

Registered Number 03116645

**WINTERTHUR LIFE UK LIMITED**

**Directors' Report and Financial Statements**  
**for the year ended 31 December 2011**



Registered Office Pixham End, Dorking, Surrey, RH4 1QA

Registered Number 03116645

**WINTERTHUR LIFE UK LIMITED**

**COMPANY INFORMATION**

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**DIRECTORS**

A M Parsons  
D E Hynam  
E B Bourke  
M R B Versey

**COMPANY SECRETARY**

Friends Life Secretarial Services Limited

**AUDITORS**

Ernst and Young LLP

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT**

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The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2011

**PRINCIPAL ACTIVITY**

The Company's principal business is the transaction of long-term insurance business (i.e. life insurance, investment products and pensions) in the United Kingdom. Sales, marketing and administration services are provided by Friends Life Services Limited ("FLS"). Following the sale of the Company during the year by AXA (UK) Limited, it is now part of the Friends Life group of companies ("Group") which transacts long-term insurance business.

**REVIEW OF ACTIVITIES**

On 24 June 2010, AXA entered into a conditional sale arrangement to sell the majority of its UK life and savings business to Friends Life Group plc ("FLG", formerly known as Friends Provident Holdings (UK) Limited) whose ultimate parent company is Resolution Limited ("Resolution"). The Company's long-term insurance business portfolio included both a legacy book of more traditional insurance products, which were included in the conditional sale agreement, together with actively-marketed wealth management products which were to be retained by AXA.

As a result of the deal, on 1 October 2011, the Company transferred £6,560m of insurance reserves together with the assets backing these reserves to AXA Wealth Limited ("AXA Wealth") in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 14 September 2011.

Under the same Part VII scheme, the Company also received the transfer of £36m of insurance reserves from AXA Wealth. This business was already fully reinsured into the Company. This therefore led to the cancellation of the reinsurance agreement between the two companies. This transfer had no further impact on the Company balance sheet.

Following the completion of the two Part VII transactions, control of the Company, which by then only contained the legacy book of more traditional insurance products including with-profits and corporate pensions business, was passed by its immediate holding company Winterthur Life UK Holdings Limited ("WLUKH") to FLG on 7 November 2011. As a requirement of the sale, the Company's two interest-bearing contingent loans from WLUKH were repaid prior to this date, as was the Company's interest-bearing loan to WLUKH.

The Company was then recapitalised by the immediate injection of a capital contribution of £45m in December 2011.

**FUTURE OUTLOOK**

The Company will continue to transact long-term insurance business for the foreseeable future.

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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**BUSINESS REVIEW**

*Business environment*

In the United Kingdom the life and savings market is a highly regulated mature market with distribution largely through third party intermediaries

The financial markets have experienced continuing volatility throughout 2011 as the UK economy has been impacted by the ongoing eurozone debt crises. The weakness of the economy, characterised by low levels of consumer confidence fuelled by public sector spending cuts and increased levels of taxation required to reduce the UK's fiscal deficit, has resulted in reduced volumes of new business across the insurance industry during 2011.

*Clients*

The Company targets individual clients. The Company's individual clients are concentrated in the higher socio-economic groups, typically investing in shorter term bonds or pension plans for the longer term. The Company also provides products to individuals who require financial protection against events such as illness or death.

*Products*

The Company offers a range of long-term insurance and investment products. Investment bonds provide packaged investment solutions to individuals in a life insurance wrapper. Individual and group pensions offer packaged investment vehicles for individuals to save towards retirement. Protection products are also offered, providing guaranteed pay-outs triggered by certain events such as death or illness in order to protect policyholders from future uncertainty.

*Distribution*

The Company's distribution is concentrated primarily in the Independent Financial Adviser ("IFA") or whole of market Adviser distribution channel.

*Value drivers*

The majority of new life and savings business in the UK is from a combination of non-profit business (i.e. protection and annuity business) and unit-linked business where annual charges are primarily based on a percentage of assets under management. With-profits business remains a significant component of the in-force book, although very little new business is written. Shareholder income on with-profits business is in proportion to the bonus declarations by the Company and reflects asset performance over time.

**WINTERTHUR LIFE UK LIMITED****DIRECTORS' REPORT (CONTINUED)****BUSINESS PERFORMANCE**

	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Total operating cash flow outflow *	<b>(67.5)</b>	<b>(13.9)</b>
Loss after tax	<b>(73.0)</b>	<b>(2.4)</b>
Capital resources available to meet regulatory requirements	<b>191.0</b>	<b>172.5</b>

\* excludes reinsured funds from Friends Life Company Limited ("FLC", a related party since the Company's acquisition by FLG) of £142m (2010: £176m), and amounts in respect of Part VII transfers

*Total operating cash flow*

Total operating cash flow is a non-GAAP key performance indicator which measures the value of net cash receipts from policyholders (i.e. cash flows in less cash flows out). It indicates whether the Company is gaining or losing funds under management as a result of policyholder transactions. The impact of deposit accounting in respect of investment contracts means that the premiums and claims included in the profit and loss account cannot be directly compared to the total operating cash flow figure shown in the previous table.

