

# **Scottish Widows Annuities Limited**

**Annual FSA Insurance Returns for the year ended**

**31 December 2010**

**IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6**

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**Statement of solvency - long-term insurance business**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
<b>R2</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
					<b>1</b>	<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	136651	123958
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	321139	312471
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	457790	436429

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	92308	86934
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	365482	349495

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	276925	260803
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	3040	3128
Individual minimum capital requirement	<b>34</b>	276925	260803
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	276925	260803
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	319328	306027
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	250096	240827

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	276925	260803

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	276925	260803
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	180865	175626

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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**Covering Sheet to Form 2**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

..... **Director**

..... **Director**

..... **Director**

**Date** .....

Components of capital resources

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R3</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		331515	331515	331515
Profit and loss account and other reserves	<b>12</b>		126275	126275	104914
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		457790	457790	436429

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	<b>21</b>				
Implicit Items	<b>22</b>				
Tier one waivers in related undertakings	<b>23</b>				
Total tier one waivers as restricted (21+22+23)	<b>24</b>				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		457790	457790	436429
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>				
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		457790	457790	436429

**Components of capital resources**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R3</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				

**Components of capital resources**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/UK/CM	day	month	year	Units	
	R3	199550	GL	31	12	2010	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		1	2	3	4		

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		457790	457790	436429
Inadmissible assets other than intangibles and own shares	73				
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		457790	457790	436429

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	81		457790	457790	436429
Available capital resources for 50% MCR requirement	82		457790	457790	436429
Available capital resources for 75% MCR requirement	83		457790	457790	436429

**Financial engineering adjustments**

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>				

**Calculation of general insurance capital requirement - premiums amount and brought forward amount**
Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Long term insurance business

	Company registration number	GL/UK/CM	day month year			Units
R11	199550	GL	31	12	2010	£000
			This financial year			Previous year
			1			2
Gross premiums written		11	3515			3953
Premiums taxes and levies (included in line 11)		12				
Premiums written net of taxes and levies (11-12)		13	3515			3953
Premiums for classes 11, 12 or 13 (included in line 13)		14				
Premiums for "actuarial health insurance" (included in line 13)		15				
<b>Sub-total A (13 + 1/2 14 - 2/3 15)</b>		16	3515			3953
Gross premiums earned		21				
Premium taxes and levies (included in line 21)		22				
Premiums earned net of taxes and levies (21-22)		23				
Premiums for classes 11, 12 or 13 (included in line 23)		24				
Premiums for "actuarial health insurance" (included in line 23)		25				
<b>Sub-total H (23 + 1/2 24 - 2/3 25)</b>		26				
<b>Sub-total I (higher of sub-total A and sub-total H)</b>		30	3515			3953
<b>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</b>		31				
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	633			712
	Excess (if any) over 57.5M EURO x 0.02	33				
<b>Sub-total J (32-33)</b>		34	633			712
Claims paid in period of 3 financial years		41	2980			3197
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42				
	For insurance business accounted for on an accident year basis	43				
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44				
	For insurance business accounted for on an accident year basis	45				
<b>Sub-total C (41+42+43-44-45)</b>		46	2980			3197
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47	831			572
<b>Sub-total D (46-47)</b>		48	2149			2625
<b>Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)</b>		49	0.72			0.82
<b>Premiums amount (Sub-total J x reinsurance ratio)</b>		50	456			584
Provision for claims outstanding (before discounting and net of reinsurance)		51				
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero		52				
<b>Brought forward amount (See instruction 4)</b>		53	793			793
Greater of lines 50 and 53		54	793			793

**Calculation of general insurance capital requirement - claims amount and result**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	199550	GL	31	12	2010	£000
				This financial year 1			Previous year 2	
Reference period (No. of months) See INSPRU 1.1.63R				11	36			36
Claims paid in reference period				21	2980			3197
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis			22				
	For insurance business accounted for on an accident year basis			23				
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis			24				
	For insurance business accounted for on an accident year basis			25				
Claims incurred in reference period (21+22+23-24-25)				26	2980			3197
Claims incurred for classes 11, 12 or 13 (included in 26)				27				
Claims incurred for "actuarial health insurance" (included in 26)				28				
<b>Sub-total E (26 +1/2 27 - 2/3 28)</b>				29	2980			3197
<b>Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)</b>				31	993			1066
Division of sub-total F (gross adjusted claims amount)	x 0.26			32	258			277
	Excess (if any) over 40.3M EURO x 0.03			33				
<b>Sub-total G (32-33)</b>				39	258			277
<b>Claims amount Sub-total G x reinsurance ratio (11.49)</b>				41	186			228
Higher of premiums amount and brought forward amount (11.54)				42	793			793
<b>General insurance capital requirement (higher of lines 41 and 42)</b>				43	793			793

**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	95736	53995	
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	158108	189490
	Other	<b>46</b>	69283	66628
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	199550	GL	31	12	2010	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

**Debtors and salvage**

Direct insurance business	Policyholders	71	
	Intermediaries	72	
Salvage and subrogation recoveries		73	
Reinsurance	Accepted	74	
	Ceded	75	
Dependants	due in 12 months or less	76	
	due in more than 12 months	77	
Other	due in 12 months or less	78	
	due in more than 12 months	79	

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	19	18
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	3365	4373
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	326511	314504
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**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	199550	GL	31	12	2010	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	326511	314504
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	326511	314504

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		
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**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
	R13	199550	GL	31	12	2010	£000
						As at end of this financial year	As at end of the previous year
						1	2
Land and buildings							

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41			
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43	455706	129464	
Rights under derivative contracts	44	61744	27861	
Fixed interest securities	Approved	45	1927514	1636411
	Other	46	3889380	4059136
Variable interest securities	Approved	47	254225	273873
	Other	48		
Participation in investment pools	49			
Loans secured by mortgages	50			
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52			
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	336145	319507
	Property linked	59		

**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
<b>R13</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
					<b>1</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
					<b>1</b>	<b>2</b>

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	285	71
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	786	861
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	115031	119558
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	7040816	6566742
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**Analysis of admissible assets**

Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	199550	GL	31	12	2010	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	7040816	6566742
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	18850	17439
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	7059666	6584181
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

