

Scottish Widows Unit Funds 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 businessName of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
R2	74809	GL	31	12	2010	£000
					As at end of this financial year	As at end of the previous year
					1	2

Capital resources

Capital resources arising within the long-term insurance fund	11	26577	22271
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	82351	71532
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	108928	93803

Guarantee fund

Guarantee fund requirement	21	17079	15596
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	91849	78207

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	51237	46789
Resilience capital requirement	32	4737	10899
Base capital resources requirement	33	3040	3128
Individual minimum capital requirement	34	55974	57688
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	55974	57688
Excess (deficiency) of available capital resources to cover 50% of MCR	37	80941	64959
Excess (deficiency) of available capital resources to cover 75% of MCR	38	66947	50537

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	55974	57688

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	55974	57688
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	52954	36115

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51	630320	622829
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Covering Sheet to Form 2

Name of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**

K Luscombe **Director**

C Clarke **Director**

N L N Machray **Director**

Date **25 March 2011**

Components of capital resources

Name of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/UK/CM	day month year			Units	
	R3	74809	GL	31	12	2010	£000
			General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Core tier one capital

Permanent share capital	11		74229	74229	66126
Profit and loss account and other reserves	12		1781	1781	(1641)
Share premium account	13		341259	341259	289362
Positive valuation differences	14		552578	552578	536738
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		969847	969847	890585

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		969847	969847	890585
Investments in own shares	32				
Intangible assets	33				796782
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				796782
Total tier one capital after deductions (31-37)	39		969847	969847	93803

Components of capital resources

Name of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/UK/CM	day	month	year	Units	
	R3	74809	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		

Tier two capital

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

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

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

Components of capital resources

Name of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**

Company registration number	GL/UK/CM	day	month	year	Units	
R3	74809	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				
Total capital resources before deductions (39+69+71)	72		969847	969847	93803
Inadmissible assets other than intangibles and own shares	73		860919	860919	
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				
Total capital resources after deductions (72-73-74-75-76-77)	79		108928	108928	93803

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		108928	108928	93803
Available capital resources for 50% MCR requirement	82		108928	108928	93803
Available capital resources for 75% MCR requirement	83		108928	108928	93803

Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94		630320	630320	622829
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96		630320	630320	622829

Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	GL	31	12	2010	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11				

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	13911	9903
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	69461
	Other	46	60259
Variable interest securities	Approved	47	
	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	
	Property linked	59	

Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	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	602
	due in more than 12 months	79	

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	854	768
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	84226	71532
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Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	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	84226	71532
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	(1875)	
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	82351	71532
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	GL	31	12	2010	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings						11		

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	12761	16984	
Rights under derivative contracts	44			
Fixed interest securities	Approved	45	57424	78432
	Other	46		
Variable interest securities	Approved	47		
	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		
	Property linked	59	23609901	21067530

Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	GL	31	12	2010	£000
					10	
					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	62237	47263
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	651	1013
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	23742974	21211222
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Analysis of admissible assets

Name of insurer **Scottish Widows Unit Funds 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	74809	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	23742974	21211222
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	1179341	1106642
Reinsurers' share of technical provisions excluded from line 89	100		32786
Other asset adjustments (may be negative)	101	60501	44844
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	24982816	22395494
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 marginsName of insurer **Scottish Widows Unit Funds Limited**

Global business

Financial year ended **31 December 2010**Total business/Sub fund **Long term insurance business**Units **£000**

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

Mathematical reserves, after distribution of surplus	11	23716396	21187101
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	26577	22271
Long term insurance business fund carried forward (11 to 13)	14	23742973	21209372
Claims outstanding	Gross	15	
	Reinsurers' share	16	
	Net (15-16)	17	
Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	
	Other	38	1 1850
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	1	1850
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	23742974	21211222

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		1846
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	23609901	21067530

Total liabilities (11+12+49)	71	23716397	21188951
Increase to liabilities - DAC related	72	318422	309860
Reinsurers' share of technical provisions	73		32786
Other adjustments to liabilities (may be negative)	74	613079	581582
Capital and reserves and fund for future appropriations	75	334918	282315
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)	76	24982816	22395494

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	74809	GL	31	12	2010	£000
						As at end of this financial year 1	As at end of the previous year 2

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21				
	Other risks and charges	22				
Deposits received from reinsurers		31				
Creditors	Direct insurance business	41				
	Reinsurance accepted	42				
	Reinsurance ceded	43				
Debenture loans	Secured	44				
	Unsecured	45				
Amounts owed to credit institutions		46				
Creditors	Taxation	47			1875	
	Foreseeable dividend	48				
	Other	49				
Accruals and deferred income		51				
Total (19 to 51)		59			1875	
Provision for "reasonably foreseeable adverse variations"		61				
Cumulative preference share capital		62				
Subordinated loan capital		63				
Total (59 to 63)		69			1875	

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		71				
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Amounts deducted from technical provisions for discounting		82				
Other adjustments (may be negative)		83			(1875)	
Capital and reserves		84			82351	71532
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)		85			82351	71532

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

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	74809	GL	31	12	2010	£000
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13			(54000)	(13000)	
Investment income	Income		14			2892	3317	
	Value re-adjustments on investments		15					
	Gains on the realisation of investments		16			1023	4360	
Investment charges	Investment management charges, including interest		17			2	5	
	Value re-adjustments on investments		18			(2783)	8572	
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			(47304)	(13900)	
Tax on profit or loss on ordinary activities			31			1875	(252)	
Profit or loss on ordinary activities after tax (29-31)			39			(49179)	(13648)	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49			(49179)	(13648)	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59			(49179)	(13648)	

Long-term insurance business : Revenue account

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance business**
 Financial year ended **31 December 2010**
 Units **£000**

Financial year 1	Previous year 2
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Income

Earned premiums	11	2902315	2793073
Investment income receivable before deduction of tax	12	723557	718897
Increase (decrease) in the value of non-linked assets brought into account	13	4952	(3083)
Increase (decrease) in the value of linked assets	14	1791020	2501830
Other income	15	7492	8107
Total income	19	5429336	6018824

Expenditure

Claims incurred	21	2660252	2102224
Expenses payable	22	249272	209977
Interest payable before the deduction of tax	23	7562	8153
Taxation	24	(14307)	(33329)
Other expenditure	25	46955	60753
Transfer to (from) non technical account	26	(54000)	(13000)
Total expenditure	29	2895734	2334778