The decrease in total net operating cash flow results from the fact that the Company is not actively selling new policies caused both by strong competition within the market and an internal review of the go-forward corporate platform. This has contributed to the reduction in investment premiums against sustained outflows primarily in the area of policy surrenders.

*Profit after taxation*

A net loss arises from the movement in the technical account, details of which are set out on page 11 of these financial statements.

The loss after tax in 2011 includes a loss of £47.6m as a result of the Part VII transaction as set out in Note 3. The Company also experienced relatively poor investment market performance, with the FTSE all share index falling by 7% during the year in contrast to a gain of 11% during 2010. The Company also experienced increases in actuarial reserves reflecting the sustained period of low interest rates and the harmonisation of reserving assumptions with other life companies within the Friends Life Group.

*Capital resources*

Capital resources available to meet regulatory requirements represent the amount of admissible net assets available to meet the solvency requirements of the Company.

The increase in capital resources of £18.5m reflects the net impact of the repayment of contingent loans both to and from the Company by WLUKH (net decrease £10.1m), the receipt of a capital contribution of £45.0m from FLL, offset by the impact of harmonising reserving approaches particularly in the area of valuation interest rate and expense assumptions.

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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In addition to the above, the shareholder fund transferred cash in the amount of £23.6m into the non-profit fund in September 2011 and £45.0m in December 2011, in order to support the ongoing solvency requirements of the non-profit fund

**DIVIDENDS**

The directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010 £9.8m)

**PRINCIPAL RISKS AND UNCERTAINTIES**

The framework for risk management is described in Note 2 'Management of financial risk'

Members of senior management are responsible for identifying and evaluating key risks facing their areas of the business. Directors manage risks at both a segmental and individual business level. The key risks facing the UK segment are as set out below. Senior management is satisfied that there are appropriate arrangements in place to manage and mitigate them.

*Financial market and economic conditions*

The earnings and profitability of the Company's businesses are influenced by a number of factors including the performance and liquidity of investment markets, interest rate movements and inflation. A number of risk management techniques are used to mitigate the volatility from these factors. The Company cannot control extreme market events and these can affect the successful implementation of Company strategies. The Company's approach to the management of financial risk is given in Note 2.

*Regulation and legislation*

The Company operates in a highly regulated market. This regulation impacts on all aspects of business, including the design, marketing and distribution of products, the acceptance and administration of business and the capital that the Company is required to hold. Government policy on taxation can also impact on the design of products, on the ability to retain existing business and the reserves held for future liabilities. The Company faces regulatory uncertainty with the expected implementation of Solvency II, introduction of auto-enrolment and the Retail Distribution Review all expected to impact the Company over the next few years.

Additionally in March 2011 the European Court of Justice ("ECJ") announced that it had upheld the ruling on gender discrimination that results in insurers not being able to use gender related information to calculate insurance premiums and benefits. The ECJ has declared that the adoption of unisex premiums and benefits will apply with effect from 21 December 2012.

A transitional period has been granted to allow insurance companies sufficient time to adjust to the new legal framework and adapt its products and pricing policies accordingly. The Group has carried out a preliminary assessment of the ruling, but it is too early to quantify the impact at this stage. The Group will adopt the new requirements by 21 December 2012.

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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*Competitor activity and business model*

The Company operates in the UK which is a highly competitive market. The long-term success of the Group's business model envisages the achievement of a scale that allows margins to rise and payback periods to fall to levels that provide greater returns for shareholders. This must be achieved against a backdrop of strong competition and sometimes aggressive pricing that puts pressure on margins and working capital.

*Counterparty and third party risks*

The management of exposure to default risks associated with issuers of corporate debt and financial instruments and in relation to reinsurance transactions is set out in Note 2 to the financial statements.

*Reputation and contagion risks*

The reputation of companies within the Group can be affected by events that impact on organisations with which Group companies have business relationships, by internal process failures and by the consequences of external events. The actions of the Group's parent company (Resolution Limited) and its associates and partners can also have an influence on the Company's reputation and its ability to attract new business. In particular, uncertainty about the nature and timing of potential future transactions by Resolution in pursuit of its stated consolidation strategy within the UK life and pensions sector may impact the confidence of distributors in the UK franchise of Friends Life. The delivery of Friends Life's strategy and effective communication with key distribution partners remains central to the management of this risk, although the ultimate delivery of Resolution's strategy is outside the control of the Group.

