accordance with the funding plan where applicable and allowing for future cancellation of cancellable units multiplied by the unit price in the relevant fund or unit trust/OEIC at the valuation date. For this purpose unit prices in the internal linked funds have been calculated using the bid value at the valuation date of the assets of the relevant fund.

Non-unit liability – for all contracts, except those listed below, the liability is calculated using cash flow projection methods. Allowance is made within the cash flow projection for mortality and expenses. For business not previously written in either PAL or SLUK negative sterling reserves are allowable as long as total unit and sterling reserves are at least equal to surrender values.

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

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

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

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

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

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

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

The liability in respect of benefits on contracts reassured from SAL With-Profits Fund on a risk premium basis is taken as three months' risk premiums in respect of these benefits, as charged to policyholders by SAL With-Profits Fund. (SAL With-Profits Fund pays the Non Profit Fund 87.5% of these risk premiums in respect of life cover reassurances, and 91% of these risk premiums in respect of reassurances of the Living Benefit and Medical Expenses Benefit on Universal Protection Plan).

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

PAL Reassured Contracts

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

Policies previously written in Alba

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

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

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

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

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

Exceptions:

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

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

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

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

Policies Arising From BLAS

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

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

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

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

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

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

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

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

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

(iv) LASPEN Managed Fund

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

(v) Post 1 January 1995 Contracts

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

(vi) Segregated Pension Funds

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

Policies previously written in Century

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

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

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

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

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

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

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

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

Guaranteed Security Bonds were valued using a cashflow method.

<u>Term Assurances</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-linked Deferred Annuities

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

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

Personal Retirement Plans were valued using a cashflow method.

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

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

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

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

Immediate Annuities

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

Non-linked Permanent Health Insurance

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

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

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

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

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

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

Deposit Administration Contracts

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

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

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

Linked Business

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

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

Portfolio	Capital Units	Accumulation Units
Ex- Sentinel	6.00%	-
Ex-Crown	4.35%	-
Ex-NELPEN	5.00% / 6.00%	-
Ex-OMLA	3.50% / 4.50% 4.75% / 5.25%	0.75% / 1.00%

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

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

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

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

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

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

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

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

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

For A-plan policies additional reserves were held as follows:

(i) A reserve in respect of the maturity guarantee.

(ii) An amount equal to 2% of the office annual premium for the Waiver of Premium Benefit.

(iii) An amount equal to 0.1% of the sum at risk in respect of the Accidental Death Benefit cover.

(iv) An amount equal to 3% of the sum assured discounted to the maturity date at 4.5% in respect of the guaranteed insurability option.

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

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

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

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

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

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

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

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

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

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

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

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

Policies previously written in BULA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Policies previously written in BRS

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

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

Policies previously written in BA

A prospective valuation method is used to value all policies.

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

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

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

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

Policies previously written in SMA

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

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

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

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

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

Policies previously written in SPL

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

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

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

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

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

(2) Valuation Interest Rates

All policies excluding Republic of Ireland policies previously written in SPL

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

Product Group	Current Valuation	Previous Valuation
Sterling reserve discount rates		
Life (unrestricted)	1.85%	2.40%
Life (restricted)	1.85%	2.40%
Pensions (unrestricted)	2.30%	3.00%
Pensions (restricted)	2.30%	3.00%
Annuities		
Pension Annuities in Payment	3.80%	4.40%
Pension Annuities in Payment (Euro)	2.35%	3.20%
Pensions Deferred Annuities pre vesting	2.64%	3.83%
Pensions Deferred Annuities pre vesting (Euro)	2.35%	3.20%
Pensions Deferred Annuities post vesting	2.64%	3.83%
Pensions Deferred Annuities post vesting (Euro)	2.35%	3.20%
Life Annuities In Payment (except RSALI & Phoenix)	1.90%	2.40%
RSALI & Phoenix Life Annuities in Payment	3.80%	4.40%
Life Deferred Annuities	1.85%	2.40%
Index-linked Annuities in Payment	-0.31%	0.44%
Other		
Assurances (Life)	1.85%	2.40%
Assurances (Pensions)	2.30%	3.00%
Index-linked Assurances (Life)	-0.85%	-0.20%
PHI and Critical Illness	2.30%	3.00%
PHI Claims in Payment	2.40%	3.00%
Deposit Administration	2.30%	3.00%

Republic of Ireland policies previously written in SPL

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

Product Group	Current Valuation	Previous Valuation
Whole Life and Endowment Assurances (Life and Pensions)	1.05%	2.10%
Term Assurances (Life)	0.85%	1.70%
Term Assurances (Pensions)	1.05%	2.10%
Immediate Annuities (Conventional and Index-Linked)	0.85%	1.70%
Deferred Annuities in deferment	2.35%	3.20%
Deferred Annuities in payment	2.35%	3.20%
Linked Life non-unit reserves	0.85%	1.70%
Linked Pension non-unit reserves	1.05%	2.10%

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

The valuation interest rate for sterling immediate and deferred pension annuity business is calculated based on the waiver granted by the Financial Services Authority, under section 148 of the Financial Services and Markets Act 2000. Under this waiver a company is allowed to calculate the valuation rate of interest using the internal rate of return on assets backing the annuity liabilities instead of using the arithmetic mean of the gross redemption yields on each asset weighted by their market values. Details of this waiver are covered in the Notes to Appendix 9.3.

The methodology for setting the valuation interest rate for the euro-denominated and index linked annuities does not utilise the waiver, i.e. the portfolio yield is the arithmetic mean of the gross redemption yield on each asset weighted by its market value.

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

(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), net of an allowance for recovery on default, were:

Rating	5yr	10yr	20yr
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

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

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was performed at

an aggregated portfolio level; for this fund, bank subordinated debt adopted the standard approach.

- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £24.0m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

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

(4) Mortality Basis

Longevity improvement factors

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

Males	2012	2022	2032	2042	2052	2062
40	2.25%					
50	1.89%	2.85%				
60	1.45%	2.48%	3.07%			
70	2.61%	1.80%	2.40%	2.69%		
80	3.63%	2.11%	1.77%	2.14%	2.17%	
90	1.41%	2.01%	1.58%	1.59%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Females	2012	2022	2032	2042	2052	2062
40	2.40%					
50	2.85%	3.08%				
60	1.84%	3.29%	3.18%			
70	2.65%	2.51%	2.79%	2.70%		
80	3.37%	2.41%	2.10%	2.18%	2.17%	
90	1.37%	2.00%	1.69%	1.62%	1.63%	1.63%
100	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%

Improvement rates for a cohort are read down the diagonal, i.e. a 60 year old male will experience an improvement rate of 1.45% in 2012 and 1.80% in 2022, when he would be 70.

In the tables that follow all mortality tables are ultimate. Furthermore, for annuity in payment business, the fund which is described as 'previously written in' may refer to the source pension savings contract.

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

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

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Linked Life - aggregate	81% AM92 105% AF92	81% AM92 105% AF92
Linked Life - non-smoker	73% AM92 80% AF92	73% AM92 80% AF92
Linked Life - smoker	145% AM92 162% AF92	145% AM92 162% AF92
Seniorplan	138% AM80 138% AF80	138% AM80 138% AF80
Non linked Whole Life	75% AM92 81% AF92	75% AM92 81% AF92
Non linked TA - aggregate	80% TM92 84% TF92	80% TM92 84% TF92
Non linked TA - non-smoker	66% TM92 66% TF92	66% TM92 66% TF92
Non linked TA - smoker	156% TM92 182% TF92	156% TM92 182% TF92
Life Fund Annuities in Payment	73.0% IM80 C=2010 improving 1.5% pa 74.5% IF80 C=2010 improving 1.25% pa	74.1% IM80 C=2010 improving 1.5% pa 75.4% IF80 C=2010 improving 1.25% pa
Pension Annuities in Payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Linked Pensions	50% AM92 57% AF92	50% AM92 57% AF92
Annuities in Deferment	50% AM92 57% AF92	50% AM92 57% AF92

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

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

	Current Valuation		Previous Valuation	
Age	**Males**	**Females**	**Males**	**Females**
65	22.86	25.52	22.40	25.16
75	14.57	16.38	14.19	16.08

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

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	24.12	26.04	23.73	25.48
	75	75	14.72	16.23	14.39	15.74
Deferred annuities	45	65	27.25	29.07	26.90	28.55
	55	65	25.66	27.59	25.29	27.04

Policies previously written in PAL

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

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Term Assurances	101.0% TMC00 104.1% TFC00	105.6% TMC00 108.9% TFC00
Whole Life & Endowment	86% AM92 112% AF92	86% AM92 112% AF92
Pensions pre-vesting	50% AM92 57% AF92	50% AM92 57% AF92
Pensions post vesting (including GAOs)	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Pension Annuities currently in payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Fund Annuities in Payment	73.0% IM80 C=2010 74.5% IF80 C=2010	74.1% IM80 C=2010 75.4% IF80 C=2010
Life Annuities in deferment	50% AM92 57% AF92	50% AM92 57% AF92
Permanent Health Insurance	76% TM92 76% TF92	76% TM92 76% TF92
Linked Life (aggregate)	81% AM92 105% AF92	81% AM92 105% AF92
Linked Life (non-smoker)	73% AM92 80% AF92	73% AM92 80% AF92
Linked Life (smoker)	145% AM92 162% AF92	145% AM92 162% AF92

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

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	22.86	25.52	22.40	25.16
	75	75	14.57	16.38	14.19	16.08
Deferred annuities	45	65	26.09	28.01	25.59	27.64
	55	65	24.45	26.75	23.97	26.38

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

Policies previously written in SLUK

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

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Group Spouses' Annuities	N/A Modified PCFA00	N/A Modified PCFA00
Life Annuities in payment	88.5% IMA92 C=2010 improving 1.5% pa 89.7% IFA92 C=2010 improving 1.25% pa	89.8% IMA92 C=2010 improving 1.5% pa 90.8% IFA92 C=2010 improving 1.25% pa
Pension Annuities in payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Deferred Annuities	88.5% IMA92 C=2010 improving 1.5% pa 89.7% IFA92 C=2010 improving 1.25% pa	89.8% IMA92 C=2010 improving 1.5% pa 90.8% IFA92 C=2010 improving 1.25% pa
Pension Deferred Annuities	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Whole Life and Endowment	72% AM92 72% AM92 -3 yrs	72% AM92 72% AM92 -3 yrs
RICTA	98% TMC00 98% TMC00 -3 yrs	98% TMC00 98% TMC00 -3 yrs
Group Term Assurance	84.7% TMC00 88.8% TFC00	88.6% TMC00 92.9% TFC00
Individual Life & Pension Term (aggregate)	84.7% TMC00 88.8% TFC00	88.6% TMC00 92.9% TFC00
Individual Life & Pension Term (non-smoker)	80.6% TMN00 86.7% TFN00	84.3% TMN00 90.7% TFN00
Individual Life & Pension Term (smoker)	82.6% TMS00 89.8% TFS00	86.5% TMS00 93.9% TFS00
Life Unit Linked policies	94% AM92 94% AM92 -3 yrs	94% AM92 94% AM92 -3 yrs
Pensions Unit Linked policies	83% AM92 83% AM92 -3 yrs	83% AM92 83% AM92 -3 yrs
Income Protection (pre-claim)	45% TM80 45% AF80	45% TM80 45% AF80
Income Protection (post-claim)	81% TM80 81% AF80	81% TM80 81% AF80