Business transfers - in	31		
Business transfers - out	32		4073296
Increase (decrease) in fund in financial year (19-29+31-32)	39	2533602	(389250)
Fund brought forward	49	21209372	21598622
Fund carried forward (39+49)	59	23742973	21209372

Long-term insurance business : Analysis of premiums

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance 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

Gross

Regular premiums	11		921894		921894	1193040
Single premiums	12		1982348		1982348	1603720

Reinsurance - external

Regular premiums	13					
Single premiums	14		1927		1927	3687

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17		921894		921894	1193040
Single premiums	18		1980421		1980421	1600033

Total

Gross	19		2904242		2904242	2796760
Reinsurance	20		1927		1927	3687
Net	21		2902315		2902315	2793073

Long-term insurance business : Analysis of claims

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance 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

Gross

Death or disability lump sums	11		18448		18448	15564
Disability periodic payments	12					
Surrender or partial surrender	13		2571840		2571840	1918902
Annuity payments	14					
Lump sums on maturity	15		103829		103829	168495
Total	16		2694117		2694117	2102961

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23		33865		33865	737
Annuity payments	24					
Lump sums on maturity	25					
Total	26		33865		33865	737

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					
Total	36					

Net of reinsurance

Death or disability lump sums	41		18448		18448	15564
Disability periodic payments	42					
Surrender or partial surrender	43		2537975		2537975	1918165
Annuity payments	44					
Lump sums on maturity	45		103829		103829	168495
Total	46		2660252		2660252	2102224

Long-term insurance business : Analysis of expenses

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance 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

Gross

Commission - acquisition	11		194769		194769	158814
Commission - other	12		12240		12240	10098
Management - acquisition	13					
Management - maintenance	14		42263		42263	41065
Management - other	15					
Total	16		249272		249272	209977

Reinsurance - external

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26					

Reinsurance - intra-group

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41		194769		194769	158814
Commission - other	42		12240		12240	10098
Management - acquisition	43					
Management - maintenance	44		42263		42263	41065
Management - other	45					
Total	46		249272		249272	209977

Long-term insurance business : Linked funds balance sheet

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

Financial year	Previous year
1	2

Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	8682355	8019809
Directly held assets in collective investment schemes of connected companies	12	8415687	7929772
Directly held assets in other collective investment schemes	13	5483534	4380221
Total assets (excluding cross investment) (11+12+13)	14	22581576	20329802
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	82013	58238
Total net assets (14-15-16-17)	18	22499563	20271564

Directly held linked assets

Value of directly held linked assets	21	1110338	795966
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Total

Value of directly held linked assets and units held (18+21)	31	23609901	21067530
Surplus units	32		
Deficit units	33		
Net unit liability (31-32+33)	34	23609901	21067530

Long-term insurance business : Revenue account for internal linked funds

Name of insurer **Scottish Widows Unit Funds Limited**

Total business

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

Financial year 1	Previous year 2
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Income

Value of total creation of units	11	2994576	1079468
Investment income attributable to the funds before deduction of tax	12	711582	708973
Increase (decrease) in the value of investments in the financial year	13	1719974	2441943
Other income	14		
Total income	19	5426132	4230384

Expenditure

Value of total cancellation of units	21	2987691	4610927
Charges for management	22	197666	170250
Charges in respect of tax on investment income	23	7543	5840
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		1452
Other expenditure	26	5233	7333
Total expenditure	29	3198133	4795801

Increase (decrease) in funds in financial year (19-29)	39	2227999	(565417)
Internal linked fund brought forward	49	20271564	20836981
Internal linked funds carried forward (39+49)	59	22499563	20271564

Long-term insurance business : Summary of new businessName of insurer **Scottish Widows Unit Funds 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					
Total	13					

**Amount of new regular
premiums**

Direct insurance business	21					
External reinsurance	22					
Intra-group reinsurance	23		325619		325619	237825
Total	24		325619		325619	237825

**Amount of new single
premiums**

Direct insurance business	25					
External reinsurance	26					
Intra-group reinsurance	27		1982348		1982348	1603720
Total	28		1982348		1982348	1603720

Long-term insurance business : Analysis of new business

Name of insurer

Scottish Widows Unit Funds 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
725	Individual pensions property linked		53850		747051
730	Individual pensions property linked - increments		27815		198296
735	Group money purchase pensions property linked		189755		54816
740	Group money purchase pensions property linked - increments		54199		127646
745	DWP National Insurance rebates property linked				149428
750	Income drawdown property linked				289529
755	Trustee investment plan				43080
794	Property linked investment only reinsurance				372503

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

Name of insurer **Scottish Widows Unit Funds 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	58067	58067	2385	3.81	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	75007	75007	86	0.11	
Total	19	133074	133074	2471	1.73	

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					
Total	29					

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 Unit Funds 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
UK Government approved fixed interest securities	11	58067	10.25	3.81	3.81
Other approved fixed interest securities	21				
Other fixed interest securities					
AAA/Aaa	31				
AA/Aa	32				
A/A	33				
BBB/Baa	34				
BB/Ba	35				
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
Total other fixed interest securities	39				
Approved variable interest securities	41				
Other variable interest securities	51				
Total (11+21+39+41+51)	61	58067	10.25	3.81	3.81

Long-term insurance business : Summary of mathematical reservesName of insurer **Scottish Widows Unit Funds Limited**Total business / subfund **Long term insurance 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

Gross

Form 51 - with-profits	11				
Form 51 - non-profit	12				
Form 52	13				
Form 53 - linked	14		23609901	23609901	21100315
Form 53 - non-linked	15		106495	106495	119571
Form 54 - linked	16				
Form 54 - non-linked	17				
Total	18		23716396	23716396	21219887

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				32786
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
Total	28				32786

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				
Total	38				

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42				
Form 52	43				
Form 53 - linked	44		23609901	23609901	21067530
Form 53 - non-linked	45		106495	106495	119571
Form 54 - linked	46				
Form 54 - non-linked	47				
Total	48		23716396	23716396	21187101