**Long term insurance business liabilities and margins**

Name of insurer **Scottish Widows Annuities Limited**  
 Global business  
 Financial year ended **31 December 2010**  
 Total business/Sub fund **long term insurance business assets**  
 Units **£000**

As at end of this financial year	As at end of the previous year
1	2

Mathematical reserves, after distribution of surplus	<b>11</b>	6770311	6349597
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus/(valuation deficit)	<b>13</b>	136651	123958
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	6906962	6473555
Claims outstanding	Gross	<b>15</b>	
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	
Provisions	Taxation	<b>21</b>	
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	
	Reinsurance accepted	<b>32</b>	
	Reinsurance ceded	<b>33</b>	
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	<b>37</b>	16219
	Other	<b>38</b>	117635
Accruals and deferred income	<b>39</b>		
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	133854	93187
Excess of the value of net admissible assets	<b>51</b>		
Total liabilities and margins	<b>59</b>	7040816	6566742

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	10653	4243
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	6904165	6442784
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	18850	17439
Other adjustments to liabilities (may be negative)	<b>74</b>		
Capital and reserves and fund for future appropriations	<b>75</b>	136651	123958
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	7059666	6584181

**Liabilities (other than long term insurance business)**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R15</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
					<b>As at end of this financial year 1</b>	<b>As at end of the previous year 2</b>

**Technical provisions (gross amount)**

Provisions for unearned premiums	<b>11</b>		
Claims outstanding	<b>12</b>		
Provision for unexpired risks	<b>13</b>		
Equalisation provisions	Credit business	<b>14</b>	
	Other than credit business	<b>15</b>	
Other technical provisions	<b>16</b>		
Total gross technical provisions (11 to 16)	<b>19</b>		

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>31</b>			
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions	<b>46</b>			
Creditors	Taxation	<b>47</b>	5372	2033
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>		
Accruals and deferred income	<b>51</b>			
Total (19 to 51)	<b>59</b>	5372	2033	
Provision for "reasonably foreseeable adverse variations"	<b>61</b>			
Cumulative preference share capital	<b>62</b>			
Subordinated loan capital	<b>63</b>			
Total (59 to 63)	<b>69</b>	5372	2033	

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		
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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		
Capital and reserves	<b>84</b>	321139	312471
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>	326511	314504

**Profit and loss account (non-technical account)**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
				<b>This financial year</b>		<b>Previous year</b>		
				<b>1</b>		<b>2</b>		
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>				<b>(50000)</b>	
Investment income	Income		<b>14</b>			12629	13538	
	Value re-adjustments on investments		<b>15</b>					
	Gains on the realisation of investments		<b>16</b>			4924		
Investment charges	Investment management charges, including interest		<b>17</b>					
	Value re-adjustments on investments		<b>18</b>			5545	502	
	Loss on the realisation of investments		<b>19</b>				5776	
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			12008	<b>(42740)</b>	
Tax on profit or loss on ordinary activities			<b>31</b>			3340	2033	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			8668	<b>(44773)</b>	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			8668	<b>(44773)</b>	
Dividends (paid or foreseeable)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			8668	<b>(44773)</b>	

**Analysis of derivative contracts**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
<b>Derivative contracts</b>		Value as at the end of this financial year				Notional amount as at the end of this financial year			
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	<b>11</b>							
	Interest rates	<b>12</b>							
	Inflation	<b>13</b>							
	Credit index / basket	<b>14</b>							
	Credit single name	<b>15</b>							
	Equity index	<b>16</b>							
	Equity stock	<b>17</b>							
	Land	<b>18</b>							
	Currencies	<b>19</b>							
	Mortality	<b>20</b>							
Other	<b>21</b>								
In the money options	Swaptions	<b>31</b>							
	Equity index calls	<b>32</b>							
	Equity stock calls	<b>33</b>							
	Equity index puts	<b>34</b>							
	Equity stock puts	<b>35</b>							
Other	<b>36</b>								
Out of the money options	Swaptions	<b>41</b>							
	Equity index calls	<b>42</b>							
	Equity stock calls	<b>43</b>							
	Equity index puts	<b>44</b>							
	Equity stock puts	<b>45</b>							
Other	<b>46</b>								
Total (11 to 46)		<b>51</b>							
Adjustment for variation margin		<b>52</b>							
Total (51 + 52)		<b>53</b>							

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.

Please see instructions 11 and 12 to this Form for the meaning of these figures.

**Analysis of derivative contracts**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>199550</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>		Value as at the end of this financial year				Notional amount as at the end of this financial year			
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	<b>11</b>							
	Interest rates	<b>12</b>	55696		34598		493432		344599
	Inflation	<b>13</b>	6048		39289		242331		35987
	Credit index / basket	<b>14</b>							
	Credit single name	<b>15</b>							
	Equity index	<b>16</b>							
	Equity stock	<b>17</b>							
	Land	<b>18</b>							
	Currencies	<b>19</b>							
	Mortality	<b>20</b>							
Other	<b>21</b>								
In the money options	Swaptions	<b>31</b>							
	Equity index calls	<b>32</b>							
	Equity stock calls	<b>33</b>							
	Equity index puts	<b>34</b>							
	Equity stock puts	<b>35</b>							
Other	<b>36</b>								
Out of the money options	Swaptions	<b>41</b>							
	Equity index calls	<b>42</b>							
	Equity stock calls	<b>43</b>							
	Equity index puts	<b>44</b>							
	Equity stock puts	<b>45</b>							
Other	<b>46</b>								
Total (11 to 46)		<b>51</b>	61744		73887		735763		380586
Adjustment for variation margin		<b>52</b>							
Total (51 + 52)		<b>53</b>	61744		73887				

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.

Please see instructions 11 and 12 to this Form for the meaning of these figures.