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

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

Rates for the previous valuation were:

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

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

Annuitant mortality – Expectation of life at the valuation date

Age	Male Modified PCMA00	Female Modified PCFA00	Male Modified IMA92	Female Modified IFA92
65	26.32	25.44	24.35	26.42
75	16.61	15.70	15.07	16.45

Annuitant mortality – Expectation of life at the previous valuation date

Age	Male Modified PCMA00	Female Modified PCFA00	Male Modified IMA92	Female Modified IFA92
65	26.14	24.72	24.08	26.23
75	16.45	15.09	14.85	16.28

Policies previously written in Alba

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

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

<u>Ex-BLAS Contracts</u>

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

Policies previously written in Century

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

Product Group	**Current Valuation M/F bases**	**Previous Valuation M/F bases**
Whole Life and Endowment Assurances	77% A67/70 [1]	77% A67/70 1
Term Assurance (excluding Ex-NAL)		
Aggregate	61% A67/70 [1]	61% A67/70 1
Non Smoker	51% A67/70 [1]	51% A67/70 1
Smoker	90% A67/70 [1]	90% A67/70 1
Term Assurance (Ex-NAL) – Life Assurance, Mortgage Protection & Pensions Life		
Gross Liabilites		
Non Smoker	46% AM80 [2]	46% AM80 2
	51% AF80 [3]	51% AF80 3
Smoker	81% AM80 [2]	81% AM80 2
	89% AF80 [3]	89% AF80 3
Net liabilities (pre 30/6/00 business)		
Non Smoker	55% AM80 [2]	55% AM80 [2]
	58% AF80 [3]	58% AF80 [3]
Smoker	93% AM80 [2]	93% AM80 [2]
	100% AF80 [3]	100% AF80 [3]
Net liabilities (post 1/7/00 business)		
Non Smoker	51% AM80 [2]	51% AM80 [2]
	56% AF80 [3]	56% AF80 [3]
Smoker	93% AM80 [2]	93% AM80 [2]
	102% AF80 [3]	102% AF80 [3]

[1] AIDS 36.3% R6A (peak) Female age deduction 3 years
[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.2% R6A (peak)

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

[1] AIDS 36.3% R6A (peak) Female age deduction 3 years
[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.2% R6A (peak)

[4] Female age reduction 3 years

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

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

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

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

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

For internally reassured business:

	Current Age	Expectation of life from Age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	24.33	25.64	23.73	25.48
	75	75	14.90	15.87	14.39	15.74
Deferred annuities	45	65	27.47	28.68	26.90	28.55
	55	65	25.87	27.18	25.29	27.04

For externally reassured business:

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	24.33	25.25	24.15	25.09
75	14.90	15.54	14.75	15.40

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

Table 1 current valuation

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

Table 1 previous valuation

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

Table 2 current valuation

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

Table 2 previous valuation

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

Table 3 current valuation

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

Table 3 previous valuation

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

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

Product Group	Current Valuation	Previous Valuation
	Modified Table	Modified Table
Term Assurance (Ex-NAL) – Tailored Mortgage Protection, Combined Life & Critical Illness Cover		
Gross liabilities	Table 4 [2,3]	Table 4 [2,3]
Net liabilities (pre 19/3/01 business)	Table 5 [2,3]	Table 5 [2,3]
Net liabilities (post 20/3/01 business)	Table 6 [2,3]	Table 6 [2,3]
Non Linked PHI (Ex-NAL) – Critical Illness		
Gross liabilities	Table 7	Table 7
Net liabilities	Table 8	Table 8
Non Linked PHI (Ex-NAL)–Tailored Mortgage Protection, Critical Illness Cover only		
Gross liabilities	Table 7	Table 7
Net liabilities (pre 19/3/01 business)	Table 9	Table 9
Net liabilities (post 20/3/01 business)	Table 10	Table 10

[2] AIDS 27.5% R6A (peak)
[3] AIDS 9.2% R6A (peak)

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

Table 4 current valuation

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

Table 4 previous valuation

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

Table 5 current valuation

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

Table 5 previous valuation

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

Table 6 current valuation

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

Table 6 previous valuation

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

Table 7 current valuation

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

Table 7 previous valuation

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

Table 8 current valuation

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

Table 8 previous valuation

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

Table 9 current valuation

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

Table 9 previous valuation

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

Table 10 current valuation

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

Table 10 previous rates

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

Policies previously written in BULA

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

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Business formerly in the Unit Linked Fund		
Unit-linked Business (excluding the below)	110% AMC00 110% AFC00	110% AMC00 110% AFC00
Unit-linked endowments with critical illness	125% Gerling SI morbidity and: 110% AMC00 110% AFC00	125% Gerling SI morbidity and: 110% AMC00 110% AFC00
Unit-linked deferred annuity (pre-vesting)	58% AMC00 58% AFC00	58% AMC00 58% AFC00
Unit-linked Personal pension, FSAVCs and Stakeholder pension	165% AMC00 154% AFC00	165% AMC00 154% AFC00
Business formerly in the Non-Profit Fund		
Pension Annuities in Payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00
Life Fund Annuities in Payment	73.0% IM80 C=2010 improving 1.5% pa 74.5% IF80 C=2010 improving 1.25% pa	74.1% IM80 C=2010 improving 1.5% pa 75.4% IF80 C=2010 improving 1.25% pa
Unit Linked Business with aggregate smoker status	88% AM92 88% AF92	88% AM92 88% AF92
Unit Linked Business with smoker split		
Aggregate	88% AM92 88% AF92	88% AM92 88% AF92
Non Smoker	77% AM92 66% AF92	77% AM92 66% AF92
Smoker	176% AM92 132% AF92	176% AM92 132% AF92
Aggregate Term Assurance	122.4% TMC00 114.2% TFC00	128.1% TMC00 119.5% TFC00
Term Assurance (codes GITN & GITF)		
Non Smoker	333.5% TMN00 178.5% TFN00	349.0% TMN00 186.8% TFN00
Smoker	214.2% TMS00 181.5% TFS00	224.2% TMS00 189.9% TFS00
Other Term Assurances		
Non Smoker	141.7% TMN00 135.6% TFN00	148.3% TMN00 141.9% TFN00
Smoker	124.5% TMS00 116.3% TFS00	130.2% TMS00 121.7% TFS00
Whole of Life (with medical selection)	105% AM92 119% AF92	105% AM92 119% AF92
Senior Security Plan	Modified AM92/AF92	Modified AM92/AF92
Other Permanent Assurances	99% AM92 121% AF92	99% AM92 121% AF92
AIDS loading where relevant	Nil	Nil

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

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	24.33	25.64	23.73	25.48
75	14.90	15.87	14.39	15.74

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

	Current Valuation		Previous Valuation	
Age	Males	Females	Males	Females
65	22.86	25.52	22.40	25.16
75	14.57	16.38	14.19	16.08

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

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
50	336.073%	333.890%	254.503%	367.008%
60	206.538%	232.627%	189.535%	244.000%
70	128.965%	152.807%	149.995%	176.081%
80	104.297%	122.984%	134.018%	161.257%

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

Age	Male non-TV sales	Male TV sales	Female non-TV sales	Female TV sales
50	286.190%	314.391%	261.806%	382.720%
60	179.544%	216.062%	184.398%	235.905%
70	118.708%	151.627%	139.279%	164.694%
80	103.219%	120.592%	126.091%	160.480%

Policies previously written in BRS

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

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

Representative description of underwriting category	Standard	Light smoker	Diabetic	Smoker	Medium impairment	High impairment	Seriously ill
Male aged 65	26.94	24.42	26.11	22.20	21.76	17.63	14.81
Male aged 75	17.33	15.17	17.13	13.34	14.62	10.33	8.40
Female aged 65	29.59	27.27	25.11	20.98	19.16	16.17	18.95
Female aged 75	19.35	17.25	15.45	11.89	10.72	9.04	10.83

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

Representative description of underwriting category	Standard	Light smoker	Diabetic	Smoker	Medium impairment	High impairment	Seriously ill
Male aged 65	26.79	24.26	25.94	22.03	21.55	17.42	14.60
Male aged 75	17.20	15.04	16.99	13.21	14.47	10.18	8.25
Female aged 65	29.48	27.15	24.97	20.84	18.98	15.98	18.77
Female aged 75	19.25	17.14	15.33	11.79	10.59	8.91	10.70

Policies previously written in BA

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Decreasing term assurance with critical illness cover	125% Gerling Re morbidity and: 105% TMC00 110% TFC00	125% Gerling Re morbidity and: 105% TMC00 110% TFC00
Non linked immediate annuity	Modified RMV00 Modified RFV00	Modified RMV00 Modified RFV00
Aggregate Term Assurance	105% TMC00 110% TFC00	105% TMC00 110% TFC00
Term Assurance (codes T1 & T2)		
Aggregate	166% TMC00 163% TFC00	166% TMC00 163% TFC00
Non Smoker	106% TMC00 105% TFC00	106% TMC00 105% TFC00
Smoker	226% TMC00 222% TFC00	226% TMC00 222% TFC00
Term Assurance with serious illness (codes ST1 & ST2)	125% Gerling SI morbidity and:	125% Gerling SI morbidity and:
Aggregate	199% TMC00 139% TFC00	199% TMC00 139% TFC00
Non Smoker	119% TMC00 88% TFC00	119% TMC00 88% TFC00
Smoker	278% TMC00 189% TFC00	278% TMC00 189% TFC00
Endowment and Whole of Life	110% AMC00 110% AFC00	110% AMC00 110% AFC00
Pension deferred annuities (pre-vesting)	90% AMC00 90% AFC00	90% AMC00 90% AFC00

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

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

	Current Valuation		Previous Valuation	
Age	**Males**	**Females**	**Males**	**Females**
65	23.04	25.67	22.31	25.36
75	14.03	15.84	13.43	15.57