*The timing and scale of the occurrence of insured events*

The nature of the business involves the underwriting of events whose occurrence cannot be accurately predicted. The management of these insurance risks is described in note 2 to the financial statements, but extreme events affecting mortality or morbidity may affect the Company's solvency, profitability and earnings.

*Other assumptions*

In addition to pricing for mortality and morbidity risks, as part of the processes to determine the value of long-term liabilities, the Company makes assumptions about other factors including lapse rates, interest rates and counterparty defaults. Assumptions are subject to rigorous review, with the use of stress testing of key parameters forming part of the processes used to calculate capital holdings. However, extreme movements in financial markets and in the broader economic environment may require certain assumptions to be recalibrated, impacting the earnings and other financial metrics.

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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**ACTUARIAL VALUATION**

A valuation of the long-term business fund was made as at 31 December 2011 which showed a surplus. A transfer of £5.8m (2010: £4.3m) of the surplus from the long-term business fund has been made to the shareholders' fund, comprising £2.3m from the with-profits fund (2010: £1.7m) and £3.5m from the segregated sub fund (2010: £2.6m).

**DIRECTORS AND OFFICERS**

The directors of the Company at the date of this report are shown on page 1.

Mr F de Ménéval resigned as a director on 28 June 2011.

Mr D R Cheeseman, Mr J P D L Drouffe, Mr P J, Evans, Mr M J Kellard and Mr A J Purvis all resigned as directors on 30 November 2011.

Mr A M Parsons, Mr D E Hynam, Ms E B Bourke and Mr M R B Versey were appointed as directors on 30 November 2011.

Friends Life Secretarial Services Limited was appointed as Company Secretary on 30 November 2011.

**INDEMNIFICATION OF DIRECTORS**

A parent company, FLG, maintains insurance cover with respect to directors' and officers' liabilities. In addition, qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) are in force for the benefit of directors within the Group and were in force for the benefit of former directors of the Group during 2011. Copies of the indemnity are available for inspection at the Company's registered office.

**PAYMENT OF CREDITORS**

All trade purchases are dealt with through group service companies, primarily Winterthur Financial Services Limited ("WFS") up until the Company's sale to FLG, but also Friends Life Services Limited ("FLS") subsequent to that date.

**STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

Each director in office at the date of approval of this report confirms that

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**WINTERTHUR LIFE UK LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

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**STATEMENT ON GOING CONCERN**

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the latest working capital forecasts and estimated forecast solvency. These forecasts have been subject to sensitivity tests and the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above. The ability to cope with unexpected risks to the financial position is shown within the Management of Financial Risks note on pages 27 to 39.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



**E. B. Bourke**

Director

20 March 2012

**WINTERTHUR LIFE UK LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WINTERTHUR LIFE UK LIMITED**

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We have audited the financial statements of Winterthur Life UK Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**WINTERTHUR LIFE UK LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WINTERTHUR LIFE UK LIMITED (CONTINUED)**

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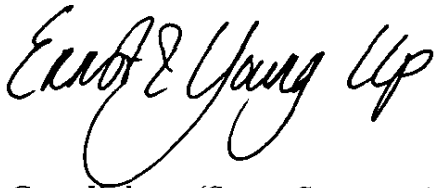
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to 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 financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Jasper Geert Kolsters (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
20 March 2012

**WINTERTHUR LIFE UK LIMITED**

**PROFIT AND LOSS ACCOUNT  
TECHNICAL ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

		2011	2010
	Note	£000	£000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	87,486	98,388
Outward reinsurance premiums		<u>(3,637)</u>	<u>(5,005)</u>
		83,849	93,383
<b>Investment income</b>	5	808,511	1,664,850
<b>Unrealised gains on investments</b>	5	-	102,164
<b>Other technical income, net of reinsurance</b>	6	72,158	79,913
		<u>964,518</u>	<u>1,940,310</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(262,314)	(261,884)
Reinsurers' share		26,894	30,058
		<u>(235,420)</u>	<u>(231,826)</u>
Change in the provision for outstanding claims			
Gross amount	19	(3,630)	4,464
Reinsurers' share	19	1,897	167
		<u>(1,733)</u>	<u>4,631</u>
		<u>(237,153)</u>	<u>(227,195)</u>
<b>Change in other technical provisions, net of reinsurance</b>			
Long-term business provision, net of reinsurance			
Gross amount		(63,038)	(20,064)
Reinsurers' share		16,536	11,444
		<u>(46,502)</u>	<u>(8,620)</u>
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities			
Gross amount	27	647,776	(1,462,124)
Reinsurers' share	27	453	(26)
		<u>648,229</u>	<u>(1,462,150)</u>
		<u>601,727</u>	<u>(1,470,770)</u>
<b>Net operating expenses</b>	8	(97,382)	(86,470)
<b>Investment expenses and charges</b>	5	(179,285)	(141,695)
<b>Net loss arising on Part VII transaction</b>	3	(47,572)	-
<b>Unrealised losses on investments</b>	5	(1,088,763)	-
<b>Tax credit / (charge) attributable to the long-term business</b>	9	7,334	(15,833)
<b>Decrease in present value of future profits on non-profit business written in the with-profits fund</b>		(875)	(1,474)
<b>Transfers from / (to) the fund for future appropriations</b>		1,970	(2,139)
<b>Balance on the long-term business technical account</b>		<u>(75,481)</u>	<u>(5,266)</u>