**Long-term insurance business : Revenue account**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

Financial year 1	Previous year 2
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**Income**

Earned premiums	11	254857	291396
Investment income receivable before deduction of tax	12	364121	364809
Increase (decrease) in the value of non-linked assets brought into account	13	277651	289399
Increase (decrease) in the value of linked assets	14		
Other income	15		
<b>Total income</b>	<b>19</b>	<b>896629</b>	<b>945604</b>

**Expenditure**

Claims incurred	21	449782	439463
Expenses payable	22	8318	7259
Interest payable before the deduction of tax	23	168	794
Taxation	24	4954	1421
Other expenditure	25		
Transfer to (from) non technical account	26		(50000)
<b>Total expenditure</b>	<b>29</b>	<b>463222</b>	<b>398937</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	433407	546667
Fund brought forward	49	6473555	5926888
Fund carried forward (39+49)	59	6906962	6473555

## Long-term insurance business : Analysis of premiums

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11		11370		11370	12944
Single premiums	12		244780		244780	279915

**Reinsurance - external**

Regular premiums	13		1293		1293	1463
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17		10077		10077	11481
Single premiums	18		244780		244780	279915

**Total**

Gross	19		256150		256150	292859
Reinsurance	20		1293		1293	1463
Net	21		254857		254857	291396

## Long-term insurance business : Analysis of claims

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11		4299		4299	6570
Disability periodic payments	12					
Surrender or partial surrender	13		1276		1276	236
Annuity payments	14		444008		444008	432198
Lump sums on maturity	15		2263		2263	2090
<b>Total</b>	<b>16</b>		<b>451846</b>		<b>451846</b>	<b>441094</b>

**Reinsurance - external**

Death or disability lump sums	21		1384		1384	1151
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		680		680	480
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>		<b>2064</b>		<b>2064</b>	<b>1631</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41		2915		2915	5419
Disability periodic payments	42					
Surrender or partial surrender	43		1276		1276	236
Annuity payments	44		443328		443328	431718
Lump sums on maturity	45		2263		2263	2090
<b>Total</b>	<b>46</b>		<b>449782</b>		<b>449782</b>	<b>439463</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11				
Commission - other	12		102	102	130
Management - acquisition	13				
Management - maintenance	14		8216	8216	7129
Management - other	15				
<b>Total</b>	<b>16</b>		<b>8318</b>	<b>8318</b>	<b>7259</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42		102	102	130
Management - acquisition	43				
Management - maintenance	44		8216	8216	7129
Management - other	45				
<b>Total</b>	<b>46</b>		<b>8318</b>	<b>8318</b>	<b>7259</b>

**Long-term insurance business : Summary of new business**Name of insurer **Scottish Widows Annuities Limited**

Total business

Financial year ended **31 December 2010**Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11					
Single premium business	12					
<b>Total</b>	<b>13</b>					

**Amount of new regular  
premiums**

Direct insurance business	21		1		1	1
External reinsurance	22					
Intra-group reinsurance	23		22		22	33
<b>Total</b>	<b>24</b>		<b>23</b>		<b>23</b>	<b>34</b>

**Amount of new single  
premiums**

Direct insurance business	25					
External reinsurance	26					
Intra-group reinsurance	27		244780		244780	279915
<b>Total</b>	<b>28</b>		<b>244780</b>		<b>244780</b>	<b>279915</b>

**Long-term insurance business : Analysis of new business**

Name of insurer

**Scottish Widows Annuities Limited**

Total business

Financial year ended

**31 December 2010**

Units

**£000**

UK Pension / Direct Insurance Business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
325	Level term assurance		1		

**Long-term insurance business : Analysis of new business**

Name of insurer

**Scottish Widows Annuities Limited**

Total business

Financial year ended

**31 December 2010**

Units

**£000**

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
325	Level term assurance		22		
400	Annuity non-profit (CPA)				239781
405	Annuity non-profit (CPA impaired life)				386
905	Index linked annuity				4614

**Long-term insurance business : Assets not held to match linked liabilities**

Name of insurer **Scottish Widows Annuities Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12	1945170	2172365	89301	4.20	
Other fixed interest securities	13	3985059	4147914	235415	5.78	
Variable interest securities	14	255362				
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	519080	384392	2091	0.54	
<b>Total</b>	<b>19</b>	<b>6704671</b>	<b>6704671</b>	<b>326807</b>	<b>4.90</b>	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Scottish Widows Annuities Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1396590	13.60	4.12	4.12

<b>Other approved fixed interest securities</b>	<b>21</b>	775775	11.41	4.37	4.34
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**Other fixed interest securities**

AAA/Aaa	<b>31</b>	466484	12.37	4.57	4.47
AA/Aa	<b>32</b>	592269	9.79	5.18	4.72
A/A	<b>33</b>	1702066	8.79	5.70	4.78
BBB/Baa	<b>34</b>	1167271	8.62	6.17	4.59
BB/Ba	<b>35</b>	90232	5.61	9.70	7.01
B/B	<b>36</b>	6886	4.42	8.64	6.26
CCC/Caa	<b>37</b>				
Other (including unrated)	<b>38</b>	122705	5.86	10.31	4.42
<b>Total other fixed interest securities</b>	<b>39</b>	4147914	9.01	5.78	4.70

<b>Approved variable interest securities</b>	<b>41</b>				
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<b>Other variable interest securities</b>	<b>51</b>				
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	6320279	10.14	5.16	4.50
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**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12		6438571	6438571	6035747
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		344912	344912	326903
Form 54 - non-linked	17		5678	5678	4386
<b>Total</b>	<b>18</b>		6789161	6789161	6367036

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22		10083	10083	10043
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		8767	8767	7396
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		18850	18850	17439

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		6428488	6428488	6025703
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		336145	336145	319507
Form 54 - non-linked	47		5678	5678	4386
<b>Total</b>	<b>48</b>		6770311	6770311	6349596

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance	35310	3508018	11415				25061
390	Deferred annuity non-profit		1851	69				14602
400	Annuity non-profit (CPA)	129715	485519					6302394
405	Annuity non-profit (CPA impaired life)	132	11446					96499
435	Miscellaneous non-profit		255	1				14

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		597362	1156				6306
390	Deferred annuity non-profit		113	11				11
400	Annuity non-profit (CPA)		312					3765
435	Miscellaneous non-profit		30					1





**Long-term insurance business : Index linked business**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business  
 Financial year ended **31 December 2010**  
 Units **£000**

Value of assets	Mean Term
1	2

**Analysis of assets**

Approved variable interest securities	11	50120	14.90
Other variable interest securities	12		
Approved fixed interest securities	13	110415	12.23
Other fixed interest securities	14	156119	11.45
Cash and deposits	15		
Equity index derivatives	16		
Inflation swaps	17	19492	
Other assets	18		
Variation margin	19		
<b>Total (11 to 19)</b>	<b>20</b>	<b>336145</b>	