Policies previously written in SMA

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

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

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

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	22.80	24.77	22.73	24.72
	75	75	14.24	15.37	14.19	15.33
Deferred annuities	45	65	24.24	25.91	24.20	25.88
	55	65	23.82	25.61	23.77	25.57

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate	65	65	23.91	25.84	23.89	25.41
annuities	75	75	14.54	16.05	14.52	15.68
Deferred	45	65	27.05	28.87	27.06	28.48
annuities	55	65	25.45	27.38	25.44	26.97

Policies previously written in SPL

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

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

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

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

Conventional term assurance – current year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.408	0.729	0.185	0.280
35	0.438	0.719	0.287	0.486
45	0.940	1.670	0.715	1.343
55	2.518	6.450	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	0.954	1.684	0.715	1.343
55	2.529	6.461	1.873	3.864

Conventional whole life assurance – current year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.421	0.421	0.218	0.218
35	0.444	0.444	0.348	0.348
45	0.975	0.975	0.892	0.892
55	2.886	2.886	2.406	2.406

Conventional whole life assurance – previous year

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.421	0.421	0.218	0.218
35	0.444	0.444	0.348	0.348
45	0.989	0.989	0.892	0.892
55	2.898	2.898	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	1.141	1.171	0.942	1.877
55	3.084	4.453	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	1.155	1.185	0.942	1.877
55	3.096	4.465	2.468	5.401

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

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	23.91	25.84	23.89	25.41
	75	75	14.54	16.05	14.52	15.68
Deferred annuities	45	65	27.05	28.87	27.06	28.48
	55	65	25.45	27.38	25.44	26.97

Policies previously written in With Profits funds

These contracts represent former with profit policies which have vested in the Non Profit Fund. They originate from the Alba With-Profits Fund, SAL With-Profits Fund and Phoenix With-Profits Funds and the arrangement for such plans to vest in the Non Profit Fund began with effect from 1 January 2011.

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

Product Group	Current Valuation M/F bases	Previous Valuation M/F bases
Pension Annuities in payment	Modified PCMA00 Modified PCFA00	Modified PCMA00 Modified PCFA00

For this year only, the comparable basis from the previous valuation is that which applied in the source subfund, as these annuities are new to the Non Profit Fund.

Note that within the Phoenix With-Profits Fund there is a group of business called the Scottish Transport Group (STG) where this book of business is known to demonstrate much heavier mortality than the rest of the Phoenix With-Profits Fund book of business.

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

Ex-Alba With-Profits Fund:

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	24.12	26.47	23.69	25.73
	75	75	14.72	16.61	14.20	16.29

Ex-SAL With-Profits Fund:

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	25.81	26.74	25.01	26.54
	75	75	16.17	16.84	15.56	16.79

Ex-Phoenix With-Profits Fund (excl STG):

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	25.02	25.25	25.21	26.72
	75	75	15.48	15.54	15.74	16.32

Ex-Phoenix With-Profits Fund (STG):

	Current Age	Expectation of life from age	Current Valuation		Previous Valuation	
			Males	Females	Males	Females
Immediate annuities	65	65	21.34	23.01	25.21	26.72
	75	75	12.42	13.63	15.74	16.32

(5) Morbidity Basis

Policies previously written in PLL but not in PAL or SLUK

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

Policies previously written in PAL

For PHI benefits previously written in PAL, the assumed inception & recovery rates are expressed as varying percentages of CMIR12. Sample inception & recovery rates for occupational class 1 lives, based on a 3 month deferred period, are as follows:

Inception rates expressed as a percentage of CMIR12

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
25	CMIR12	67.00%	116.00%	67.00%	116.00%
35	CMIR12	67.00%	116.00%	67.00%	116.00%
45	CMIR12	67.00%	116.00%	67.00%	116.00%
55	CMIR12	59.00%	104.00%	59.00%	104.00%

Recovery rates expressed as a percentage of CMIR12 for 2 years duration and 5 years duration

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

For policies previously written in SLUK

For PHI and critical illness policies previously written in SLUK, the following morbidity assumptions are used (for PHI the non-smoker, 3 month deferred period, occupational class 1 rates are shown):

Inception rates expressed as a percentage of the table:

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
Individual/Group PHI					
25	CMIR12	26.00%	45.50%	26.00%	45.50%
35	CMIR12	26.00%	45.50%	26.00%	45.50%
45	CMIR12	26.00%	45.50%	26.00%	45.50%
55	CMIR12	26.00%	45.50%	26.00%	45.50%
Critical Illness (non-smoker)					
25	CIBT93M	45.00%	63.00%	45.00%	63.00%
35	CIBT93M	45.00%	63.00%	45.00%	63.00%
45	CIBT93M	45.00%	63.00%	45.00%	63.00%
55	CIBT93M	45.00%	63.00%	45.00%	63.00%
Critical Illness (smoker and aggregate)					
25	CIBT93M	95.00%	100.00%	95.00%	100.00%
35	CIBT93M	95.00%	100.00%	95.00%	100.00%
45	CIBT93M	95.00%	100.00%	95.00%	100.00%
55	CIBT93M	95.00%	100.00%	95.00%	100.00%
Accelerated Critical Illness (non-smoker) : Term assurance mortality plus:					
25	CIBT93M	46.00%	64.00%	46.00%	64.00%
35	CIBT93M	46.00%	64.00%	46.00%	64.00%
45	CIBT93M	46.00%	64.00%	46.00%	64.00%
55	CIBT93M	46.00%	64.00%	46.00%	64.00%
Accelerated Critical Illness (smoker and aggregate) : Term assurance mortality plus:					
25	CIBT93M	98.00%	103.00%	98.00%	103.00%
35	CIBT93M	98.00%	103.00%	98.00%	103.00%
45	CIBT93M	98.00%	103.00%	98.00%	103.00%
55	CIBT93M	98.00%	103.00%	98.00%	103.00%

Recovery rates expressed as a percentage of CMIR12 for 2 years duration and 5 years duration

Age	Table	Current Valuation		Previous Valuation	
		Male	Female	Male	Female
Individual and Group PHI claims					
25	CMIR12	76.00%	76.00%	76.00%	76.00%
35	CMIR12	76.00%	76.00%	76.00%	76.00%
45	CMIR12	76.00%	76.00%	76.00%	76.00%
55	CMIR12	76.00%	76.00%	76.00%	76.00%

Policies previously written in Alba

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

Policies previously written in BRS

No products cover morbidity risk.

Policies previously written in BA

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

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

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

Tables for non smoker rates:

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

Tables for smoker rates:

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

Policies previously written in SMA

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

Inception rates expressed as a percentage of the table:

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

Recovery rates expressed as a percentage of the table:

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

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

Critical illness

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

Residual mortality

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

Policies previously written in SPL

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

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

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.001030	0.001209	0.000863	0.000774
35	0.001078	0.001737	0.001316	0.001623
45	0.002394	0.005280	0.002726	0.004697
55	0.007820	0.014876	0.007645	0.011184

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

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

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

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

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

Combined mortality and critical illness:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.001062	0.001251	0.000766	0.000947
35	0.001122	0.001815	0.001211	0.002061
45	0.002404	0.005322	0.002489	0.005915
55	0.007744	0.014779	0.006766	0.013646

Critical illness benefits only:

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.000633	0.000721	0.000493	0.000610
35	0.000889	0.001389	0.001188	0.002020
45	0.001985	0.004227	0.002476	0.005882
55	0.007035	0.012966	0.006505	0.013120

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

(6) Expenses

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

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Term assurance (325 / 330)	26.96	25.33
Critical illness (340 / 345 / 350 / 355)	103.34	98.75
Income protection (360 / 365)	61.39	58.48
Income protection claims in payment (385)	0.00	0.00
Annuity (400)	28.64	26.92
UWP bond (500)	N/A	N/A
UWP savings endowment (510)	N/A	N/A
UWP regular premium pension (525)	63.02	63.05
UWP single premium pension (525)	44.12	44.14
UWP group regular premium pension (535)	N/A	N/A
UWP group single premium pension (535)	N/A	N/A
UL bond (700)	15.61	14.67
UL savings endowment (715)	43.32	40.71
UL target cash endowment (720)	51.60	50.53
UL regular premium pension (725)	51.32	48.23
UL single premium pension (725)	35.93	33.76
UL group regular premium pension (735)	50.48	47.44
UL group single premium pension (735)	35.35	33.22

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

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

(7) Unit Growth Rates

Previous Company	Product Group	Unit growth rate before management charge	Expense inflation rate assumed	Policy charge increase rate assumed
		(% p.a.)	(% p.a.)	(% p.a.)
PLL but not SLUK	Life business except for Home Ownership Plan	2.50%	3.99%	3.99%
	Home Ownership Plan	1.07%	3.99%	2.99%
	Pensions business	2.65%	3.99%	3.99%
SLUK	Life business	2.50%	3.99%	0.00%
	Pensions business	2.65%	3.99%	0.00%
Alba	Life business	2.50%	3.99%	0.00%
	Pensions business	2.65%	3.99%	0.00%
Century	Life Funds	2.35%	1.50%	3.99%
	Pension Funds	2.50%	1.50%	3.99%
BULA	Life business	2.50%	3.99%	2.99%
	Pensions business	2.65%	3.99%	2.99%
BRS	Pension Annuities	0.00%	2.99%	n/a
BA	Pension Annuities	n/a	3.99%	n/a
	Life business	2.20%	3.99%	3.99%
SMA	Pensions business	2.40%	3.99%	3.99%
SPL				
UK	Life business	2.60%	3.99%	2.99%
	Pensions business	2.70%	3.99%	2.99%
Republic of Ireland	Life business	2.60%	0.00%	2.99%
	Pensions business	2.70%	0.00%	2.99%

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

(8) Future Bonus Rates

Not applicable

(9) Persistency Assumptions

For products where the valuation method has not been changed following the changes to the INSPRU valuation rules at 31 December 2006, no credit has been taken for future lapses.

Policies previously written in PLL

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse (if margin positive)	3.60%	3.60%	3.60%	3.60%
Level term	Lapse (if margin negative)	2.40%	2.40%	2.40%	2.40%
Decreasing term	Lapse (if margin positive)	8.40%	8.40%	8.40%	8.40%
Decreasing term	Lapse (if margin negative)	5.60%	5.60%	5.60%	5.60%
Accelerated critical illness	Lapse (if margin positive)	10.80%	10.80%	10.80%	10.80%
Accelerated critical illness	Lapse (if margin negative)	7.20%	7.20%	7.20%	7.20%

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

- A positive margin at all durations
- A negative margin at all durations
- A positive margin when the reserves are negative and a negative margin when the reserves are positive.

Policies previously written in Alba

The valuation makes no allowance for lapses.

