ANNUAL REPORT

by the

BOARD

of

LONDON LIFE LIMITED

to its

WITH-PROFITS POLICYHOLDERS

on compliance with the

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

for the year ended 31 December 2009

Purpose

The Principles and Practices of Financial Management (PPFM) for London Life Limited (London Life) is a detailed document that sets out how London Life manages its with-profits business.

You will have been sent 'A Guide to How We Manage Our With-Profits Fund', explaining the main points of the PPFM.

The purpose of this report is to describe how London Life has complied with its PPFM in the period covered by the report. In particular, it deals with how London Life has exercised its discretion in areas such as setting annual bonuses, policy payouts and surrender values, and how it has addressed any competing or conflicting rights of policyholders and shareholders.

Independent Review

A With-Profits Committee (WPC) was formed in 2004 to review how the with-profits business is managed. The WPC is responsible for overseeing that the management of with-profits business is consistent with the PPFM. The WPC provides independent verification that processes followed and decisions taken are consistent with the PPFM. The WPC has seen and supports this report.

Summary

Insurance policies sold by London Life are classified as either 'with-profits' or 'non profit' policies. Payouts for with-profits policies depend on the discretion exercised by London Life, and therefore the interests of customers with these policies are protected by the requirement to treat customers fairly as described in the PPFM.

The With-Profits Actuary has a legal duty to advise London Life on the way it exercises its discretion over with-profits policies. Each year London Life has to produce a report such as this to the with-profits policyholders, summarising how this discretion has been used over the previous year.

Overall, we are able to say that London Life has complied with the PPFM in its exercise of discretion over with-profits policies.

The main areas of discretion are as follows. Each of these is expanded on in the sections below:

- Amounts Payable
- Investment strategy
- Business Risk
- Charges and Expenses
- Management of Inherited Estate
- New Business
- Equity between the with-profits fund and Shareholders
- Changes to the PPFM
- Communications to Policyholders

Amounts Payable

Bonus Rates

Bonuses are the additions that London Life makes to the value of your policy. They come in the form of annual bonuses (that may be added each year) and final bonuses (that may be added when the policy pays out). London Life sets bonus rates by reference to asset shares. The general aim is to pay the asset share.

Asset Shares

Asset shares are intended to be a reasonable approximation of the contribution a policy has made to the with-profits fund. Calculation of asset shares in 2009 followed the methodology set out in the PPFM.

Annual Bonus Rates

As in 2008, no annual bonuses were added to conventional compound bonus policies during 2009. Bonuses were added to life cash bonus policies, simple bonus pension policies and unitised policies during 2009. For unitised policies, interim annual bonuses are added in daily steps and the daily rates for interim annual bonuses were reviewed regularly during 2009. Funds managed under deposit administration have been increased by the credited rate of interest. All of these bonus rates comply with the PPFM.

Final Bonus Rates

Final bonus rates for conventional policies were changed once during 2009 with new final bonus scales being implemented from May. The final bonus rates were calculated using the methodology set out in the PPFM.

Final bonus rates and Market Value Reduction Factors ("MVRFs") on unitised policies were reviewed quarterly during 2009. The rates were calculated in accordance with the PPFM.

Surrender Values

Surrender values were changed once during 2009. The new surrender scales were calculated in accordance with the methodology set out in the PPFM.

Investment Strategy

London Life holds assets that it uses to make payments when policies pay out. London Life needs to invest these assets sensibly, so that it can afford to make payouts when they are due, but also must aim to earn an investment return on these assets so that bonuses can be paid.

During 2009, London Life continued to target the Equity Backing Ratio to 35% for certain classes of life with-profits policies (please refer to the PPFM). Although investment conditions were volatile during the year, the exposure to shares and property gives the prospect of higher long-term investment returns. London Life will keep this policy under review.

For some classes of life with-profit policies, the investment mix was adjusted in 2009 to remove the equity exposure. This followed a review of the business which led to the conclusion that the policies in question were unlikely to gain any benefit from exposure to equities.

The with-profits fund undertakes stock-lending activities. These activities generated losses in 2008 which have been partially reversed in 2009. These losses have not, to date, been borne by policyholder asset shares..

During 2009, London Life held a small number of non-investment grade bonds. The PPFM states that lower grade stock are monitored and liquidated shortly after a downgrade below A3 on the Moody's scale. The situation was monitored and following advice from our investment managers it was decided that it was not in the policyholders interest to sell these non-investment grade bonds and consequently they were retained. Although this is a technical breach of the PPFM, to date this decision has had a positive, but immaterial impact on policyholder benefits.

Business Risk

During 2009 London Life took on no significant risks that would be likely to jeopardise the interests of with-profits policyholders.

Charges and Expenses

The way charges and expenses were set was unchanged during the year. The Board is satisfied that the allocation of expenses and the charges deducted were in line with the PPFM.

Management of Inherited Estate

There was no payout of any estate to the shareholders during 2009.

New Business

During 2009 London Life sold no new with-profits business.

Equity between Policyholders and Shareholders

There was no change to the method used to split profit between with-profits policyholders and shareholders during 2009.

Changes to the PPFM

From 1 October 2009 certain life products in the active pool will have no exposure to Shares (UK or International) or Private Equity. Changes have been made to the PPFM to reflect the new investment mix.

Other minor changes were made to improve the clarity or presentation of the PPFM without materially affecting its substance.

Communications to Policyholders

Copies of the PPFM and the ‘customer friendly’ version of the PPFM were available on London Life’s website throughout 2009. In addition to the usual annual policy statements, a note regarding the PPFM changes was also communicated to with-profit policyholders.

Conclusion

The Board of London Life Limited believes that it has complied with the obligations relating to the PPFM.

London Life Limited
5 May 2010

With-Profits Actuary of London Life Limited

Annual Report to With-Profits Policyholders

for the year ended 31 December 2009

Purpose

The Principles and Practices of Financial Management (PPFM) for London Life Limited (London Life) is a set of rules that governs how London Life exercises discretion in relation to its with-profits policyholders.

London Life has discretion in a number of areas, such as setting annual bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of this report is to give my opinion as to whether London Life has taken the interests of with-profits policyholders into account in a 'reasonable and proportionate' manner in exercising this discretion during 2009.

The Board for Actuarial Standards has issued a standard (TAS R) which applies to reports produced by actuaries. My report is intended to comply with TAS R except that, in terms of completeness, I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the firm's own report to which my report is annexed

Conclusion

I consider that during 2009 London Life has taken the interests of with-profits policyholders into account in a reasonable and proportionate manner.

My opinion is based on the information provided by London Life during the year.

Kevin Arnott
With-Profits Actuary
5 May 2010