**Credit rating of other fixed interest and other variable interest securities**

AAA/Aaa	31	19960	14.91
AA/Aa	32	24577	12.41
A/A	33	69946	11.68
BBB/Baa	34	40368	9.16
BB/Ba	35	1268	9.88
B/B	36		
CCC/Caa	37		
Other (including unrated)	38		
<b>Total other fixed interest and other variable interest securities</b>	<b>39</b>	<b>156119</b>	<b>11.54</b>



**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Widows Annuities Limited**  
 Total business / subfund **long term insurance business assets**  
 Financial year ended **31 December 2010**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	6906962	6473555
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	6906962	6473555
Mathematical reserves	21	6770311	6349597
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	136651	123958

**Composition of surplus**

Balance brought forward	31	123958	70305
Transfer from non-technical account	32		50000
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	12694	3653
Total	39	136651	123958

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	136651	123958
Total (48+49)	59	136651	123958

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Scottish Widows Annuities Limited**

Global business

Financial year ended **31 December 2010**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%	1180241	1066119		
Classes I (other), II and IX	12	0.1%			0.79	
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%	2325334	1848383		5545
Classes III, VII and VIII	15	0.3%				
<b>Total</b>	<b>16</b>		<b>3505575</b>	<b>2914502</b>		<b>5545</b>

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					793	793
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	6431716	6422837	1.00	64228	60245
Classes III, VII and VIII (investment risk)	33	1%	350590	341823	0.97	3418	3239
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>67647</b>	<b>63484</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%	6855	5651			
Classes I (other), II and IX	42	3%	6431716	6422837	1.00	192685	180735
Classes III, VII and VIII (investment risk)	43	3%	350590	341823	0.97	10255	9717
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>6789160</b>	<b>6770311</b>		<b>202940</b>	<b>190452</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>276925</b>	<b>260803</b>
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## Scottish Widows Annuities Limited

Financial year ended 31 December 2010

### Supplementary notes to Appendices 9.1 and 9.3

#### \*0201\* Waiver and modification of rules

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in October 2007. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination.

#### \*0301\* Reconciliation of net admissible assets to total capital resources

	£000
Line 89 on Form 13 (Other Than Long Term Business)	326,511
Line 89 on Form 13 (Long Term Business)	7,040,816
Net admissible assets	<u>7,367,327</u>
Line 11 on Form 14	(6,770,311)
Line 49 on Form 14	(133,854)
Line 59 on Form 15	(5,372)
	<u>(6,909,537)</u>
Total Capital Resources after deductions	<u>457,790</u>

#### \*0313\* Profit and loss account and other reserves

Opening profit and loss account and other reserves (F3 L12 C4)	104,914
Closing profit and loss account and other reserves (F3 L12 C3)	126,275
Profit for the year (including movement in other reserves)	<u>21,361</u>
Profit or loss retained (F16 L59 C1)	8,668
Premiums (F40 L11 C1)	254,857
Investment income (F40 L12 C1)	364,121
Non-linked asset movements (F40 L13 C1)	277,651
Claims incurred (F40 L21 C1)	(449,782)
Expenses payable (F40 L22 C1)	(8,318)
Interest payable (F40 L23 C1)	(168)
Taxation (F40 L24 C1)	(4,954)
Mathematical reserves (F58 L21 C2)	6,349,597
Mathematical reserves (F58 L21 C1)	(6,770,311)
	<u>21,361</u>

#### \*1304\* Offsetting - other than long term business

There has not been any offsetting of amounts in Form 13.

#### \*1305\* Counterparty limits – other than long term business

#### \*1319\* Counterparty limits – long term business

With the exception of approved securities and any holdings under the UCITS Directive, the maximum counterparty limit permitted by the insurer's investment guidelines at 31 December 2010 was £130m. This limit relates to exposures with both approved

## **Scottish Widows Annuities Limited**

**Financial year ended 31 December 2010**

### **Supplementary notes to Appendices 9.1 and 9.3**

counterparties and other than approved counterparties. The limit applies to long term business assets and other than long term business assets combined. This limit was not exceeded during 2010.

#### **\*1306\* Exposure to large counterparties – other than long term business**

#### **\*1312\* Exposure to large counterparties – long term business**

Other than in respect of investments falling under UCITS Directives there were no such exposures at the year end.

#### **\*1308\* Classification of investments – long term business**

The long term business fund held £18,041,000 of unlisted investments.

#### **\*1310\* Offsetting - long term business**

Certain amounts shown in Forms 13 and 14 have been calculated by netting amounts due to any one person against amounts due from that person, to the extent permitted by generally accepted accounting principles.

#### **\*1401\* Provision for adverse changes**

Assets held within the long term fund are valued on a mark to market basis. Where this is not possible, mark to model or director valuations are calculated on a prudent basis and incorporate all necessary valuation adjustments including those set out in GENPRU 1.3.30R to GENPRU 1.3.33R or INSPRU 3.2.17R to INSPRU 3.2.18R.

#### **\*1402\* Other liabilities**

- (a) No charge has been made on the assets of the Company to secure the liabilities of any other person.
- (b) No provision has been made for capital gains tax.
- (c) There are no contingent liabilities not included in Form 14.
- (d) The Company has given no guarantees, indemnities or contractual commitments in respect of related companies other than in the ordinary course of its insurance business.
- (e) There are no other fundamental uncertainties.

#### **\*1501\* Provision for adverse changes**

Assets held within the shareholder fund are valued on a mark to market basis. Where this is not possible, mark to model or director valuations are calculated on a prudent basis and incorporate all necessary valuation adjustments including those set out in GENPRU 1.3.30R to GENPRU 1.3.33R or INSPRU 3.2.17R to INSPRU 3.2.18R. There are no derivatives held within the shareholder fund.

#### **\*1502\* Other liabilities**

With regard to the Shareholder Fund there are no charges over assets, potential capital gains tax liabilities, contingent liabilities, guarantees, indemnities, other contractual commitments, or any other fundamental uncertainties to report.