Policies previously written in BULA

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse (if margin positive)	11.00%	9.60%	9.60%	9.60%
Level term	Lapse (if margin negative)	7.40%	6.40%	6.40%	6.40%
Decreasing term	Lapse (if margin positive)	21.60%	21.30%	21.30%	21.30%
Decreasing term	Lapse (if margin negative)	14.40%	14.20%	14.20%	14.20%

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

- A positive margin at all durations
- A negative margin at all durations
- A positive margin when the reserves are negative and a negative margin when the reserves are positive.

Policies previously written in BRS

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

Policies previously written in BA

No allowance for lapses is made in the valuation.

Policies previously written in SMA

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

Policies previously written in SPL

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

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

(10) Other Material Assumptions

Reinvestment Risk

The regulations also require the valuation rate to be reduced for reinvestment risk, if necessary.

In particular, there may be some reinvestment risk in relation to annuities as the assets and liabilities are matched on a realistic rather than on a statutory basis. This is determined by identifying how much of each year's annuity payments come from asset cashflows and how much is projected to come from draw down of the accumulated reinvested assets. The proportion provided by the assets is accredited the current asset yield, that part coming from reinvested assets is accredited the reinvestment yield. The portfolio yield is reduced to allow for the reinvested assets producing a return no larger than the maximum within the FSA rules.

Policies previously written in BRS

A proportion of the mortality risk is reinsured to Hanover Re on a prescribed basis. The reinsurance reserves allow for 90% of the recoveries that would be due under the treaty on the valuation mortality assumptions.

The reinsurance treaty also allows for payments from the reinsurer in respect of administration expenses. Reinsurance reserves are established equal to the present value of the payments expected from the reinsurer.

(11) Allowance for Derivatives

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

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

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

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

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

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

The business is backed by assets which include euro denominated bonds together with currency swaps to convert the coupon and redemption proceeds to sterling. To allow for these steps (i) and (ii) above are amended to project future cashflows in sterling using forward exchange rates.

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

(12) Effect of Basis Changes

Not applicable. The changes in INSPRU valuation rules effective from 31 December 2006 were implemented at that time.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

Policies previously written in PLL

(a) Methods

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

Mortality		
	Before vesting	53.4% AM92
		60.1% AF92
	After vesting	61.5% PMA80 C=2010
		75.2% PFA80 C=2010
Allowance for future improvements		
	Before vesting	1.5% p.a. males
		1.5% p.a. females
	After vesting	1.5% p.a. males
		1.5% p.a. females

(b)

Product Name	**Personal Pension Investment Plan contracts issued in 1982 and 1983, Directors' and Executives Pension Plan**	**Personal Pension Plan and Retirement Annuity Policy**
Basic reserve	£9.1m	£2.6m
Spread of outstanding durations	As a percentage of guarantee 65.4% < 5 years 23.8% between 5 and 10 years 10.5% between 10 and 20 years 0.3% over 20 years	As a percentage of guarantee 69.8% < 5 years 27.1% between 5 and 10 years 3.1% between 10 and 20 years Nil over 20 years
Guarantee reserve	£2.4m	£1.8m
Guarantee annuity rate (age 65 male)	£109.30 p.a. for £1000 cash sum for Personal Pension Investment Plan £111.37 p.a. for £1000 cash sum for Directors' and Executives Pension Plan (PGP&A)	£106.67 p.a. for £1000 cash sum.
Increments	Increments are not allowed	Increments are not allowed
Frequency	Annually in arrears, no guarantee period	Annually in arrears, no guarantee period
Retirement ages	Between 60 and 75	Between 60 and 75

Policies previously written in SLUK

(a) Methods

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

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

The main assumptions used to value GAOs were:

Valuation interest rate p.a.	2.02%
GAO take-up rate*	80%
Mortality	IMA92/IFA92
Payment expense allowance	2%
The uncertainty of future interest rates has been allowed for by valuing the annuity using the alternative assumptions that interest rates will be 30% lower or 30% higher than those underlying the central rate. The reserve is taken as the average of the three results.	

(b)

Product Name	**Protection Plan**	**Escalator Plan**
Basic reserve	£15.2m	£41.4m
Spread of outstanding	0-25 years	0-25 years
Guarantee reserve	£3.8m	£9.2m
Guarantee annuity rate (age 65 male)	£102.88 p.a. for £1000 cash sum for policies commencing before 1979 £79.88 p.a. for £1000 cash sum for policies commencing in 1979 or 1980	£102.88 p.a. for £1000 cash sum for policies commencing before 1979 £79.88 p.a. for £1000 cash sum for policies commencing in 1979 or 1980
Increments	Increments are not allowed	Increments are not allowed
Frequency	Half-yearly in arrears, 5 years guarantee period	Half-yearly in arrears, 5 years guarantee period
Retirement ages	Available on surrender at 50, 55, 60 or 65	Available on surrender at 50, 55, 60 or 65

Policies previously written in Alba

Not applicable

Policies previously written in Century

(a) Methods

The liabilities for Guaranteed Annuity rate Options (GAOs) were calculated at policy level using a deterministic valuation interest rate. All the policies were significantly in the money at the valuation date and are likely to remain so in the future unless interest rates increase substantially. The value of the GAOs is therefore virtually all intrinsic value, and if a stochastic method had been used, the reserves thus calculated would not be materially different from the values reported.

The main assumptions used to value GAOs were:

Valuation interest rate p.a.	Pre-vesting	2.64%
	Post-vesting	2.64%
GAO take-up rate*		95%
Mortality		As in 4 (4)
Payment expense allowance		4%
* This assumes 20% of policies take 25% of their fund as cash at retirement for all oustanding durations		

(b)

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	GAO Rate	Incrs Yes/No	Ann. Form	Ret. Ages
Ex-NEL Gteed Growth	13.8	0-22	13.5	11.11%	Yes	*	60-75
Ex-NEL Linked	6.9	0-18	6.5	11.11%	Yes	*	60-75
Ex-Crown Dep Admin	2.5	0-20	0.1	10.25%	Yes	*	60-65
Ex-OMLA Ex-WP	6.2	0-14	3.9	8.90%	Yes	*	55-75

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

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

Policies previously written by BULA, BRS, BA and SMA

There are no guaranteed annuity rate options.

Policies previously written in SPL

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

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	GAO Rate	Incrs Yes/No	Ann. Form	Ret. Ages
Select Executive & Personal Retirement Plan	19.7	0-36	6.2	9.1%	Yes	*	60-70

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

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

(2) Guaranteed Surrender and Unit-linked Maturity Values

Policies previously written in PLL

Surrender Guarantees

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

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

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

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

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

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

Maturity Guarantees

The reserving bases for investment performance guarantees are summarised below.

Lloyds Bank contracts issued between 1968 and 1973: These have a minimum amount guaranteed on maturity. Some of these contracts have been endorsed at maturity to continue for a further period of ten years but the original guarantee only has been retained and not increased despite the payment of a further ten years' premiums. It is considered that no reserve is necessary to provide against these guarantees because of the current size of the unit liabilities compared with the guarantees given.

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

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

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

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

Product Name	**Fairshare Endowment Plans (Series I)**	**Endowment Plans (Property and Managed Fund units):**
Basic reserve	£4.6m	£0.2m
Spread of outstanding durations	As a percentage of unit fund: 26.0% < 5 years 31.3% between 5 and 10 years 24.9% between 10 and 15 years 9.4% between 15 and 20 years 8.3% over 20 years	As a percentage of unit fund: 80.0% < 5 years 19.3% between 5 and 10 years 0.7% between 10 and 15 years nil between 15 and 20 years nil over 20 years
Guarantee reserve	£0.2m	£0.0m
Guaranteed amount	Guaranteed sum assured at maturity specified at outset of the policy	Guaranteed sum assured at maturity specified at outset of the policy
MVA free conditions	No MVAs are allowed	No MVAs are allowed
In force premiums	£0.1m	£0.0m
Increments	Increments are not allowed	Increments are not allowed

Product Name	Wealth Assured Endowments
Basic reserve	£23.5m
Spread of outstanding	Up to 38 years outstanding duration.
Guarantee reserve	£0.8m (aggregate reserve for all Wealth Assured Contracts)
Guaranteed amount	For contracts issued before April 1979 there is a guarantee that at the end of ten years and throughout the eleventh year the sum payable will not be less than 100% of the total premiums paid (excluding the policy fee). This proportion will increase by 1% at each policy anniversary until final maturity. For later contracts the minimum sum assured payable at the end of ten years for each £10 per month premium (excluding policy fee) is £1000 and this amount increases by £125 for males and £140 for females at the end of each complete year thereafter until final maturity.
MVA free conditions	No MVAs are allowed
In force premiums	£0.2m
Increments	Increments are not allowed

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

Product Name	Wealth Assured Bonds
Basic reserve	£6.6m
Spread of outstanding	Whole Life contract. The youngest current age is 37.
Guarantee reserve	£0.8m (aggregate reserve for all Wealth Assured Contracts)
Guaranteed amount	On surrender the cash value of the bond is the value of the units allocated at the last published bid price, subject to a provision that if the bond had been in force for ten years and no part of it had been cashed or withdrawn, the cash value is guaranteed to be not less than 125% of the original single premium; this guarantee increases to 200% after 20 years and 300% after 30 years. Reduced guarantees apply if part of the bond has been cashed.
MVA free conditions	No MVAs are allowed
In force premiums	N/A
Increments	Increments are not allowed

Policies previously written in Alba, BRS, BA, SMA and SPL

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

Policies previously written in Century

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

Policies previously written in BULA

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

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

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

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

Product	Basic Reserve £m	O/S Durn Spread years	Gtee Reserve £m	Gtee Amount £m	MVA Free conditions	In Force Premiums £m	Incrs Yes/No
Flexible Investment Plan (first series)	14.4	0-18	0.0	5.5	N/A	0.1	No

(3) Guaranteed Insurability Options

Policies previously written in PAL

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

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

Policies previously written in SLUK

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

Policies previously written in Alba

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

Policies previously written in Century

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

A revival reserve of £40,000 has been made with respect to ex-NEL policies.

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

For ex-CCL convertible term assurances, an additional reserve was held equal to the proportion of the total office premiums in respect of the conversion option paid since the inception of the contract. The premium rates for convertible term assurances are equal to those for ordinary term assurances with a 15% loading for the conversion option (10% for policies issued before March 1979).

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

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

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

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

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

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

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

Policies previously written in BULA

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

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

Policies previously written in BRS, BA and SMA

There are no guaranteed insurability options.

Policies previously written in SPL

UK Self Assurance contracts may contain a renewal option giving policyholders the option to renew their policies at the end of the initial term. The reserve for this option is calculated as 70% of the option premiums received to date. The total sum assured under these policies is less than £1bn.