Long-term insurance business : Valuation summary of property linked contracts

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance business**
 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
725	Individual pensions property linked- Pensions Series 2 (Pre-Stakeholder), Series 3 (Stakeholder) & Series 4 (Retirement)		9445321	475788	9445321	9445321	20513	9465834
735	Group money purchase pensions property linked- Pensions Series 2 (Pre-Stakeholder) & Series 3 (Stakeholder)		4899203	928605	4899203	4899203	35808	4935011
750	Income drawdown property linked		782212		782212	782212	4	782217
755	Trustee investment plan		538434		538434	538434		538434
794	Property linked investment only reinsurance		7944731		7944731	7944731		7944731
795	Miscellaneous property linked						50170	50170

Long-term insurance business : Unit prices for internal linked funds

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

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
SWUF Pension Mixed Fund	12 - individual pension - balanced managed fund	3334443	Pre-Stakeholder	1.00	1.2208	1.3587	11.29
SWUF Pension International Fund	16 - individual pension - overseas equity	184384	Ordinary	0.88	10.8097	12.1684	12.57
SWUF Pension UK Equity Fund	15 - individual pension - UK equity	2032488	Ordinary	0.88	16.4104	18.5798	13.22
SWUF Pension European Fund	16 - individual pension - overseas equity	323173	Pre-Stakeholder	1.00	1.2697	1.3060	2.86
SWUF Pension Consensus Fund	12 - individual pension - balanced managed fund	1783026	Pre-Stakeholder	1.00	1.1967	1.3352	11.57
SWUF Pension Property Fund	17 - individual pension – property	914536	Pre-Stakeholder	1.00	1.4840	1.6573	11.68
SWUF Pension Balanced Portfolio Fund	12 - individual pension - balanced managed fund	198665	Pre-Stakeholder	1.00	1.2963	1.4437	11.37
SWUF Pension Progress Portfolio Fund	12 - individual pension - balanced managed fund	131091	Pre-Stakeholder	1.00	1.2382	1.4008	13.13
SWUF Pension Balanced Growth Portfolio Fund	12 - individual pension - balanced managed fund	207961	Stakeholder	1.00	1.3618	1.4952	9.80
SWUF Pension Strategic Growth Portfolio Fund	12 - individual pension - balanced managed fund	135625	Stakeholder	1.00	1.3857	1.5367	10.90
SWUF Pension Newton Managed Fund	12 - individual pension - balanced managed fund	1029993	Stakeholder	1.00	1.5345	1.7213	12.18
SWUF Pension Schroder Managed Fund	12 - individual pension - balanced managed fund	125801	Stakeholder	1.00	1.3345	1.4879	11.49
SWUF Pension Invesco Perpetual Balanced Managed Fund	12 - individual pension - balanced managed fund	343571	Pre-Stakeholder	1.00	1.6809	1.8876	12.29
SWUF Pension Newton Oriental Fund	16 - individual pension - overseas equity	133565	Pre-Stakeholder	1.00	3.6947	4.8452	31.14
SWUF Pension Schroder UK Mid 250 Fund	15 - individual pension - UK equity	110139	Pre-Stakeholder	1.00	1.4012	1.7051	21.69
SWUF Pension Invesco Perpetual High Income Fund	15 - individual pension - UK equity	519782	Pre-Stakeholder	1.00	2.4238	2.6862	10.82
SWUF Pension Merrill Lynch UK Dynamic Fund	15 - individual pension - UK equity	118336	Pre-Stakeholder	1.00	1.9738	2.1882	10.86
SWUF Pension Fidelity Special Situations Fund	15 - individual pension - UK equity	140882	Pre-Stakeholder	1.00	2.4054	2.7922	16.08

Long-term insurance business : Unit prices for internal linked funds

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

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
SWUF Pension Fidelity European Fund	16 - individual pension - overseas equity	161009	Pre-Stakeholder	1.00	2.5163	2.7792	10.45
SWUF Pension Fidelity South East Asia Fund	16 - individual pension - overseas equity	180755	Pre-Stakeholder	1.00	3.7346	4.7193	26.37
Lloyds TSB Managed Pension Fund	12 - individual pension - balanced managed fund	4261065	Accumulation	1.00	4.9125	5.4415	10.77
SWUF Pension Stockmarket Growth	11 - individual pension - stock market managed fund	123971	Stakeholder	1.00	1.4040	1.5724	11.99
SW LBG Pension Your Journey Extra	14 - individual pension - other managed fund	482716	Gateway		1.0000	1.0609	6.09

Long-term insurance business : Distribution of surplus

Name of insurer **Scottish Widows Unit Funds Limited**
 Total business / subfund **Long term insurance business**
 Financial year ended **31 December 2010**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	23742973	21209372
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	23742973	21209372
Mathematical reserves	21	23716396	21187101
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	26577	22271

Composition of surplus

Balance brought forward	31	22271	38883
Transfer from non-technical account	32	54000	13000
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(49694)	(29612)
Total	39	26577	22271

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	26577	22271
Total (48+49)	59	26577	22271

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 requirementName of insurer **Scottish Widows Unit Funds 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%					
Classes I (other), II and IX	12	0.1%					
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%					
Classes III, VII and VIII	15	0.3%					
Total	16						

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21						
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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%					
Classes III, VII and VIII (investment risk)	33	1%	114154	114154	1.00	1142	1271
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	3968735	3968735	1.00	39687	34760
Classes III, VII and VIII (other)	35	25%				6984	6946
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
Total	39					47813	42977

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%					
Classes III, VII and VIII (investment risk)	43	3%	114154	114154	1.00	3425	3812
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	3968735	3968735			
Classes III, VII and VIII (other)	45	0%	19633510	19633508			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
Total	49		23716398	23716396		3425	3812

Long term insurance capital requirement	51					51237	46789
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Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

***0201* Waiver and modification of rules**

There are a number of waivers in force at 31 December 2010. However, these are no longer required following the change in permitted links rules which became effective in 2007.

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

Net admissible assets	
	£000
Form 13 Line 89 (other than long-term business)	84,226
Form 13 Line 89 (long term business)	23,742,974
	<hr/>
	23,827,200
Form 14 Line 11	(23,716,396)
Form 14 Line 49	(1)
Form 15 Line 69	(1,875)
	<hr/>
	(23,718,272)
Total Net admissible assets	108,928
Form 3 Line 79	108,928

***0302* Outstanding Contingent Loans**

***0308* Outstanding Contingent Loans**

The company has received additional loan financing from its immediate parent undertaking, Scottish Widows plc. Repayment of the loans, including any interest accrued, is contingent on the emergence of future margins from the business which the company has accepted through a reinsurance agreement with the same undertaking.