## **Scottish Widows Annuities Limited**

**Financial year ended 31 December 2010**

### **Supplementary notes to Appendices 9.1 and 9.3**

#### **\*1601\* Foreign currency income and expenditure**

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

#### **\*1800\* Form omitted from Return**

#### **\*1900\* Form omitted from Return**

No with-profits business is written by the Company.

#### **\*4008\* Management services**

Arrangements are in force under which Scottish Widows Investment Partnership Limited provides investment management to Scottish Widows Annuities Limited and under which Scottish Widows Services Limited provides management and administration services to Scottish Widows Annuities Limited.

#### **\*4009\* Material connected-party transactions**

The Company receives reinsurance premiums from and pays reinsurance claims to its immediate parent company Scottish Widows plc, under a reinsurance agreement. The aggregate amount of premiums received during the year was £247,868,000. The aggregate amount of claims paid during the year was £292,644,000.

#### **\*4400\* Form omitted from the Return**

The insurer does not transact property linked business.

#### **\*4500\* Form omitted from the Return**

The insurer does not transact property linked business.

#### **\*4702\* Apportionment approximations**

The single premium for product code 405, Annuity non-profit (CPA impaired life), is approximated based on the total single premium received by the parent company, Scottish Widows plc. All single premium new business is reinsurance accepted from Scottish Widows plc.

The total amount of single premium for annuities is split between indexed-linked and non-linked annuities by the proportion of reserves held with respect to new business for each type of annuity.

#### **\*4802\* Treatment of expected income**

SWA holds one asset where interest in default. The expected income on this asset is reported as nil in Form 48.

#### **\*4803\* Securities redeemable over a period at the option of the guarantor or the issuer**

Where securities are redeemable over a period at the option of the guarantor or issuer the treatment depends on the terms of the original bond as follows.

## Scottish Widows Annuities Limited

Financial year ended 31 December 2010

### Supplementary notes to Appendices 9.1 and 9.3

- (a) Where the issuer would have to pay the present value (at gilt yields) of the outstanding receipts when called, securities are assumed to run to maturity.
- (b) Where the same coupon applies before and after the call date, securities are assumed to run to maturity when the clean price is below par, but otherwise are assumed to run to the call date.
- (c) Where coupons generally increase after the call date (and this is prior to 31 December 2014) yet the cost of the increased coupons in current market conditions is less than the likely cost of refinancing, we have assumed that securities run to maturity.
- (d) In other cases, where coupons generally increase after the call date, we have assumed that securities run to the call date.

The value of applicable assets was £1,325m.

### \*4804\* Weighted average yield

A number of individual weighted assets yields are significantly different from the total weighted average yields shown in Form 48. The asset types and individual weighted average yields are as follows:

#### 4804 Weighted Average Yield

Holding	Value £000	Yield
AAA Global Liquidity Fund	382,724	0.68
Deposits	786	0.46
Other Debtors and Accrued Interest	845	0.00
<b>Totals</b>	<b>384,355</b>	<b>0.54</b>

### \*4901\* Credit Rating

The Rating used was the lowest of Standard & Poor's and Moodys. Assets held not rated by either of these agencies have been classified as unrated.

### \*5200\* Form omitted from the Return

The insurer does not transact accumulating with-profit business.

### \*5300\* Form omitted from the Return

The insurer does not transact property linked business.

### \*5500\* Form omitted from the Return

The insurer does not transact property linked business.

### \*5601\* Credit Rating

The Rating used was the lowest of Standard & Poor's and Moodys. Assets held not rated by either of these agencies have been classified as unrated.

**Scottish Widows Annuities Limited**

**Period ended 31st December 2010**

**Statement required by Rule 9.29 of the Interim Prudential Sourcebook for Insurers:  
Additional Information on Derivative Contracts**

- (a) Investment Managers work to written authorities in respect of derivative transactions, approved, initially, by the Scottish Widows Annuities Limited Board. Controls are applied to ensure that the authorities delegated to the investment managers are not exceeded.

The use of derivatives is permitted for the purpose of efficient portfolio management provided their substance would otherwise be permitted as a series of direct transactions. However, the investment managers may only enter derivative transactions after agreement from senior actuarial managers. Such agreement would only be given if the transactions were a means of achieving closer asset/liability matching than could otherwise be achieved.

- (b) The written authorities effectively prohibit entry into derivative contracts which were not, at the time of entry, reasonably likely to be exercised.
- (c) See (b) above
- (d) At no time during the year did the company enter into a derivative or quasi-derivative contract which required a significant provision to be made for it under INSPRU 3.2.17R or did not fall within the definition of a permitted derivatives contract.
- (e) No consideration was received by the insurer during the year in return for granting rights under derivative or quasi-derivative contracts.

**Scottish Widows Annuities Limited**

**Financial year ended 31 December 2010**

**Statement required by Rule 9.30: Additional Information on Shareholder Controllers**

The immediate shareholder controller of the company during the financial year was Scottish Widows plc. Scottish Widows plc is a wholly owned and controlled subsidiary of Scottish Widows Financial Services Holdings.

Scottish Widows Financial Services Holdings is a wholly owned and controlled subsidiary of Scottish Widows Group Limited.

Scottish Widows Group Limited is a wholly owned and controlled subsidiary of Lloyds TSB Bank plc.

Lloyds TSB Bank plc is a wholly owned and controlled subsidiary of Lloyds Banking Group plc, which was the ultimate shareholder controller of the insurer during the financial period.

## **SCOTTISH WIDOWS ANNUITIES LIMITED (SWA)**

### **ABSTRACT OF VALUATION REPORT**

#### **1 INTRODUCTION**

- (1) The investigation relates to 31 December 2010.
- (2) The previous investigation related to 31 December 2009.
- (3) Not Applicable.

#### **2 PRODUCT RANGE**

There were no significant changes to products during 2010.

The company does not transact with-profits business.

#### **3 DISCRETIONARY CHARGES AND BENEFITS**

- (1) Not Applicable.
- (2) No changes during 2010.

For Pension Term Assurance business originally written in Lloyds TSB Life Assurance Company ("Lloyds TSB Heritage"), transferred to the Company on 31/12/2004, written after July 1988 we have the option to increase the premium at any time after 5 years. This option has never been exercised. Mathematical reserves for this business are approximately £5,000,000.