(4) Other Guarantees and Options

Policies previously written in PLL

Investment Performance Guarantees

Price Guarantees

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

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

Units in the Old Building Society Linked Pension Fund are guaranteed to increase in value on a year to year basis in line with the lending rate of interest used by Abbey plc on residential mortgages. An additional provision of £1.9m has been made within the long-term insurance business liabilities in respect of this arrangement. This is calculated as 15% of the value of the fund, taking into account the outstanding term of the business and the expected difference between the rate guaranteed and the rate earned on the underlying assets.

Investment Guarantees on Deposit Administration Pension Contracts (PAL)

The Deposit Administration Pension contracts previously written by PAL have investment guarantees. The additional provision in respect of the guarantee is £2.6m. This is calculated as 15% of the base reserves for these contracts, taking into account the outstanding term of the business and the expected difference between the rate guaranteed and the rate earned on the underlying assets.

Policies previously written in Alba

There are no other significant guarantees or options.

Policies previously written in Century

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

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

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

Policies previously written in BULA

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

Policies previously written in BRS, BA and SPL

There are no other guarantees or options.

Policies previously written in SMA

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

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

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
Individual Pension Arrangements	11.2	11.5	0.3

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

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

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
All Products	1.0	23.2	49.2	32.3	105.8

(2) Implicit Allowances

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

(3) Form 43 Comparison

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

Homogeneous risk group	F43.14 (a) £m	table 6(1) (b) £m	Difference (b) - (a)
All Products	93.7	105.8	12.1
Total	93.7	105.8	12.1

Differences arise as line 14 of Form 43 includes an allowance of £13.8m for Annual Management Charges received from the Scottish Mutual With-Profits fund and SPI With-Profits fund that are not included in the maintenance expenses shown in 6(1). Form 43 also includes £4m of investment performance fees paid to Ignis Asset Management Ltd over 2011. Such performance fees are not provided for in the valuation because they are only payable when investment performance exceeds the benchmark. Furthermore there are extra costs expected from the Solvency II and Actuarial Systems Transformation projects.

The expense loadings also include an additional year's inflation compared to form 43, but are based on a smaller book of business due to the run off of the closed fund.

(4) New Business Expense Overrun

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

(5) Maintenance Expense Overrun

Expense reserves in accordance with 6(1) together with expense provisions described below are considered to be sufficient to meet the expenses likely to be incurred in the future. The agreement also includes a prudent allowance for costs that are not covered by standard fees payable under the agreement.

Costs falling outside the MSAs Provision - £6.3m

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

UPAC Provision

At previous valuations a seperate provision was held to cover the expected expense associated with the unit-pricing and control team for the ex-RSALI business. This has been reallocated and is now included in maintenance expenses as shown in 6(1) above.

Policies previously written in PLL

Other than a reserve of £0.1m, no allowance has been made for redundancy costs (as these will be met by the service provider), or for any costs of terminating the management services agreement (as the service provider does not have the option to terminate the contract).

(6) Non-attributable expenses

The Non Profit fund pays a fixed expense fee to PGMS in respect of all unit linked business other than (1) that originally written in Century, (2) Alba corporate business, (3) that originally written in SMA and (4) that originally written in SPL. The run-off of fees was projected as at 1 January 2009 and was based on the per policy fees agreed to be paid to PGMS allowing for future inflation. The present value of all future fees remains the same on a best estimate basis. The total fee is assumed to inflate at RPIX+1% per annum and from 1 January 2012 the amount paid each year will be adjusted for the movement in RPIX at each November. If for any year the percentage change in RPIX+1% is negative, the fee will not be inflated.

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

- Calculate the individual policy sterling reserves using the standard models with per policy expenses set to zero. These expenses are the fees payable to PGMS with a loading for direct costs and any Peak 1 margin.

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

The total sterling reserve for this business is £48.3m. This also covers mortality and morbidity risk. The present value of the future expense payments to PGMS is £271.0m.

The Non Profit fund pays investment expenses and an additional services fee in return for the management of assets. An expense reserve of £24.5m has been set up for the additional services fee which is non-attributable. This reserve has been calculated as the current level of additional services fee multiplied by a capitalisation factor.

Other non-attributable expense reserves are for TCF (£4.3m), other costs falling outside MSAs (£6.3m), other direct costs and business retention activity (£1.1m) and allowance for extra unmodelled per policy expense payable to Percana from 2011-15 (£1.5m).

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

Currency	Mathematical Reserves m	Backed by assets in same currency m	Backed by assets in other currency m	Mismatching Percentage %
Sterling (£)	5,439.4	5,439.4	0.0	0.0
Euro (€)	358.8	358.8	0.0	0.0
Other currencies	3.4	3.4	0.0	0.0
Total	5,801.6	5,801.6	0.0	0.0

(2) Other Currency Exposures

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

(3) Currency Mismatching Reserve

For all currency denominations of liability there are matching assets denominated in the same currency.

Currency swaps are held to negate the effect of exchange rate movements. The size, currency and term of assets in respect of the Non Profit Fund are reviewed regularly. There is therefore minimal currency risk and so no additional currency mismatching reserve is required.

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

Not applicable.

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

Not applicable.

(6) Resilience Capital Requirement

Not applicable

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

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

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

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

8. OTHER SPECIAL RESERVES

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

Description	Gross Reserve	Reassurance	Net Reserve
	£m	£m	£m
Data Contingency Provision	35.0	0.0	35.0
PGMS Risk Transfer Payment Provision	26.9	0.0	26.9
Credit Default peak 1 margin	24.0	0.0	24.0
VAT Provision	21.6	0.0	21.6
Litigation Provision	21.0	0.0	21.0
Future Projects Provision	18.4	0.0	18.4
Reassurer Credit Default Provision	14.0	0.0	14.0

Data Contingency Provision

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

PGMS Risk Transfer Payment Provision

As a result of the transfer of outsourcer work from UISL to Diligenta there is a change in expenses payable from the Life companies to PGMS for the administration of business. This includes a change to administration expenses and a sum paid across to PGMS for the transfer of various risks and for various project implementation costs. A reserve has been set up to cover the costs of the payment for transfer of risks.

Credit Default peak 1 margin Provision

This provision has been set up to allow for an additional 10% margin on the default risk rates for Peak 1 purposes.

VAT Provision

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

Litigation Provision

Reserves are held for future litigation settlements and similar costs.

Future Projects Provision

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

Reinsurer Credit Default Provision

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

9. REINSURANCE

(1) Facultative Reinsurance

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

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

(2) Reinsurance Treaties

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

For Policies previously written in PLL

(d) Swiss Life Insurance and Pension Company.

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

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

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £17.2m.

(k) As (e)

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

(d) **UNUM Provident.**
(e) Claims resulting from Group PHI contracts are 100% reinsured
(f) No premiums were payable by the company under the treaty during the year.
(g) There are no deposit back arrangements.
(h) The treaty is open to new business.
(i) There are no undischarged obligations
(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £119.2m.
(k) As (e)
(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) The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.

(d) **Swiss Re**
(e) Group PHI, excluding schemes written under multinational pooling, is reinsured on a 50% quota share basis with a maximum retention on any one life of £75,000 p.a. All individual claim benefits greater than the maximum retention are 100% reinsured with Swiss Re.
(f) The premiums payable by the company under the treaty during the year were £0.1m.
(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 £29.7m.
(k) As (e)
(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) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d) **Swiss Re**
(e) PHI policies are reinsured on a 50% quota share basis with a maximum retention of £25,000p.a.
(f) The premiums payable by the company under the treaty during the year were £1.4m.
(g) There are no deposit back arrangements.
(h) The treaty is closed to new business.
(i) There are no undischarged obligations
(j) See Note 1
(k) As (e)
(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) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d) **Swiss Re.**
(e) Term, Term & TPD and waiver of premium policies are reinsured on a 90% quota share basis with a maximum retention of £50,000 / £300 p.a. (or $75,000 / $450 p.a.). Advance commission is also provided.
(f) The premiums payable by the company under the treaty during the year were £1.3m.
(g) There are no deposit back arrangements.
(h) The treaty is closed to new business.
(i) There are no undischarged obligations
(j) See Note 2
(k) As (e)
(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) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d) **GE Frankona.**
(e) Certain Critical illness, TPD and Term & CI policies are reinsured on an 85% quota share basis with a maximum retention of £50,000. The business covered is the same as the treaty with Gen Re and Kolnische Ruck described below. Certain other policies of the same types are reinsured on a 90% quota share basis with a maximum retention of £50,000, and for these policies. Advance commission is also provided.
(f) The premiums payable by the company under the treaty during the year were £1.0m.
(g) There are no deposit back arrangements.
(h) The treaty is closed to new business.
(i) There are no undischarged obligations
(j) See Note 2
(k) As (e)
(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) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d)	**GE Frankona.**
(e)	The treaty covers PHI reinsurance business accepted by the company. Where the PHI reinsurance exceeds £25,000p.a. the excess is reinsured.
(f)	The premiums payable by the company under the treaty during the year were £0.6m.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	See Note 1
(k)	As (e)
(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)	There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d)	**Munich Re**
(e)	Term and Term & TPD policies are reinsured on a 90% quota share basis with a maximum retention of £50,000 (or $75,000). Advance commission is also provided.
(f)	The premiums payable by the company under the treaty during the year were £8.4m.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations
(j)	See Note 2
(k)	As (e)
(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)	There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.

(d) **Gen Re. And Kolnische Ruck**

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

(f) The premiums payable by the company under the treaty during the year were £8.4m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 2

(k) As (e)

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

(d) **GE Frankona**

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

(f) The premiums payable by the company under the treaty during the year were £10.3m.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations

(j) See Note 1

(k) As (e)

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

(d) **Legal and General**
(e) A 50% quota share of Fair Share Whole Life business written between 1.9.74 and 30.9.80.
(f) The premiums payable by the company under the treaty during the year were £0.0m.
(g) £ nil
(h) The treaty is closed to new business.
(i) £ nil
(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £9.8m.
(k) The treaty is a 50% quota share arrangement.

(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) There are no material contingencies, such as credit risk or legal risk to which the treaties are subject.
(o) Under each treaty consideration has been given to the overall position in the event of contracts lapsing. Where the commission refund due to the reinsurer is proportionate to the commission refund due to the company on the original contract, then taking into account the reserves released on the retained benefits, and the refunds of commission expected to be received by the company in respect of the original contracts, it has not been considered necessary to hold any additional reserve. Where the commission refund due to the reinsurer is more than an amount proportionate to the commission refund due to the company on the original contract, then a reserve has been set up to cover the expected shortfall.
(p) There are no financing reassurance treaties.