***0310* Nature of adjustments**

Positive valuation differences comprise the following:

	Notes	£000
Contingent loan	1	630,320
IFRS valuation differences in respect of mathematical reserves and deferred taxation	2	(77,742)
		<hr/>
		552,578

(1) There is a contingent liability not included in Form 14 of £630,320,000 in respect of a financing loan from Scottish Widows plc and its accumulated interest. The contingent loan is reflected as a liability in the Companies Act accounts. Additional details of this contingent liability are contained in supplementary note 4009.

(2) The Company has adopted International Financial Reporting Standards in its Companies Act accounts. With effect from 1 January 2005, under IAS 39, investment

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

contract liabilities are stated as the value of units payable to contract holders. For FSA Return purposes, additional mathematical reserves are required. Deferred tax is recognised in respect of these additional reserves. Additional deferred tax adjustments are also required in accordance with IAS 12.

0313 Profit and loss account and other reserves

F3 L12 b/f	(1,641)
F3 L12 c/f	1,781
Movement in reserves	<u>3,422</u>
F16 L59	(49,179)
Transfer to technical account	54,000
Investment income receivable before deduction of tax (F40 L12 C1)	712,025
Increase in value of non-linked assets brought into account (F40 L13 C1)	4,952
Increase in the value of linked assets (F40 L14 C1)	1,802,552
Expenses payable (F40 L22 C1)	(249,272)
Interest payable before deduction of tax (F40 L23 C1)	(7,562)
Other expenditure (F40 L25 C1)	(46,955)
F13 L99 LTB b/f	(1,106,642)
F13 L99 LTB c/f	1,179,341
Change in investment contract liabilities	(2,299,511)
Change in reinsurers share	(32,784)
Tax differences to accounts	10,472
Other	31,985
	<u>3,422</u>

The above table provides a reconciliation of the profit per F16 L59 to the change in reserves during the year ended 31 December 2010 as set out in F3.

0314 Inadmissible assets

Following a change in the presentation of deferred costs in the Company's IFRS accounts, as part of the process for aligning disclosures across the insurance companies within Lloyds Banking Group, these are now presented in the FSA return as inadmissible assets, through F3 L73. Previously deferred costs were presented as a deduction from the tier 1 capital, through F13 L33.

1100 Calculation of GICR

1200 Calculation of GICR

There are no contracts falling in long-term insurance business class IV or life protection reinsurance business.

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

***1304* Netting off debtor / creditor balances**

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

***1305* Counterparty limits**

***1319* Counterparty limits**

Other than for approved securities and investments in collective investment schemes falling under the UCITS directive, the maximum counterparty limit permitted by the insurer's investment guidelines at 31 December 2010 in respect of assets other than property linked assets was 20% of the long-term insurance business amount. The maximum counterparty limit permitted for exposures other than with approved counterparties was 5%. Both limits apply to long term business assets and other than long term business assets combined. There were no occasions during the financial year when either of those limits was exceeded.

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

There were no such exposures at the year end.

***1310* Netting off debtor / creditor balances**

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.

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

Other than assets held within the property linked funds, there were no such exposures at the year end.

***1318* Other asset adjustments**

The balance of F13 L101 comprises the following:

	£000
Liabilities held within the property linked funds	54,972
Management expense asset	(1,225)
Assets in respect of derivative contracts	6,754
	<hr/> 60,501

The above amounts are shown within liabilities in the Companies Act accounts under IFRS but are netted within Form 13 line 59.

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

***1318* Other asset adjustments**

The balance of F13 L101 comprises of a tax liability in the Shareholder fund of £1,875,000 which is part of a larger tax asset in the statutory accounts. This has also been adjusted in form 15 line 83

***1401* Provision for adverse changes**

No provision has been made 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. Variation margin payments in respect of index futures are settled daily on a mark to market basis. No other obligations to pay a monetary amount existed at 31 December 2010. The long term fund has not transacted in any non-approved derivative or quasi-derivative transactions during the period to 31 December 2010.

***1402* Other**

- (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 in respect of unrealised appreciation.
- (c) There is a contingent liability not included in Form 14 of £ 630,320,000 in respect of a financing loan from Scottish Widows plc and its accumulated interest. Additional details of this contingent liability are contained in supplementary note 4009.
- (d) At the balance sheet date the company had not provided any guarantees and indemnities or entered into any contractual commitments other than in the ordinary course of business.
- (e) There are no other fundamental uncertainties.

***1405* Other adjustments to liabilities**

	£000
Contingent loan referred to in note 0310	630,320
Mathematical reserves referred to in note 0310	(77,742)
Liabilities netted against Form 13, as referred to in note 1318	61,726
Management expense asset	(1,225)
	<hr/> 613,079

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

***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.

As no derivatives contracts are held by the Shareholder Fund no provision has been made for adverse changes.

***1502* Other**

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.

***1518* Other adjustments**

The balance of F15 L83 comprises of a tax liability in the Shareholder fund of £1,875,000 which is part of a larger tax asset in the statutory accounts. This has also been adjusted in form 13 line 101

***1601* Foreign currency translation**

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.

***1700* Form omitted from the Return**

The ordinary long term fund only holds derivatives within its property linked assets for efficient portfolio management purposes. The Shareholders Fund holds no derivatives.

***1800* Form omitted from the Return**

***1900* Form omitted from the Return**

No with-profits business is written by the company.

***4002* Other income and expenditure**

Other income relates to interest that has accrued on a loan from Scottish Widows plc and on the additional financing of the loan issued since 2001.

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

Other expenditure relates to annual management charges payable to the company's parent undertaking, investment property charges and custody fees.

***4004* Business transfers - out**

With effect from 1 January 2009, the Company ceased reinsuring linked life business from Scottish Widows and this business is therefore now retained by Scottish Widows plc. In order to achieve this, the linked life assets and liabilities of the Company were transferred to Scottish Widows plc under Case 5 of Section 105 (3) of Part VII of the Financial Services and Markets Act 2000 (as amended) on 1 January 2009. The financial impact of the transfer on the solvency position and surplus assets of the Company was minimal. The value of assets and liabilities transferred was £4,073m and £4,073m respectively.