(3)-(10) Not applicable

#### **4 VALUATION BASIS**

- (1) Valuation methods

The mathematical reserves for Pension Term Assurances, Pension Annuities in Payment and Pensions Indexed Annuities in Payment have been calculated by using a discounted cashflow valuation. Allowance has been made for lapses for term assurances (other than Lloyds TSB Heritage). Pension Deferred Annuities are valued on a gross premium basis.

In the case of Pension Term Assurance contracts on under-average lives where the policies have been:

- (i) accepted at increased premiums throughout, the policies have been valued using actual ages rated up by 10 years (except Lloyds TSB Heritage contracts which have been valued using the actual underwriting age rating).
- (ii) accepted with the sums assured subject to debts, the policies have been valued as if they were normal risks for the full sums assured.

Where extra premiums are payable on account of occupation, foreign residence, etc, a special reserve of one year's extra premium has been made.

The reserves for assurances have been increased to allow for an estimated amount of death claims having occurred on or before the valuation date but which have not been notified.

In the case of annuity contracts on impaired lives:

- (i) The valuation age is set to 65 for lives aged under 45.
- (ii) For other cases, the policies have been valued with the age rated up five years.

(2) Table of interest rates used

	31/12/2010	31/12/2009
Pension Term Assurances	3.10%	3.85%
Pensions Deferred Annuities	4.28%	4.76%
Pension Annuities in Payment	4.28%	4.76%
Pension Indexed Annuities in Payment	0.57%	0.79%

(3) Yield adjustments

Deductions were made from individual yields on fixed interest stocks for default risk as set out below, other than for government bonds with an AAA rating or supranational stocks which are government bonds. Individual risk-adjusted yields were capped at 9%.

Figures in Basis Points	Credit Rating at 31st December 2010				
	AAA	AA	A	BBB	Lower Rated
Total allowance	11	47	91	158	267

No allowance for default is made for bonds backed by a reputable government, cash or for swaps which are collateralised, though 10 basis points are deducted from uncollateralised swap yields to allow for the risk that we do not generate sufficient yield (e.g. LIBOR) to cover the payments we are contracted to pay.

(4) Mortality

The Pension Term Assurance business is split for mortality analysis into the following categories:

**Lloyds TSB Branch Network** (business sold through Lloyds TSB branches since March 2000)

**SW Heritage** (all business, excluding Lloyds TSB Branch Network, originally sold by Scottish Widows)

**Lloyds TSB Heritage (Black Horse Life and Lloyds TSB Life)** (business sold through Black Horse Life and Lloyds TSB Life and transferred to the Company on 31 December 2004)

**Lloyds TSB Heritage (TSB Pensions)** (business sold through TSB Pensions and transferred to the Company on 31 December 2004)

The Pension Term Assurances bases at 31 December 2010 were as follows:

<b>Lloyds TSB Branch Network</b>		
	Male	Female
Non-smoker	105% of TMN00(5) Select, plus 33.3% modified AIDSR6A	95% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	115% of TMS00(5) Select, plus 33.3% modified AIDSR6A	100% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	105% of TMN00(5) Select, plus 33.3% modified AIDSR6A	95% of TFN00(5) Select, plus 10% modified AIDSR6A

<b>SW Heritage</b>		
	Male	Female
Non-smoker	90% of TMN00(5) Select, plus 33.3% modified AIDSR6A	100% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	100% of TMS00(5) Select, plus 33.3% modified AIDSR6A	90% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	90% of TMN00(5) Select, plus 33.3% modified AIDSR6A	100% of TFN00(5) Select, plus 10% modified AIDSR6A

<b>Lloyds TSB Heritage (Black Horse Life and Lloyds TSB Life)</b>		
	Male	Female
Non-smoker	115% of TMN00(5) Select, plus 33.3% modified AIDSR6A	150% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	125% of TMS00(5) Select, plus 33.3% modified AIDSR6A	120% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	160% of TMN00(5) Select, plus 33.3% modified AIDSR6A	175% of TFN00(5) Select, plus 10% modified AIDSR6A

<b>Lloyds TSB Heritage (TSB Pensions)</b>		
	Male	Female
Non-smoker	170% of TMN00(5) Select, plus 33.3% modified AIDSR6A	190% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	165% of TMS00(5) Select, plus 33.3% modified AIDSR6A	130% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	165% of TMC00(5) Select, plus 33.3% modified AIDSR6A	155% of TFC00(5) Select, plus 10% modified AIDSR6A

The Pension Term Assurances bases at 31 December 2009 were as follows:

<b>Lloyds TSB Branch Network</b>		
	Male	Female
Non-smoker	105% of TMN00(5) Select, plus 33.3% modified AIDSR6A	95% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	115% of TMS00(5) Select, plus 33.3% modified AIDSR6A	100% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	105% of TMN00(5) Select, plus 33.3% modified AIDSR6A	95% of TFN00(5) Select, plus 10% modified AIDSR6A

<b>SW Heritage</b>		
	Male	Female
Non-smoker	90% of TMN00(5) Select, plus 33.3% modified AIDSR6A	100% of TFN00(5) Select, plus 10% modified AIDSR6A
Smoker	100% of TMS00(5) Select, plus 33.3% modified AIDSR6A	90% of TFS00(5) Select, plus 10% modified AIDSR6A
Unknown	90% of TMN00(5) Select, plus 33.3% modified AIDSR6A	100% of TFN00(5) Select, plus 10% modified AIDSR6A

<b>Lloyds TSB Heritage (Black Horse Life and Lloyds TSB Life)</b>		
	Male	Female
Non-smoker	115% of TMN00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	150% of TFN00(5) Select, plus 10% modified AIDS <sub>R6A</sub>
Smoker	125% of TMS00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	120% of TFS00(5) Select, plus 10% modified AIDS <sub>R6A</sub>
Unknown	160% of TMN00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	175% of TFN00(5) Select, plus 10% modified AIDS <sub>R6A</sub>

<b>Lloyds TSB Heritage (TSB Pensions)</b>		
	Male	Female
Non-smoker	170% of TMN00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	190% of TFN00(5) Select, plus 10% modified AIDS <sub>R6A</sub>
Smoker	165% of TMS00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	130% of TFS00(5) Select, plus 10% modified AIDS <sub>R6A</sub>
Unknown	165% of TMC00(5) Select, plus 33.3% modified AIDS <sub>R6A</sub>	155% of TFC00(5) Select, plus 10% modified AIDS <sub>R6A</sub>

The AIDS mortality table AIDS<sub>R6A</sub> is modified where stated by using calendar year 1998 for males and 1993 for females.