Note 1 The total reserves ceded in respect of treaties covering individual PHI business previously written by SLUK are £23.3m.
Note 2 The total reserves ceded in respect of treaties covering TA, CI and TPD business previously written by SLUK are £31.8m.

For Policies previously written in Alba and BULA

Not applicable

For Policies previously written in Century

(d) **XL Re**
(e) 100% of the benefits under the company's ex-OMLA non linked immediate annuity business that was in force at the end of 16 December 1999.
(f) No premiums were payable by the company under the treaty during the year.
(g) There is no deposit back arrangement
(h) The treaty is closed to new business.
(i) There are no undischarged obligations
(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £331.6m.
(k) As (e)

(l) XL Re is not authorised to carry on insurance business in the United Kingdom
(m) The reinsurer is not a connected company of the insurer.
(n) The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.
(o) No provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract.
(p) This is not a financing reassurance treaty

For policies previously written in BA

(d) **SCOR Global Life Reinsurance UK Limited**
(e) The treaty covers mortality and critical illness benefits on a quota share basis.
(f) The premiums payable by the company under the treaty during the year were £1.2m.
(g) There are no deposit back arrangements
(h) The treaty is closed to new business.
(i) There are no undischarged obligations
(j) The amount of mathematical reserves ceded under the treaty at the valuation date was £1.6m.
(k) The insurer retains 10% of the risk.

(l) SCOR Global Life Reinsurance UK Limited is authorised to carry on insurance business in the United Kingdom
(m) The reinsurer is not a connected company of the insurer.
(n) There are no material contingencies, such as credit risk or legal risk, to which the treaty is subject.
(o) There is no reinsurance commission payable under the contract.
(p) This is not a financing reassurance treaty

For policies previously written in SMA

(d)	**Munich Re**
(e)	The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement.
(f)	Premiums of £30.6m were paid by the company under this treaty during the year.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations.
(j)	The amount of mathematical reserves ceded under the treaty at the valuation date was £386.5m.
(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 exists because this is a longevity swap arrangement under which the insurer has offsetting liabilities to pay reinsurance premiums valued at £460.3m.
(o)	No commission is payable on the reinsurance premium.
(p)	This is not a financing reassurance treaty.

For policies previously written in SPL

(d)	**XL Re Ltd**
(e)	The treaty reassures 100% of the liability under the closed book of immediate annuity business covered by the agreement.
(f)	No premiums were paid by the company under this treaty during the year.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations.
(j)	The amount of mathematical reserves ceded under the treaty at the valuation date was £412.2m.
(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)	The assets backing the reinsured liabilities are held in a custodian account with appropriate security arrangements in place.
(o)	No provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract.
(p)	This is not a financing reassurance treaty.

(d)	**Swiss Re**
(e)	The treaty covers mortality, accelerated critical illness and stand-alone critical illness under Self Assurance contract on a quota share basis.
(f)	Premiums of £14.3m were paid by the company under this treaty during the year.
(g)	There are no deposit back arrangements.
(h)	The treaty is closed to new business.
(i)	There are no undischarged obligations.
(j)	The amount of mathematical reserves ceded under the treaty at the valuation date was £45.9m.
(k)	There is no retention under the treaty.
(l)	The reinsurer is authorised to transact business in the UK.
(m)	The reinsurer is not connected to the company.
(n)	There are no material contingencies, such as credit risk or legal risk, to which the treaty is subject.
(o)	No provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract.
(p)	This is not a financing reassurance treaty.

(d) **Munich Re**

(e) The treaty covers UK Self Assurance Lifetime and Long Term Care business, certain UK pensions term assurances and UK Flexible Mortgage Plan with attaching critical illness cover on a risk premium, individual surplus basis.

(f) Premiums of £3.6m were paid by the company under this treaty during the year.

(g) There are no deposit back arrangements.

(h) The treaty is closed to new business.

(i) There are no undischarged obligations.

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

(k) There is no retention under the treaty.

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

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

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

(o) No provision has been made for any liability of the insurer to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract.

(p) This is not a financing reassurance treaty.

For policies previously written in BRS

(d) **Hanover Rückversicherung AG.**

(e) The treaties provide stop loss mortality cover for a proportion of the business reinsured.

(f) No premiums are payable in respect of the treaties. A repayment of the financing advance of £2.9m was made during the year.

(g) There is no deposit back arrangement

(h) The treaty is closed to new business.

(i) The amount of undischarged obligations of the insurer is £10.4m :

Treaty	Undischarged obligation £m
2000	1.0
2001	3.9
2002	5.5
2003	0.0

(j) The amount of mathematical reserves ceded under the treaties at the valuation date was £66.5m.

(k) The insurer retains 25% of the mortality risk for the 2000 and 2001 treaties and 50% of the mortality risk for the 2002 and 2003 treaties.

(l) Hanover Rueckversicherung AG is not authorised to carry on insurance business in the United Kingdom

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

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

(o) No provision has been made for any liability of the insurer to refund any commission in the event of lapse or surrender of the contract.

(p) (i) Repayment of the undischarged obligation is contingent on the emergence as surplus of margins in the valuation basis.

(ii) No provision has been made in the valuation for the amount of the undischarged obligation at the valuation date. The impact of the arrangements on the valuation result is to increase the fund and surplus carried forward by the amount of the undischarged obligation. No allowance has been made for contingencies, such as credit or legal risk, associated with the financing arrangements.

10. REVERSIONARY (OR ANNUAL) BONUS

Not applicable

APPENDIX 9.4A

PHOENIX LIFE LIMITED

Abstract of Valuation Report for Realistic Valuation

1. INTRODUCTION

(1) Valuation Date

The valuation date is 31 December 2011.

(2) Previous Valuation

The previous valuation date was 31 December 2010.

(3) Interim Valuations

An interim valuation was carried out on 30 June 2011.

APPENDIX 9.4A

90% With-Profits Fund

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

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

	Current Valuation	Previous Valuation
Fixed Interest Investment return	2.58%	4.09%
Risk discount rate	2.58%	4.09%
RPI Inflation	2.99%	3.50%
Expense inflation	3.99%	5.90 (Swiss) /5.50%(Bula)

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

Not applicable.

(3) Valuation Of Contracts Written Outside The Fund

Not applicable.

(4) Different Sets Of Assumptions

Not applicable.

(5) De Minimis Limit

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

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
SLUK Industrial Branch business conventional WL and EA	Prospective	21.6	6.1
SLUK Ordinary Branch business conventional WL and EA	Retrospective	36.6	3.6
SLUK Ordinary Branch business	Retrospective	41.8	3.7
BULA conventional life business	Retrospective	16.5	1.9
BULA pension contracts with guaranteed annuity rate option	Retrospective	1.4	2.8
Other			3.9
Total		118.0	22.0
Form 19 Line 31		118.0	
Form 19 Line 49			22.0

(2) Correspondence With Form 19

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

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

Not applicable as all products have been disclosed.

(4) Types Of Products

The level of disclosure in the table above corresponds to material groupings of contracts offering significant variances in policyholder benefits. For example, contracts with and without guaranteed annuity options are identified separately.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

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

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

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

(2) Significant Changes To Valuation Method

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

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

(3) Expense Allocation

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

The expenses charged to the with-profits fund are fixed amounts per policy inforce, inflating each year and / or an amount per premium received plus investment expenses. Additional expenses may be charged for any additional project or enhanced services provided to the with-profits fund.

(a) The previous expense investigation was carried out in respect of the financial year ended 31 December 2010.

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

(c) The expenses charged to the with-profits benefits reserve are the amounts per policy and / or per premium and for some business the investment expenses.

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

- additional project and one-off costs not charged to asset shares;
- expenses in respect of with-profits policies that were in force at the previous financial year end and no longer in force at the current financial year end;
- expenses in respect of non-profit policies;
- investment expenses not charged to asset shares;
- prior year adjustments; and
- balance between aggregation of the amounts charged to assets shares and the items identified above and the aggregate amount allocated to the fund.

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

	Item	£m
(i)	Initial Expenses	Nil[1]
(ii)	Maintenance Expenses	0.47
(iii)	Method	Average expense charge deducted
(iv)	Expenses charged other than to with-profits benefits reserve	0.03

(4) Significant Charges

Charges for cost of guarantees, cost of capital are not charged to with-profits benefit reserves.

(5) Charges For Non-Insurance Risk

No charges were deducted from the with-profits funds for non-insurance risk.

(6) Ratio Of Claims To Reserves

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

Year	SLUK CWP	SLUK UWP	BULA
Previous year -1	114%	114%	101%
Previous year	108%	108%	101%
Current year	108%	108%	101%

(7) Allocated Return

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

Type of business	Investment Return
SLUK IB	2.82%
SLUK OB CWP	2.97%
SLUK OB UWP	2.97%
BULA	4.67%

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

A prospective method has been used for ex SLUK Industrial branch with-profits whole life business.

Bonus rates on with-profits whole life business are the same as the bonus rates on endowments for the same term. A bonus reserve valuation is used to determine the with-profits benefits reserve, where:

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

The assumptions underlying this method are as follows:

	Ex SLUK IB excl Pioneer Mutual and Stamford	Pioneer Mutual with cash bonuses	Stamford with cash bonuses
Discount Rate p.a.	2.58%	2.58%	2.58%
Investment Return p.a.			
Fixed Interest	2.58%	2.58%	2.58%
Equities	2.58%	2.58%	2.58%
Expense Assumptions			
Investment Expense p.a.	0.10%	0.10%	0.10%
Per policy Expenses			
Per Annum	£0.47	£0.47	£0.47
Per Premium	30%	30%	30%
Expense Inflation p.a.	3.99%	3.99%	3.99%
Bonus Assumptions			
Reversionary Bonuses			
On Basic Sum Assured	6.50%	11.00%	3.25%

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

There are no lapses.

<u>Expenses</u>

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. Compared to the MSA at the previous valuation the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid to an outsourced services provider on a fixed charge basis.

The new MSA specifies fee inflation to be RPIX +1.0% at 1 January each year. The MSA at the previous valuation allowed for fee inflation at RPIX +1.4%.

(2) Different Sets Of Assumptions

Not applicable.

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable.

(2) Valuation Method For Guarantees etc.

	Cost of Guarantees & Options	Smoothing Cost	Extent of Grouping	No of Individual policies	No of model points
SLUK UWP	Variation of Black-Scholes formula	See Below	All business in this group	7,433	7,433
All other business	Stochastic model	No smoothing allowed for	All business in this group	114,002	5,350

(a) Cost of Guarantees & Options

The costs of guarantees are determined using two models. The ex-SLUK UWP pension business uses Black-Scholes formulae and all other business uses a stochastic model. The asset returns being generated by a proprietary model. The following items were calculated stochastically:

(i) The reserves required in addition to asset share to meet guaranteed benefits;
(ii) Future profits where amounts payable upon surrender are less than asset share.