***4008* Management services**

During the period 1 January 2010 to 31 December 2010 the administration of SWUF business is mainly carried out through Scottish Widows Services Limited. Investment management is carried out by Scottish Widows Investment Partnership Limited. Investment accounting and unit pricing is carried out by Scottish Widows Administration Services Limited.

***4009* Material connected-party transactions**

During the year the Company entered into the following material transactions with connected parties:

- a) 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 £2,904,242,000. The aggregate amount of claims paid during the year was £2,694,117,000.
- b) Under the same reinsurance agreement annual management charges were payable to Scottish Widows plc during 2010, and amounted to £41,352,000.
- c) Under the same reinsurance agreement the Company pays reinsurance commission to its immediate parent company, Scottish Widows plc. The total amount chargeable for 2010 was £194,769,000.
- d) Renewal commission is paid to Scottish Widows plc and amounted to £12,240,000 during the year.
- e) The Company pays investment management fees to Scottish Widows Investment Partnership Limited. The amount paid during the year amounted to £20,318,000.
- f) The Company pays management expenses to Scottish Widows Services Limited. The amount paid during the year amounted to £23,230,000.

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

- g) At the start of 2010, the Company had an outstanding contingent loan of £622,829,000 which included further advances of £123,370,000 to cover interest payments. During 2010, further interest of £7,491,000 became payable. The outstanding total at 31 December 2010 was therefore £630,320,000.
- h) The Company has received £104,464,000 during the year from Scottish Widows Unit Trust Managers Limited in dividends and management fee rebates.
- i) The Company has received £12,906,000 during the year from Scottish Widows Investment Partnership Fund Managers in dividends.
- j) The company has received £10,812,000 in interest on its holdings in the Global Liquidity Fund managed by Scottish Widows Investment Partnership.

4401 Asset valuation

Stock Exchange securities have been valued at the bid prices at the date of the Balance Sheet. Units in Collective Investment Schemes have been valued on a bid basis. Assets have been valued using quoted prices where possible. 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. Property is shown at open market value as assessed by independent qualified valuer at the Balance Sheet date. Other assets have been valued at cost.

4402 Derivative contracts

The aggregate value of rights under derivative contracts, gross and net of variation margin, as at 31 December 2010 are as follows:

	Assets	Liabilities
	£000's	£000's
Valuation gross of variation margin	2,302	(6,754)
Variation margin	(1,386)	3,164
Valuation net of variation margin	916	(3,590)

4403 Derivative contracts

All derivative contracts entered into allow the company to net off amounts outstanding.

4405 Negative liquidity

- a) No funds qualify

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

b) No funds qualify

***4502* Other Expenditure**

Form 45 Line 26 comprises of custody fees, bank overdraft interest and property expenses.

***4701* Group money purchase pensions property linked**

A trivial amount of series 4 (Retirement Account) business which should be included under Product Code 735 has been shown under Product Code 725 due to difficulties in accurately identifying the breakdown of the relevant policy details between 725 and 735

***4804* Weighted Average Yield**

Holding	Value £000	Yield (%)
AAA Global Liquidity Fund	12,762	0.67
Accrued interest not yet received	8	0.00
Other debtors	62,237	0.00
Total	<u>75,007</u>	<u>0.11</u>

***4901* Credit Rating**

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

***5100* Form omitted from the Return**

The Company has not issued non-linked contracts (other than accumulating with-profits policies).

***5200* Accumulating with-profits Contracts**

The Company accepts reinsurance in respect of Pensions Series 2 (Pre-Stakeholder) contracts transacted by Scottish Widows plc. These contracts may be accumulating with-profits, property-linked, or a hybrid combination of these benefit types. In respect of accumulating with-profits benefits the Company does not reinsure those benefits, but receives from Scottish Widows plc the annual management charges that are made in respect of such benefits, less allowance for investment expenses. (The Company does bear administration costs in respect of these contracts, including in respect of contracts that are accumulating with-profits or hybrids). These contracts have been included in Form 53.

Returns under Insurance Companies Legislation

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial year ended 31 December 2010

Supplementary notes to appendices 9.1 and 9.3

***5301* Group money purchase pensions property linked**

A trivial amount of series 4 (Retirement Account) business which should be included under Product Code 735 has been shown under Product Code 725 due to difficulties in accurately identifying the breakdown of the relevant policy details between 725 and 735

***5302* Miscellaneous Property Linked**

The reserves shown as Pensions miscellaneous property linked Code 795 are in respect of Reassurance Commission payable on new business expected to be written in the first quarter of 2011.

***5400* Form omitted from the Return**

The Company does not transact index-linked business.

***5600* Form omitted from the Return**

The Company does not transact index-linked business.

***5700* Form omitted from the Return**

The Company does not transact non-linked business so a Form 57 was not included. An analysis of the valuation interest rate for non-linked reserves is shown below.

	Net mathematical reserves (£000s)	Net valuation interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets
UK Pensions Form 53 Except Product Code 795	56,325	3.50%	3.50%	3.81%
UK Pensions Form 53 Product Code 795	50,170	0.00%	0.00%	0.68%

***5900* Form omitted from the Return**

No with-profits business is written by the company.

Scottish Widows Unit Funds Limited

Financial Year ended 31 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 Group Board. Controls are applied to ensure that the authorities delegated to the investment managers are not exceeded.

The use of derivatives is permitted for hedging the investment portfolio against adverse movements in underlying markets or effecting policy switches between markets without trading the underlying securities.

The use of derivatives is also allowed for the purpose of efficient portfolio management provided their substance would otherwise be permitted as a series of direct transactions.

- (b) Written authorities do not prohibit entry into derivative contracts which were not, at the time of entry, reasonably likely to be exercised. This is in order to ensure that investment managers are not prevented from entering into contracts that could enhance efficient portfolio management. There were however no such transactions entered into during 2010.
- (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 company during the year in return for granting rights under derivative or quasi-derivative contracts.

SCOTTISH WIDOWS UNIT FUNDS LIMITED

Financial period ended 31 December 2010

Statement required by Rule 9.30 of the Interim Prudential Sourcebook for Insurers: 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 UNIT FUNDS LIMITED

Abstract of the valuation report as required by rule 9.31

1 THE INVESTIGATION

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

2 PRODUCT RANGE

The company does not transact with-profits business.