The mortality bases used for Pension Annuities in Payment and Pension Indexed Annuities in Payment are as follows:

	<b>Male 31/12/2010</b>	<b>Male 31/12/2009</b>
Personal/self-employed	73% Modified RMV00 ult lc	73% Modified RMV00 ult lc
Expectation of life at 65	26.441	26.278
Expectation of life at 75	17.405	17.252
Executive pension	86% Modified PCMA00 ult lc	86% Modified PCMA00 ult lc
Expectation of life at 65	25.189	25.027
Expectation of life at 75	16.167	16.013
Group Pensions	97% Modified PCMA00 ult lc	97% Modified PCMA00 ult lc
Expectation of life at 65	23.975	23.818
Expectation of life at 75	15.167	15.017
Lloyds TSB Pensions	108% Modified PCMA00 ult lc	108% Modified PCMA00 ult lc
Expectation of Life at 65	22.924	22.771
Expectation of Life at 75	14.312	14.167
	<b>Female 31/12/2010</b>	<b>Female 31/12/2009</b>
Personal/self-employed	80% Modified RFV00 ult 75%mc	80% Modified RFV00 ult 75%mc
Expectation of Life at 65	27.816	27.672
Expectation of Life at 75	17.988	17.865
Executive pension	89% Modified PCFA00 ult	89% Modified PCFA00 ult 75%mc
Expectation of Life at 65	75%mc	25.674
Expectation of Life at 75	25.822	16.252
	16.377	
Group Pensions	78% Modified PCFA00 ult 75%mc	78% Modified PCFA00 ult 75%mc
Expectation of Life at 65	27.134	26.980
Expectation of Life at 75	17.492	17.362
Lloyds TSB Pensions	80% Modified PCFA00 ult 75%mc	80% Modified PCFA00 ult 75%mc
Expectation of Life at 65	26.878	26.726
Expectation of Life at 75	17.274	17.144

The mortality tables used to value annuities in payment have been modified by applying factors to allow for future mortality improvement. 'lc' denotes the application for the period starting on 31 December 2002, 100% of the CMI 'Medium Cohort' projection factors followed by for the period starting on 31 December 2006, 100% of the CMI 'Long Cohort' projection factors subject to a minimum annual improvement rate of 1.5% to the 2000 base table. 'mc' denotes the application of the CMI 'Medium Cohort' projection factors for the period starting on 31 December 2002 subject to a minimum annual improvement rate of 1.5% to the 2000 base table. '75% mc' denotes 75% of the factors, subject again to a 1.5% minimum annual improvement rate.

For Pensions Deferred Annuities the post-retirement period the bases were those set out under "Pension Annuities in Payment" above. For the pre-retirement period the bases were as follows:

	<b>Male</b>	
	<b>31/12/2010</b>	<b>31/12/2009</b>
	Individual	75% AMC00 ult
Expectation of life at 65 (55 now)	28.072	27.909
Expectation of life at 65 (45 now)	29.719	29.553
	<b>Female</b>	
	<b>31/12/2010</b>	<b>31/12/2009</b>
	Individual	70% AFC00 ult
Expectation of life at 65 (55 now)	29.280	29.132
Expectation of life at 65 (45 now)	30.794	30.641

Explicit provision for future improvement was made by assuming mortality in deferment reduces as a rate of 4% per annum from the valuation date through deferment.

(5) Not Applicable.

(6) Expenses

The following allowances have been made for expenses.

Where there was more than one type of policy within each group of product codes, the allowances for the most numerous type of policy within that group is shown.

<u>Product code</u>	<u>Description</u>	<b>31/12/2010</b>		<b>31/12/2009</b>	
		<u>Allowance</u>		<u>Allowance</u>	
		<u>Per policy per annum</u>	<u>% reserves per annum</u>	<u>Per policy per annum</u>	<u>% reserves per annum</u>
325	Term Assurances	£28.60	nil	£22.50	nil
400	Annuities in Payment	£16.50	0.04%	£13.90	0.03%

All expenses are shown gross of tax (none is payable).

Renewal commission is allowed for based on the actual amounts payable.

(7) Inflation assumptions

The following expense inflation rate was assumed in the investigation and in the previous investigation.

	<b>31/12/2010</b>	<b>31/12/2009</b>
	<b>Rate per annum</b>	<b>Rate per annum</b>
Expenses - annual inflation rate (all business)	4.70%	5.00%

(8) Not Applicable

(9) Lapse assumptions

Lapse assumptions are assumed for SW Heritage term assurances.

<b>Product code</b>	<b>Description</b>	<b>Average lapse-surrender-paid up rate (% pa) for the policy years</b>				
			<b>1-5</b>	<b>6-10</b>	<b>11-15</b>	<b>15-20</b>
325	Term assurance	Lapse – Low <sup>1</sup>	8.55	2.91	1.20	1.00
		High <sup>1</sup>	14.40	6.88	4.50	4.88

<sup>1</sup> The high or low assumption is applied at each point in the projection depending on whether the policy is an asset or a liability (respectively) at that time.

(10) Not Applicable

(11) Derivatives

The variable interest securities held to match non-linked liabilities are combined with swaps which convert index-linked to fixed payments. In addition, swaps converting variable short term deposit rates to fixed interest rates (and vice versa) are held to lengthen the duration of the portfolio.

The economic exposure shown in column 2 of Form 48 takes account of these variable interest securities and swaps and is used when calculating the yield before adjustment relevant for the valuation of liabilities.

The fixed interest securities held to match index-linked annuities are combined with swaps which convert fixed payments to index-linked. Form 56 shows how these assets are used to back liabilities. The escalation of index-linked annuity payments is allowed for by using a real valuation rate of interest.

- (12) There have been no changes in valuation methodology as at the valuation date arising from changes in INSPRU valuation rules effective from 31 December 2006.