The calculations were carried out using a risk neutral approach.

Cost of Smoothing

There is no significant cost of smoothing and this has been taken to be zero. All business has been modelled assuming future payouts of 100% of asset share.

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

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

(iii) For each product type we split the data initially by bonus series. We then create separate model points for each combination of year of commencement and year of maturity

This grouping is aligned with the way in which we declare bonus rates on our business (our actual terminal bonus rate calculation are based on specimen policies split out in the same way i.e. product type, year of commencement and year of maturity although at quinquennial rather than annual intervals).

No significant attributes of the contracts should be lost with this low level of grouping.

Grouping Validations

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

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

(c) Guaranteed annuity option liabilities for the ex-BULA pension contracts were calculated on a prudent deterministic basis, given the low volume of these. In addition, when calculating the cost of guarantees stochastically, the initial guaranteed sum assured has been increased to reflect the presence of the guaranteed annuity option.

The stochastic model assumes compound bonus only. The majority of the ex SLUK business participates in simple bonus only so the guarantee cost is overstated. This is not significant given the small guarantee cost overall.

(3) Significant Changes

There have been no significant changes since the previous valuation.

(4) Further Information On Stochastic Approach

(a) (i) The guarantees and options being valued using a full stochastic approach are described in 6(2)(a) above.

The following table gives an indication of the extent to which the guarantees are in or out of the money at the valuation date. For the various product types the with profits benefit reserve is shown along with the guaranteed sum assured plus bonuses payable on death/maturity and the sum of the difference where the guarantees are higher.

Product type	With-profits benefit reserve (A) £m	Sum assured plus bonuses (B) £m	Sum of positive B-A
SLUK IB	20.9	6.2	-
SLUK OB CWP	36.6	27.5	0.2
BULA Life	16.5	15.2	1.4
BULA Pensions	1.4	3.0	1.6

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

Interest Rate

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

The calibration at the valuation date was as follows:

Term	Govt. + 10bp	Model	Difference (Model - Market bp)
1	0.32%	0.32%	0.00%
2	0.42%	0.42%	0.00%
3	0.64%	0.64%	0.00%
4	0.89%	0.89%	0.00%
5	1.14%	1.14%	-0.01%
7	1.61%	1.61%	-0.01%
10	2.20%	2.19%	-0.01%
15	2.85%	2.85%	-0.01%
20	3.21%	3.21%	0.00%
25	3.39%	3.39%	0.00%

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

Term	Market Implied Volatility	Model	Difference (Model - Market bp)
1	29.20%	34.64%	5.44%
2	26.50%	28.13%	1.63%
3	24.50%	25.03%	0.53%
4	22.70%	22.82%	0.12%
5	21.20%	21.46%	0.26%
7	18.10%	18.80%	0.70%
10	16.10%	17.26%	1.16%
15	14.80%	14.58%	-0.22%
20	13.80%	13.17%	-0.63%
25	13.50%	11.70%	-1.80%
30	13.00%	10.65%	-2.35%

Equities and Property

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The scenario generator uses a Stochastic Volatility Jump Diffusion model for UK equities and a constant volatility model for property and overseas equities.

The UK equity model was calibrated by reference to the implied volatility of FTSE 100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

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

Market

	Strike				
Term	0.8	0.9	1	1.1	1.2
1	30.70%	27.10%	23.70%	20.40%	17.80%
3	25.60%	27.10%	25.00%	22.90%	21.00%
5	26.00%	27.40%	25.80%	24.30%	23.00%
9	26.80%	28.40%	27.00%	25.90%	24.80%

Model

	Strike				
Term	0.8	0.9	1	1.1	1.2
1	28.90%	26.70%	24.40%	22.10%	19.50%
3	24.43%	26.60%	24.90%	23.20%	21.60%
5	23.94%	27.10%	25.80%	24.60%	23.50%
9	24.79%	27.30%	26.40%	25.50%	24.80%

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

	Strike				
Term	0.8	0.9	1	1.1	1.2
15	28.24%	27.57%	26.96%	26.41%	25.88%
20	28.21%	27.72%	27.28%	26.88%	26.49%
25	28.46%	28.05%	27.68%	27.35%	27.04%
30	28.71%	28.32%	27.96%	27.63%	27.33%

Difference (Model – Market) %

	Strike				
Term	0.8	0.9	1	1.1	1.2
1	-1.80%	-0.40%	0.70%	1.70%	1.70%
3	-1.10%	-0.50%	-0.10%	0.30%	0.60%
5	-0.80%	-0.30%	0.00%	0.30%	0.50%
10	-1.50%	-1.10%	-0.60%	-0.40%	0.00%

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

<u>Corporate bond</u>

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

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

	Output Correlations @ Year 11									
	Cash	Equities	Property	Overseas Equities	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1	-0.09	-0.08	-0.17	-0.71	-0.81	-0.32	-0.69	-0.08	-0.18
Equities		1.00	0.29	0.55	0.15	0.11	0.67	0.36	0.11	0.11
Property			1.00	0.23	0.07	0.08	0.23	0.17	0.08	0.09
Overseas equities				1.00	0.22	0.19	0.48	0.33	0.14	0.21
5yr Govt ZCB					1.00	0.89	0.46	0.78	0.15	0.20
15yr Govt ZCB						1.00	0.42	0.88	0.10	0.23
5yr Corp ZCB							1.00	0.76	0.13	0.16
15yr Corp ZCB								1.00	0.12	0.25
5yr Index Linked ZCB									1.00	0.83
15yr Index Linked ZCB										1.00

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

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	1.14%	2.85%	3.39%	3.46%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	945,103	656,198	434,245	303,996	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	111,417	253,462	343,300	414,316	216,405	397,840	510,857	598,520	545,646	741,847	883,816	995,158
3		FTSE All Share Index (p=0.8)	108,636	222,001	272,550	304,987	210,813	349,336	407,156	443,538	532,236	653,893	708,783	742,449
4		Property (p=1)	111,548	248,835	346,153	420,043	245,062	414,985	531,629	617,555	614,234	800,462	937,578	1,039,865
5		Property (p=0.8)	107,840	212,932	268,236	303,222	238,163	359,269	417,049	451,357	600,455	703,474	748,390	771,277
6		15 year risk free zero coupon bond (p=1)	20,495	18,128	15,186	22,458	87,542	78,221	96,646	131,764	498,987	499,324	512,138	536,114
7		15 year risk free zero coupon bond (p=0.8)	19,318	12,192	5,751	4,164	82,804	50,585	33,756	32,826	482,220	380,551	302,134	265,236
8		15 year risk free bonds (p=1)	28,821	40,107	46,345	56,763	109,947	125,236	136,429	158,127	482,578	470,407	485,919	514,048
9		15 year risk free bonds (p=0.8)	27,285	28,266	23,296	22,352	104,791	91,318	74,708	69,094	466,812	369,501	303,492	270,482
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	83,891	203,465	287,854	356,921	189,747	345,149	451,724	535,209	540,650	697,696	827,666	927,035
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	81,214	173,894	220,498	253,745	183,908	297,154	349,763	384,900	526,506	606,295	649,270	676,615
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	60,125	151,601	214,476	272,162	150,262	275,064	358,397	430,911	505,060	608,261	710,787	799,027
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	58,023	127,029	159,115	184,827	145,026	232,314	267,776	296,550	489,876	518,995	541,536	561,382
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	39,587	102,855	151,685	199,892	126,715	216,820	285,104	347,875	498,287	559,304	638,568	711,857
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	37,721	81,807	103,493	122,996	121,369	175,879	199,728	222,042	482,644	465,255	465,533	473,933
			L=15				L=20				L=25			
16		Receiver swaptions	17.23%	11.34%	9.53%	7.74%	19.95%	14.08%	11.79%	9.37%	18.83%	15.03%	12.80%	9.89%

(iv) UK initial equity yield: 3.59%
UK initial property rental yield: 4.30%

(v) Not applicable – there are no significant territories other than the UK. 0.82% of the guaranteed benefit is in relation to Eire policies

(vi) The following table shows the outstanding guarantees analysed by outstanding term. The SLUK IB business is nearly all whole life and the term has been taken as the term to age 110.

Outstanding term (years)	SLUK IB	SLUK OB CWP	BULA Life	BULA Pensions
	£m	£m	£m	£m
1-5	0.0	22.3	9.6	1.8
6-10	0.1	3.5	1.2	0.6
11-15	0.3	0.1	1.1	0.5
15+	5.8	1.5	3.3	3.3

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

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

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

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

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

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

Verification has also been made, within acceptable limits, that implied volatilities calculated from the simulation model output reproduce the market volatility term structure for 20 year at the money swaptions.

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

For a 10-year at the money (based on the forward price) UK equity put option at a strike of 1.0, the standard error of the estimated option price represents 1.3% of its calculated value.

Similarly, for a range of swaptions with maturities between 5 and 25 years on underlying 20 year swaps the standard errors in the calculated prices represent, typically, 1.4% of these prices.

(b) Not applicable.

(c) Not applicable.

(5) Management Actions

(a) No scenario specific management actions are assumed to take place in the stochastic model.

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		**Average surrender / paid-up rate for the policy years**			
		1-5	**6-10**	**11-15**	**16-20**
CWP savings endowment	Surrender	7.0%	7.0%	7.0%	7.0%
CWP target cash endowment	Surrender	4.0%	4.0%	4.0%	4.0%
CWP pension regular premium	PUP	0.0%	0.0%	0.0%	0.0%
CWP pension regular premium	Surrender	0.0%	0.0%	0.0%	0.0%
UWP individual pension regular premium	PUP	5.0%	5.0%	5.0%	5.0%
UWP individual pension regular premium	Surrender	5.0%	5.0%	5.0%	5.0%
UWP individual pension single premium	Surrender	5.0%	5.0%	5.0%	5.0%

(7) Policyholders' Actions

No such assumptions were made.

7. FINANCING COSTS

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

8. OTHER LONG-TERM INSURANCE LIABILITIES

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

	£m
Future shareholder transfers not deducted from asset share	2.8
Provision for future corporation tax	3.5
Future shareholder transfers from planned enhancements to with-profits benefit reserve	0.5
Additional provision for tax on shareholder transfers	0.2
Future investment expenses and provisions not deducted from asset share	1.1
Future tax adjustment	-0.1
Provision for IB polices aged 100 years and over	2.6
Total	10.7

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities are taken to be the same as the regulatory current liabilities.

10. RISK CAPITAL MARGIN

(a) The risk capital margin is nil.

(i) No property assets are held in the fund hence no property stress was required. The market scenario assumes that equities fall by 20%. An equity fall was the more onerous scenario.