The Company only transacts pensions business reinsured from Scottish Widows plc.

The following changes to the product range have occurred during 2010. The Company is responsible for providing the property-linked benefits in respect of the funds it operates and in respect of external linked funds.

In the case of Retirement Account, the business is marketed by Scottish Widows plc and that company incurs the acquisition costs. The Company makes a reinsurance commission payment to Scottish Widows plc and then receives the premiums paid by policyholders, excluding those in respect of certain rider benefits or in respect of property-linked funds not operated by the Company. The Company incurs the maintenance expenses and renewal commission for this contract.

Retirement Account

The Governed Investment Strategy investment option was launched for customers who receive advice at point of sale but no ongoing investment advice. There are three risk-based strategies (Cautious, Balanced and Adventurous) backed by the launch of three new funds, and each strategy is supported by lifestyle switching as customers approach retirement.

Investment Gateway

Investment Gateway was launched for Trustees of large Defined Contribution Pensions Schemes (typically with assets in excess of £100m). The product offers trustees access to a bespoke range of pension funds (typically passive tracker funds). The product fee will be deducted directly from the fund and / or by separate invoicing to the trustees. The Company only reinsures the investment part of this business.

3 **DISCRETIONARY CHARGES AND BENEFITS**

- (1) Not applicable
- (2) Not applicable.
- (3) Not applicable
- (4) Changes to service charges

The policy fees that apply to some unitised pension contracts are reviewed annually. The percentage increases with effect from 1 August 2010 were as follows:

Personal Pensions and AVCs	Regular Premium 2.8%	Single Premium 2.8%
Executive Pensions	Regular Premium 2.8%	Single Premium 2.8%

With the following exceptions there were no changes to other charges made by the Company on units in property-linked funds during 2010.

Where a property-linked fund is externally managed, the external manager's unit charges are reflected in the prices of units. During 2010 there were the following changes in the ranges of total charges (i.e. including those made within the company):

	<i>31/12/2011</i>	<i>31/12/2010</i>
Unitised Pensions Series 1	0.875% to 2.555%	0.875% to 2.056%
Unitised Pensions Series 2	1.000% to 2.680%	1.000% to 2.181%
Retirement Account	0.100% to 1.880%	0.100% to 1.566%

- (5) Not applicable
- (6) Not applicable
- (7) Internal linked funds

There are seven unit types for this company; Accumulation, Initial, Ordinary, Pre-Stakeholder (Series 2), Stakeholder (Series 3), Retirement Account (Series 4) and Investment Gateway.

In addition, the company offers investment in Private Managed Funds (PMF). These are operated to similar principles as for the above unit types, except that each unit has a constant value of £1 and units are created or cancelled to reflect movements in the value of the underlying assets. The principles are also simplified since each PMF corresponds to a single policy issued by Scottish Widows plc and the eventual policy proceeds will reflect the realisation value of the assets in the PMF at the time.

The entire business of the company represents reinsurance accepted from Scottish Widows plc and all units in issue at any time are allocated to Scottish Widows plc (i.e. Scottish Widows Unit Funds Limited does not maintain a box).

(a) Description of methods

The following applies to the seven unit types (excluding Private Managed Funds).

(i) Creation and cancellation of units

Creations and cancellations of units are determined in the morning of each business day by reference to the net unit transactions with Scottish Widows plc. At all times, the number of units in existence in a fund equals the number of units of the appropriate type in that fund allocated to Scottish Widows plc.

At each valuation of funds (see (iii) below) at which there is a creation of units in a fund a sum equivalent to the value of those units is added to that fund. For this purpose units are valued on the basis used to establish the upper value of that fund (the upper value is described in (iii) below).

At each valuation of funds at which there is a cancellation of units in a fund a sum equivalent to the value of those units is removed from the fund. For this purpose units are valued on the basis used to establish the lower value of that fund (the lower value is described in (iii) below).

(ii) Allocation and de-allocation of units

The following describes the method used at present for determining unit prices for the allocation, or the cancellation of the allocation, of units in property-linked funds. Units are allocated to Pensions Series 2 - 4 contracts in priority to units allocated to Scottish Widows plc in respect of other reinsured contracts.

(A) Accumulation, Initial, Ordinary and Investment Gateway

Units are allocated to Scottish Widows plc, or their allocation is cancelled, at the same time units in the fund are created or cancelled, as described in (i) above.

The creation price of a unit does not exceed the result of taking the upper value of the part of the appropriate fund represented by the type of unit, dividing it by the number of units of that type in that fund, without rounding.

The cancellation price of a unit does not exceed the result of taking the lower value of the part of the appropriate fund represented by the type of unit, dividing it by the number of units of that type in that fund, without rounding.

(B) Pre-Stakeholder (Series 2), Stakeholder (Series 3), Retirement Account (Series 4)

Prices are calculated for all units in the fund and are used when allocating and de-allocating units for the purpose of determining benefits under these reinsured policies.

The price of a unit does not exceed the result of taking the upper value of the part of the appropriate fund represented by the type of unit, dividing it by the number of units of that type in that fund and rounding the result to the nearest 0.1p.

The price of a unit is not less than the result of taking the lower value of the part of the appropriate fund represented by the type of unit, dividing it by the number of units of that type in that fund and rounding the result to the nearest 0.1p.

The price (before rounding) will usually be based on the upper value of the fund in the case of a fund for which the number of units allocated to policies is (short-term fluctuations apart) growing, and it will usually be based on the lower value if the number of units is (short-term fluctuations apart) falling.

If the number of units is starting to fall after having grown (or vice versa) the basis of the price may be adjusted gradually over a period from the upper value to the lower value (or vice versa).

The following normally applies in the case of allocations and de-allocations of units.

For fund switch instructions received before 12 noon on a business day the unit prices calculated at the valuation of funds on the following business day are used. For all other transactions where instructions are received before 12 noon on a business day unit prices calculated at the valuation of funds that same day are used.

For regular premiums or retirements at normal retirement date the unit prices calculated at the valuation of funds on the business day when the transaction is due to occur are used.

(iii) Valuations of funds

The following practice applies at present for the seven units types listed at the start of this section 3(7).