## **5 OPTIONS AND GUARANTEES**

- (1)-(3) Not Applicable

- (4) For Limited Price Indexation (LPI) annuities no specific reserve was made for investment guarantees because the liabilities were closely matched.

## **6 EXPENSE RESERVES**

- (1) Aggregate expenses loadings

The aggregate amount arising during the 12 months after the valuation date from explicit reserves made in the valuation to meet expenses is approximately £11,500,000. There are no implicit reserves in the valuation. Expense reserves can be further split into £2,700,000 investment expenses and £8,800,000 maintenance expenses.

- (2) Not applicable

- (3) Comparison with Form 43

The amount of expenses exceeds that shown at line 14 of form 43 on account of margins for adverse deviations included in the valuation basis, including allowance for differing future relative volumes of claims and in-force policies.

- (4) New business expenses overrun reserve

The expenses of continuing to transact new business are borne by Scottish Widows plc. There would be no material costs of closure incurred by the insurer if it were to cease to transact new business 12 months after the valuation date. Accordingly no provision has been made.

(5) Maintenance expense overrun reserve

A per policy loading was determined to cover both fixed and variable expenses. This loading has been set as follows:

- Best estimate assumptions were set based on recent experience using data from an internal expense analysis system.
- They were then adjusted so that claims costs are covered over a prudent assessment of the remaining term of the policies.
- A further margin was added for adverse deviation.
- The assumption used for cost inflation includes a margin for adverse deviation and a further increase of 0.25% to allow for the possibility that, were new business to cease, overhead expenses could reduce at a slower rate than the size of the in-force book.

On closure to new business:

- There would continue for many years to be a significant book of business to manage; during this period overheads would be managed down appropriately, considering various options including outsourcing.
- Certain fixed costs (for example premises, central IT, human resources and Lloyds Banking Group corporate overheads) are shared throughout the Lloyds Banking Group in proportion to headcount or usage, reducing the impact of loss of economies of scale.

No redundancy costs or costs of terminating management agreements have been taken into account. The relevant service agreements preclude such costs being payable by the company.

(6) Not applicable.

## 7 MISMATCHING RESERVES

- (1) All the liabilities of the insurer are expressed to be payable in Sterling and are fully matched in currency terms by Sterling assets.

Reserves matched by sterling assets (£000s)	6,770,311
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(2-3) Not Applicable

- (4) The following scenario produced the most onerous requirement under INSPRU 3.1.16R for assets invested in the UK for the purposes of calculating the resilience capital requirement in INSPRU 3.1.10R.

A fall in fixed interest yields and an equivalent fall in yields on index-linked assets of 0.798%. The equivalent fall in the real yields for index-linked assets is calculated by applying a stress of 0.798% to the nominal yield implied by a price inflation assumption (3.85%).

(5) Not applicable.

- (6) Paragraphs (a), (b) and (c) below relate to the scenario described under (4) above.

- (a) No resilience capital requirement arose.
- (b) The aggregate amount of the long-term insurance liabilities increased by £556 million.
- (c) The value of the assets allocated to match such liabilities in the scenario described increased in value from the amount shown in Form 13 by £582 million.

- (7) No additional reserve arises from the test on assets in INSPRU 1.1.34R. Liability cashflows are closely matched by asset income including cash held at the valuation date to cover short term outgoings.

## 8 OTHER SPECIAL RESERVES

Not Applicable.

**9 REINSURANCE**

- (1) No reinsurance premiums are payable on a facultative basis by the insurer to a reinsurer who is not authorised to carry on insurance business in the United Kingdom.
- (2) Not Applicable.
- (3) Not Applicable.

**10 REVERSIONARY (OR ANNUAL) BONUS**

Not Applicable.

**Name of Company**                      **Scottish Widows Annuities Limited**

**Global business**

**Financial year ended**                      **31 December 2010**

**Directors' Certificate required by IPRU (INS) 9.34 and IPRU (INS) Appendix 9.6**

We certify that:

1.     (a)     the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU;
- (b)     we are satisfied that:
  - (i)        throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
  - (ii)       it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2.     (a)     In our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (b)     the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- (c)     not applicable;
- (d)     we have, in preparing the return, taken and paid due regard to:
  - (i)        advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii)       not applicable.

**Name of Company**                      **Scottish Widows Annuities Limited**

**Global business**

**Financial year ended**                      **31 December 2010**

**Directors' Certificate required by IPRU (INS) 9.34 and IPRU (INS) Appendix 9.6**

.....  
K Luscombe  
Director

.....  
P Loney  
Director

.....  
A G Kane  
Deputy Chairman

69 Morrison Street  
Edinburgh  
EH3 8YF  
28 March 2011

## **Auditors' report: Regulatory Return for a life insurance company**

### **SCOTTISH WIDOWS ANNUITIES**

#### **Global business**

#### **Financial year ended 31 December 2010**

#### **Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ('the Rules') made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 11 to 17, 40 to 43, 48, 49, 58 and 60, (including the supplementary notes) on pages 1 to 22, 26, 27, 35 and 36 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on page 41('the statement'); and
- the valuation reports required by IPRU(INS) rule 9.31 on pages 43 to 50 ('the valuation reports').

We are not required to audit and do not express an opinion on:

- Forms 46, 47 and 50 (including the supplementary notes) on pages 23 to 25 and 28;
- the statements required by IPRU(INS) rules 9.30 on page 42; and
- the certificate required by IPRU(INS) rule 9.34(1) on pages 51 to 52.

#### **Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report, the forms and statements not examined by us and the certificate under the provisions of the Rules). The requirements of the Rules have been modified by a number of waivers issued under section 148 of the Financial Services and Markets Act 2000 on 16 March 2006 (no. 581922) and 18 December 2009 (no. 1111956). Under IPRU(INS) rule 9.11 the Forms, the Statement, the valuation reports, the forms and statements not examined by us and the certificate are required to be prepared in the

manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation reports are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

This report has been prepared for the directors of the insurer to comply with their obligations under IPRU(INS) rule 9.35 and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (Revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation reports.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused by fraud or other irregularity or error and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

## **Opinion**

In our opinion:

- (i) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- (ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports appropriately reflect the requirements of INSPRU 1.2 and 1.3.

PricewaterhouseCoopers LLP  
Chartered Accountants

28 March 2011