

**London Life Limited
With-Profits Fund**

**Annual report to with-profits policyholders by the Board of London Life Limited
for the period 1 January 2010 to 31 December 2010**

Purpose

We set out how we manage the London Life Limited With-Profits Fund in our Principles and Practices of Financial Management (PPFM). In this report we give details of how we have complied with the PPFM for 2010 for our With-Profits Fund ('the fund').

London Life Limited has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders. This report deals with how London Life Limited has exercised its discretion in these areas.

Background

The London Life Limited With-Profits Fund consists of former London Life products, post 1997 products and former AMP UK products.

Our PPFM is available on our website at www.london-life.com, or you can ask us for a copy. We have produced a shorter guide called 'A Guide to How We Manage Our With-Profits Fund' and this can be obtained in the same way.

Independent review

The company formally consulted with, and took into account the opinions of the With-Profits Actuary and the With-Profits Committee (a committee that is independent by virtue of its majority of independent members) regarding all material changes during 2010. This included consultation on the changes to bonus rates, surrender values and the estate.

Summary

Payouts for with-profits policies depend on the discretion exercised by London Life Limited. The interests of with-profits policyholders are protected by the PPFM of the company.

Each year the Board will produce a report to you, the with-profits policyholders, summarising compliance with the PPFM and how any discretion has been used over the previous year.

The main areas of discretion are as follows.

- Amounts payable
- Investment strategy
- Business risk
- Charges and expenses
- Management of inherited estate
- New business
- Equity between the with-profits fund and shareholders

These are expanded on in the sections below. In addition, there is a commentary on any changes to the PPFM and communications to with-profits policyholders during the year.

Amounts payable

- **Bonus rates**

Bonuses are the additions that we make 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). We set 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. The calculation of asset shares in 2010 followed the methodology set out in the PPFM.

- **Annual bonus rates**

As in 2009, no annual bonuses were added to conventional compound bonus policies during 2010. Bonuses were added to life cash bonus policies, simple bonus pension policies and unitised policies during 2010. For unitised policies, interim annual bonuses are added in daily steps and the daily rates for interim annual bonuses were reviewed regularly during 2010. 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 2010 with new final bonus scales being implemented from May 2010. 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 2010. The rates were calculated in accordance with the PPFM.

- **Surrender values**

Surrender values were changed once during 2010. The new surrender scales were calculated in accordance with the methodology set out in the PPFM.

Investment strategy

We hold assets that we use to make payments when policies pay out. We need to invest these assets sensibly, so that we can afford to make payouts when they are due, but also we aim to earn an investment return on these assets so that bonuses can be paid.

During 2010, we continued to target a combined proportion of higher risk investments such as company shares (equities) and property (the 'equity backing ratio') of 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 company shares (equities) and property gives the prospect of higher long-term investment returns. We will keep this policy under review.

The fund undertakes stock-lending activities. These activities generated losses in 2008 which have been partially reversed in 2009 and 2010. These losses have not, to date, been borne by policyholder asset shares.

During 2010, we held a small number of non-investment grade bonds. The PPFM states that lower grade stocks 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. The PPFM has been updated effective 1 January 2011 to reflect this strategy.

Business risk

During 2010, we 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 2010.

New business

During 2010, we sold no new with-profits business.

Equity between the with-profits fund and shareholders

There was no change to the method used to split profits between with-profits policyholders and shareholders during 2010. The shareholders' share of distributed profits for 2010 was £0.5m.

Changes to the PPFM during 2010

No changes were made to the PPFM in the calendar year 2010.

Communications to policyholders

During 2010, we provided with-profits policyholders with key information concerning annual bonuses with their annual statement.

Conclusion

It is the opinion of the Board that London Life Limited including the With-Profits Fund was, in all material respects, managed in accordance with the PPFM over 2010.

The With-Profits Committee has reviewed this annual report to with-profits policyholders and does not wish to make any additional or separate reports.

The Directors of London Life Limited

June 2011

Report to with-profits policyholders by the With-Profits Actuary of the London Life Limited With-Profits Fund for the period 1 January 2010 to 31 December 2010

Purpose

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

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

The purpose of my report to the company's with-profits policyholders of the With-Profits Fund is to give my opinion, as required by the rules of the Financial Services Authority, as to whether the company has taken the interests of these with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2010.

Conclusion

In my opinion, the company has taken the interests of the with-profits policyholders of the With-Profits Fund into account in a reasonable and proportionate manner in exercising this discretion during 2010.

My opinion is based on the information that the company provided to me during the year.

The Board of Actuarial Standards has published a number of Technical Actuarial Standards (TASs). My report, when considered alongside the information in the company's own report to which my report is annexed, together with other information provided to policyholders in relation to 2010, is intended to comply with TAS R (which relates to the reporting of actuarial information), TAS M (which relates to modelling) and TAS D (which relates to data).

Kevin Arnott
Fellow of the Institute of Actuaries
With-Profits Actuary
June 2011