At each valuation upper and lower values of each fund are derived from the maximum and minimum values of the investments in that fund. In establishing these fund values appropriate allowance is made for:

- a) taxes, duties and other charges related to the acquisition or disposal of the assets of the fund,
- b) uninvested cash,
- c) accrued income,
- d) sums recoverable in respect of taxation, and
- e) all liabilities of the fund including money borrowed for the account of the fund, actual or prospective liability for taxes, duties or levies not previously taken into account, and charges accrued but not deducted.

These upper and lower values are applied to the allocation and de-allocation of units as described in (ii) above.

For the purpose of calculating the upper and lower values of each fund, the maximum value of an investment of a fund is the market price at which it might be purchased and the minimum value of such an investment is the market price at which it might be sold.

The values of securities are based on prices quoted on any stock exchange selected by the Company. For markets that are not open at the time of the valuation, the latest closing prices are used. For any security not so quoted, the value is based on

prices as quoted by such competent person, firm or corporation as the Company may reasonably consider to be fair.

The values of investments in real or heritable property are based on valuations prepared and certified at intervals not exceeding fifteen months by independent valuers. Variations in real or heritable property prices since the last such valuation are allowed for at least once a month.

(iv) Timing of the Valuation of funds

Each fund is valued at least once in each working week and most funds are normally valued each working day.

Funds are valued at 12 noon on each business day, except for funds originally established in Lloyds TSB Life Assurance Company Limited (LTSBL Heritage) which are valued at 2pm on each business day.

When a fund holds units in another Scottish Widows property-linked fund, that other fund is valued at the same time as the property-linked fund.

(b) Different pricing bases

Not applicable. The selection of 'upper' or 'lower' basis (see (ii) above) is made in respect of each fund as a whole.

(c) Funds invested in collective investment schemes

When a fund holds units in a collective investment scheme, the value of these assets is based on the most recent valuation of the underlying fund (usually the valuation is 8am, same day).

(8) Not applicable.

(9) Not applicable.

(10) Charges related to investment of internal linked funds in collective investment schemes

Other than externally-managed

Where an internal linked fund invests in units of a fund managed by Scottish Widows that is a permitted scheme interest, it buys and sells units in the second fund without the application of charges. This obviates any need for specific discounts, payment of commission or other allowances.

Except as noted below, while an internal linked fund continues to hold units or shares in such a second fund it receives refunds of any regular administration charges that are deducted from the part of the second fund represented by those units or shares. The exceptions are:

Where an internal linked fund holds shares in the Scottish Widows Investment Partnership Global Liquidity Fund plc, the rebate that it receives is partial such that a charge of 0.06% per annum is applied (a full rebate applies to the SW Pension Cash Fund, SW Pension Building Society Fund and LTSB Cash Pension Fund). A fund holds shares in the Scottish Widows Investment

Partnership Global Liquidity Fund plc only if the investment managers consider that the return, net of charges, is likely to exceed that available from suitable alternative investments (taking account of other factors such as security and liquidity).

The internal linked funds listed below receive no refunds of regular charges. The charges deducted from the second funds are payable to external fund managers of the funds into which those second funds are themselves invested. The relevant internal linked funds are:

SW Pension Multi-Manager International Equity Fund
SW Pension Multi-Manager UK Equity Focus Fund
SW Pension Multi-Manager UK Equity Growth Fund
SW Pension Multi-Manager UK Equity Income Fund
SW Pension Multi-Manager Global Real Estate Fund

Externally-managed

Where an internal linked fund invests in units of an externally-managed fund that is a permitted scheme interest, it may receive a negotiated rebate of part of the external manager's normal management charge. The amount of this rebate varies depending on which external manager and which fund within each external management group is involved.

All rebates are accrued on a daily basis to the relevant funds and therefore reflected in unit prices.

4 VALUATION BASES

- (1) The Company's liabilities for property-linked benefits, except for those relating to Pre-Stakeholder (including Institutional Investment Bond), Stakeholder and Retirement Account contracts, consist entirely of units in the various funds. These units have been valued at such prices as are required to ensure that the value of the liabilities in each fund is equal to the value of the assets of that fund.

For Pre-Stakeholder (including Institutional Investment Bond), Stakeholder and Retirement Account contracts the reserve is the value of the property-linked benefits (for both internal-linked and external-linked benefits), plus a non-unit reserve calculated in accordance with INSPRU 1.2, allowing for attributable expenses only (as shown in 4(6)) and using the parameters set out in 4(2) and 4(4) below. For Pre-Stakeholder (including Institutional Investment Bond) such non-unit reserves have been calculated both in respect of property-linked and accumulating with-profits benefits (the with-profits benefits themselves are not reinsured to the Company). A test has been carried out to verify that no further reserves are required in respect of non-attributable expenses.

- (2) The interest rate used for all business where non-unit reserves are calculated was 3.50% at 31 December 2010, and 4.00% at 31 December 2009.
- (3) Not Applicable

- (4) The mortality bases used for all business where non-unit reserves are calculated were as follows:

	31/12/2010	31/12/2009
Male	65% AMC00 ult	65% AMC00 ult
Female	65% AFC00 ult	65% AFC00 ult

The non-unit reserves have a low sensitivity to the mortality assumptions used and no reserve has been held for any possible detrimental impact of significant changes in the incidence of disease on the mortality experience assumed in the valuation.

- (5) Not Applicable
- (6) The following expense assumptions have been made. 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. The allowances shown are for attributable expenses.

Product code	Description	31/12/2010		31/12/2009	
		Allowance		Allowance	
		Per policy per annum	% reserves per annum	Per policy per annum	% reserves per annum
725	Individual pensions property linked – single premium / pup	£12.00	0.17%	£16.50	0.17%
725	Individual pensions property linked – regular premium	£12.70	0.17%	£16.20	0.17%
735	Group money purchase pension property linked - single premium / pup	£14.60	0.12%	£16.20	0.12%
735	Group money purchase pension property linked – regular premium	£16.40	0.12%	£18.10	0.12%

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

- (7) The following rates were assumed in the investigation and in the previous investigation.

	2010	2009
Unit Growth Rates before Charges (excluding Retirement Account) ¹	3.59%	4.05%
Unit Growth Rates before Charges (Retirement Account) ¹	3.19%	3.65%
Inflation Rate for Fixed Expenses	4.45% ²	4.75% ²

1 The unit growth rate shown in the table above is before management charges applied by the Company (they are shown after allowing for the effect of any management charges levied by external fund managers).