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.43%. This is consistent with a rise or fall of 17.5% in the long term gilt yield. A rise in yields is the more onerous scenario.

(iii) The risk capital margin allows for a widening of the yields available on bonds, where the change in yields depends on the credit rating. The average change in spread for bonds subject to the test, weighted by market value, was 151 basis points for the fund. This change in yields resulted in a fall in the value of these bonds by an average of 9.40 % for the fund.

(iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency stress is 0.36%.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) (i) In the stress scenarios the following additional assumption is made: Reversionary bonus rates will be reduced to nil in stages over the next two years.

(ii) Since there is no risk capital margin, the effect of assuming reduced reversionary bonuses is zero. Working capital is reduced by £0.0m

(iii) No changes would apply to the table in paragraph 6 (5) (b) if the management actions were taken

(iv) The requirements of INSPRU 1.3.188(R) would be met if the actions described in paragraph 10 (b) (i) were integrated into the projection of assets and liabilities.

(c)

(i) The risk capital margin is covered by the assets of the long-term fund and the value of future profits on non-profit business.

(ii) The scheme for the funds merger as at 31 December 2008 includes a provision that in the event that the value of the assets of any with-profits fund falls below the regulatory minimum support will be provided to that fund by way of a loan arrangement from the Non-

Profit Fund or the Shareholders Fund to the extent that the Board determines there are assets in those funds available to make such a loan.

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

An approximate adjustment is made to allow for any differences between the tax calculated as described and the tax expected on a corporate basis. The adjustment is calculated within the stochastic model.

12. DERIVATIVES

There are no major positions of derivative contracts held in the Fund.

13. ANALYSIS OF WORKING CAPITAL

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

	£m
Opening working capital	**0.0**
Write back planned benefit enhancements to zeroise working capital	13.8
Revised opening working capital	**13.8**
Opening adjustments	(2.3)
Restated opening working capital	**11.5**
Investment return on working capital	(0.2)
Mismatch profits and losses	(2.8)
Assumption changes	
- Non-economic	(0.2)
- Economic	0.0
- Policyholder actions	0.0
Impact of new business	0.0
Other Variances	
- Non-economic	0.0
- New Provisions	(3.5)
- Estate Distribution	(1.2)
- Unexplained	1.8
Closing working capital before zeroisation	**5.4**
Planned benefit enhancements to zeroise working capital	(5.4)
Closing working capital	**0.0**

The following table shows a breakdown of the liabilities shown on line 47 Form 19 at the start and end of the year:

£m	Current valuation	Previous valuation
Future shareholder transfers not deducted from asset share	2.8	3.1
Provision for future corporation tax	3.5	
Future shareholder transfers from planned enhancements to with-profits benefit reserve	0.5	1.2
Additional provision for tax on shareholder transfers	0.2	0.0
Future investment expenses not deducted from asset share	1.1	0.4
Future tax adjustment	(0.1)	(0.1)
Provision for IB polices aged 100 years and over	2.6	
Total	10.7	4.6

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

£m	Current	Previous
Claims Oustanding	0.3	0
Provisions Taxation	0.0	0.0
Creditors Taxation	1.7	0.6
Creditors Other	4.1	11.7
Accruals and Deferred income	0.0	0.0
Total	6.1	12.3

14. OPTIONAL DISCLOSURE

None made.

APPENDIX 9.4A

100% With-Profits Fund

2. ASSETS

(1) Economic Assumptions For Valuing Non-Profit Business

Not applicable as there is no non-profit business valued in the 100% With-Profits Fund.

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

Not applicable.

(3) Valuation Of Contracts Written Outside The Fund

Not applicable.

(4) Different Sets Of Assumptions

Not applicable.

(5) De Minimis Limit

Not applicable.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation Of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
Premium Paying Endowments (PAL)	Retrospective	9.2	53.8
Paid Up Endowment (PAL)	Retrospective	0.5	2.4
Whole Life Premium Paying (PAL)	Prospective	4.3	22.2
Whole Life - Paid Up (PAL)	Prospective	1.0	5.0
Other	Various	3.1	1.3
Total		18.1	84.7
Form 19 Line 31		18.1	
Form 19 Line 49			84.7

(2) Correspondence With Form 19

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

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

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

(4) Division Of Portfolio

In the table shown in section 3.(1) above, the following classes have similar bonus declaration characteristics Premium Paying Endowments (PAL):

- Paid Up Endowment (PAL)
- Whole Life Premium Paying (PAL)
- Whole Life - Paid Up (PAL)

Other business is distinct from these classes.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

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

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

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

(2) Significant Changes to Valuation Method

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

(b) Not applicable.

(3) Expense Allocation

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

(b) Expense investigations are carried out annually.

(c)

	Item	£m
(i)	Initial Expenses	Nil
(ii)	Maintenance Expenses	0.28
(iii)	Method	Average expense charge deducted
(iv)	Expenses charged other than to with-profits benefits reserve	Nil

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

Investment expenses are allowed for by deducting the fees payable to the company's investment manager for managing the assets from the investment return credited to asset shares.

(4) Significant Charges

There are currently no guarantee charges taken from asset shares for these funds.

(5) Charges For Non-Insurance Risk

Not applicable.

(6) Ratio Of Claims To Reserves

Average ratio of total claims to asset shares:

Year	Ratio of claims to asset shares (ex-PAL)	Ratio of claims to asset shares (ex_SLUK)
Previous year -1	679%	100%
Previous year	594%	100%
Current year	603%	100%

(7) Allocated Return

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

Type of business	Investment Return
Premium Paying Endowments (PAL)	2.49%
Paid Up Endowment (PAL)	2.49%

The asset allocation for all policies was 5.9% property, 38.6% equity and 55.5% fixed interest.

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

The discount rate used is consistent with the investment return used in determining supportable bonus rates. Hence, the risk free rates are not directly relevant to the calculation of the prospective with-profits benefits reserves.

The rates are shown in the table below:

	Premium Paying	Paid Up
Discount Rate p.a.	3.00%	3.00%
Investment Return p.a.	3.00%	3.00%
Expense Assumptions		
Investment Expense p.a.	0.10%	0.10%
Per Policy Expenses p.a.	£94.27	£94.27
Expense Inflation p.a.	4.99%	5.50%
Bonus Assumptions		
Reversionary Bonuses		
On Basic Sum Assured	5.00%	5.00%
On Accrued Bonuses	8.00%	8.00%

Future terminal bonus rates vary by duration in force at time of payment. Sample terminal bonus rates are as follows:

Elapsed Term in Years	Terminal Bonus Rate
10	597%
15	662%
20	815%
25	1051%
30	1519%
35	2459%
40	4439%

There are no assumed lapse rates.

Expenses

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. Compared to the MSA at the previous valuation the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid to outsourced services provider on a fixed charge basis.

The new MSA specifies fee inflation to be RPIX +1.0% at 1 January each year. The MSA at the previous valuation allowed for fee inflation at RPIX +3.8% for Ex-Phoenix business and RPIX +1.4% for Swiss WP business.

(2) Different Sets Of Assumptions

Not applicable.

6. COSTS OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable.

(2) Valuation Method Used To Calculate The Costs Of Guarantees

(a) Cost of Guarantees & Options

Since the transfer of ex-SLUK Life Unitised With-Profits pensions business the costs of guarantees are no longer calculated within this Fund.

Cost of Smoothing

There is no significant cost of smoothing and this has been taken to be zero. All business has been modelled assuming future payouts of 100% of asset share.

(3) Significant Changes

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

(4) Further Information On The Approach Used To Calculate The Cost Of Guarantees

Not applicable.

(5) Management Actions

We do not assume any specific management actions take place during the projection of assets and liabilities.

(6) Persistency Assumptions

Not applicable.

(7) Policyholders' Actions

No such assumptions were made.

7. FINANCING COSTS

There are no financing arrangements.

8. OTHER LONG-TERM INSURANCE LIABILITIES

The amount shown in Line 47 of Form 19 is made up as follows:

	£m
Potential future tax liabilities	1.3
Total	1.3

This total of these additional reserves is the value in line 47 of Form 19. Line 46 is zero.

9. REALISTIC CURRENT LIABILITIES

The realistic current liabilities are set equal to the regulatory current liabilities.

10. RISK CAPITAL MARGIN

(a) The risk capital margin is nil.

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

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.43%. This is consistent with a rise or fall of 17.5% in the long term gilt yield. An increase in yields is the more onerous scenario.

(iii) The average change in spread is 1.46%. Changes in market values are:

(a) (9.23)% for bonds
(b) not applicable

(c) not applicable
(d) not applicable
(e) not applicable

(iv) Not applicable.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) (i) In the stress scenarios an assumption is made that:

Terminal bonus rates are changed such that the revised estate is extinguished.

(ii) Under the most onerous stress, the risk capital margin is reduced by £6.2m by changing the terminal bonus rates.

(iii) Not applicable.

(iv) The requirements of INSPRU 1.3.188(R) would be met if the actions described in paragraph 10 (b) (i) were integrated into the projection of assets and liabilities.

(c) (i) The risk capital margin is covered by the assets of the long-term fund.

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

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

12. DERIVATIVES

There are no major positions of derivative contracts held in the Fund.

13. ANALYSIS OF WORKING CAPITAL

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

	£m
Opening working capital	**0.0**
Write back planned benefit enhancements to zeroise working capital	95.6
Revised opening working capital	**95.6**
Opening adjustments	0.0
Restated opening working capital	**95.6**
Investment return on surplus	3.8
Mismatch profits and losses	0.1
Assumption changes	
- Non-economic	(0.2)
- Economic	0.0
- Policyholder actions	0.0
Impact of new business	0.0
Other Variances	
- Claim payouts above asset share	(11.4)
- Change in provisions	(0.1)
- Other traced	(3.5)
- Unexplained	(0.9)
Closing working capital before zeroisation	**83.5**
Planned benefit enhancements to zeroise working capital	83.5
Closing working capital	**0.0**

lThe following table shows a breakdown of the liabilities shown on line 47 of Form 19 at the start and end of the year:

£m	Current Valuation	Previous Valuation
Potential future tax charges	1.3	1.2
Total	1.3	1.2

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

£m	Current Valuation	Previous Valuation
Claims outstanding	3.8	3.6
Deferred tax provision	0.0	0.0
Provisions - Other risk and charges	0.0	0.0
Creditors - Direct insurance business	0.0	0.0
Creditors taxation	0.1	4.3
Creditors other	18.3	15.4
Accruals and deferred income	0.1	0.2
Total	22.4	23.5
Line 51 from Form 19	22.4	23.5

14. OPTIONAL DISCLOSURE

None made.