2 An additional 0.25% applies in the calculation to assess the requirement for a reserve for non-attributable expenses.

- (8) Not Applicable.

(9) Lapse and policy paid-up (PUP) rates:

Product code	Description		Average lapse-surrender-paid up rate (% pa) for the policy years			
			1-5	6-10	11-15	16-20
725	UL regular premium pension	PUP	20.0*	Nil	Nil	Nil
725	UL regular premium pension	Surrender	Nil	Nil	Nil	Nil
735	UL group regular premium pension	PUP	20.0*	Nil	Nil	Nil
735	UL group regular premium pension	Surrender	Nil	Nil	Nil	Nil
725	UL single premium pension	Surrender	Nil	Nil	Nil	Nil
735	UL group single premium pension	Surrender	Nil	Nil	Nil	Nil

*Conversion to paid-up (PUP) policy status is assumed to occur over four years from the valuation date (40% immediately, 20% after a year, 15% after two & three years, with the remaining 10% becoming paid-up after four years).

(10) Not Applicable.

(11) No derivative contracts were held at 31 December 2010, other than in internal linked funds. The value of the fund units take into account the derivative contracts.

(12) Not applicable. (There has been no change in valuation methodology).

5 OPTIONS AND GUARANTEES

(1) to (4) Not applicable

6 EXPENSE RESERVES

(1) Aggregate expenses loadings

The aggregate amount arising during the 12 months after the valuation date from the explicit reserves made in the valuation to meet expenses in fulfilling the reinsurance contract in force at the valuation date is approximately £65,700,000. It is made up as follows.

Homogeneous risk group	Implicit allowances (£m)	Explicit allowances (investment) (£m)	Explicit allowances (other) (£m)	Non-attributable expenses (£m)	Total (£m)
Unit-Linked and Unitised With-Profits Contracts	Nil	27.9	13.7	24.1	65.7

(2) There are no implicit allowances.

(3) Comparison with Form 43

The expenses shown in (1) above exceed those shown in line 14 of Form 43. The difference is mainly due to margins for adverse deviation in the former. The figures in (1) are also based on larger volumes of business as they are based on end of year policy numbers and volumes have increased over 2010.

(4) New business expenses

A reserve of £50,170,000 has been made in respect of the expenses of continuing to transact new business during the 12 months following the valuation date. This represents reinsurance commission payable on new business expected to be written in the first quarter of 2011 for which financing from Scottish Widows plc has been obtained under the Reinsurance Agreement. The Reinsurance agreement enables the company to draw new capital in respect of new business written. As a pure reinsurer, the Company does not incur other costs in relation to new business.

(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.
- An addition was made for possible, currently unplanned, project costs.
- A further 20% margin was added for adverse deviation.
- The assumption used for cost inflation includes a margin for adverse deviation. In addition, this was increased by 0.25% when testing whether an additional reserve was required for the non-attributable expenses. This allowed 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.
- Most of the loading for project costs would be expected to become available for other purposes as the range of projects would be restricted in the context of closure to new business.
- 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) Reserves for non-attributable expenses

In order to test whether an additional reserve was required for the non-attributable expenses, year by year aggregate future cash-flows (allowing for both attributable and non-attributable expenses) were generated for the unit linked and unitised with-profit contracts. The cash-flows were initially positive then gradually reduced and became negative much later on in the term. The present value of these cash-flows was greater than zero and hence no further reserve is required.

The following table shows the reserve for such expenses for each relevant risk group.

Risk group	Reserve for non-attributable expenses (£m)
Unit-Linked and Unitised With-Profits Contracts	NIL

7 MISMATCHING RESERVES

(1) Currency

All liabilities are expressed in Sterling.

Non-Unit Reserves matched by sterling assets (£000s)	106,495
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(2)-(3) Not applicable.

(4) The most onerous scenario applied under INSPRU 3.1.16R for assets invested in the UK and other assets invested outside the UK backing property linked liabilities, for the purpose of calculating the resilience capital requirement under INSPRU 3.1.10R is an 15.0% fall in the value of unit funds together with a rise in fixed interest yields of 0.798%.

(5) Not applicable.

(6) In respect of the scenario described in paragraph 7(4) an additional capital requirement has been made. Paragraphs (a), (b) and (c) below relate to the results of the most onerous scenario.

(a) The amount of the resilience capital requirement is £4,737,000.

(b) The aggregate amount of the long term insurance business liabilities, excluding property linked liabilities, increased by £254,000.

(c) The aggregate value of the assets allocated to match such liabilities in the scenario, excluding those used to match property linked liabilities, decreased in value by £4,483,000.

(7) Matching of assets and liabilities

No additional reserve arises from the test on assets in INSPRU 1.1.34R. The unit liability is matched by assets held in the property-linked funds. The non-unit reserves have been calculated so that, taking account of the assumed return on the assets covering the reserves, they are sufficient to cover any net outgo arising in any future period, and are covered by highly marketable approved securities.

8 OTHER SPECIAL RESERVES

Not applicable

9 REINSURANCE

- (1) There are no reinsurance treaties ceded on a facultative basis by the Company.
- (2) Not applicable
- (3) Not Applicable

10 REVERSIONARY BONUS

Not applicable.

Name of Company **Scottish Widows Unit Funds 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 Unit Funds 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
Chairman

.....
N L N Machray
Director

.....
C Clarke
Director

69 Morrison Street
Edinburgh
EH3 8YF

25 March 2011

Auditors' report: Regulatory Return for a life insurance company

SCOTTISH WIDOWS UNIT FUNDS

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, 13 to 17, 40 to 45, 48, 49, 58 and 60, (including the supplementary notes) on pages 1 to 20, 23, 24, 29 and 30 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on page 40('the statement'); and
- the valuation reports required by IPRU(INS) rule 9.31 on pages 42 to 52 ('the valuation reports').

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

- Forms 46, 47, 50, 53 and 55 (including the supplementary notes) on pages 21 to 22 and 25 to 28;
- the statements required by IPRU(INS) rules 9.30 on page 41; and
- the certificate required by IPRU(INS) rule 9.34(1) on pages 53 to 54.

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