The information on pages 17 to 70 forms an integral part of these financial statements

**WINTERTHUR LIFE UK LIMITED**

**PROFIT AND LOSS ACCOUNT  
NON-TECHNICAL ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

		<b>2011</b>	<b>2010</b>
	Note	<b>£000</b>	<b>£000</b>
<b>Balance on the long-term business technical account</b>		<b>(75,481)</b>	<b>(5,266)</b>
Tax charge attributable to balance on long-term business technical account	9	<b>(4,795)</b>	<b>(2,564)</b>
Shareholders' pre-tax loss from long-term business		<b>(80,276)</b>	<b>(7,830)</b>
Investment income	5	<b>4,076</b>	4,675
Unrealised gains on investments	5	<b>495</b>	-
Investment expenses and charges	5	<b>(925)</b>	(130)
Unrealised losses on investments	5	<b>-</b>	<b>(620)</b>
<b>Loss on ordinary activities before tax</b>		<b>(76,630)</b>	<b>(3,905)</b>
Tax credit on profit on ordinary activities	9	<b>3,586</b>	1,456
<b>Loss on ordinary activities after tax</b>		<b>(73,044)</b>	<b>(2,449)</b>

The business transferred to AXA Wealth during the year was not managed as a separate business until the time of transfer. Therefore it is not possible to distinguish between income which arises from continuing and discontinued operations and accordingly no such analysis of the results is presented.

**Note on historical profits and losses**

Neither gains and losses of an insurance company arising on the holding or disposal of investments, nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the loss on ordinary activities before tax stated above and their historical cost equivalents.

The information on pages 17 to 70 forms an integral part of these financial statements.

**WINTERTHUR LIFE UK LIMITED****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2011**

		<b>2011</b>	<b>2010</b>
	Note	<b>£000</b>	<b>£000</b>
Loss for the financial year	24	<b>(73,044)</b>	(2,449)
Revaluation reserve - other	24	<b>515</b>	759
<b>Total recognised gains and losses relating to the year</b>		<b><u>(72,529)</u></b>	<b><u>(1,690)</u></b>

The information on pages 17 to 70 forms an integral part of these financial statements

**WINTERTHUR LIFE UK LIMITED****RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

		<b>2011</b>	<b>2010</b>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
<b>Total shareholders' funds at 1 January</b>		<b>146,091</b>	157,594
Loss for the financial year	24	<b>(73,044)</b>	(2,449)
Capital contribution received	24	<b>45,000</b>	-
Revaluation reserve – other	24	<b>515</b>	759
Dividend paid	24	-	(9,813)
<b>Total shareholders' funds at 31 December</b>		<b>118,562</b>	146,091

The information on pages 17 to 70 forms an integral part of these financial statements

**WINTERTHUR LIFE UK LIMITED****BALANCE SHEET AS AT 31 DECEMBER 2011**

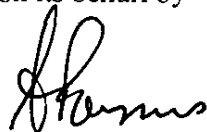
	Note	2011 £000	2010 £000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12	4,275	10,675
Investment in group undertakings and participating interests	13	1,397	882
Other financial investments	16	1,597,557	1,553,409
		<u>1,603,229</u>	<u>1,564,966</u>
<b>Present value of future profits on non-profit business written in the with-profit fund</b>		<u>19,859</u>	<u>20,734</u>
<b>Assets held to cover linked liabilities</b>	18	<u>5,398,079</u>	<u>12,633,837</u>
<b>Reinsurers' share of technical provisions</b>			
Long-term business provision		404,532	387,996
Claims outstanding	19	4,776	2,879
Technical provision for linked liabilities	27	1,685	2,051
		<u>410,993</u>	<u>392,926</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	20	10	136
Debtors arising out of reinsurance operations		586	590
Deferred tax asset	28	22,029	10,966
Other debtors	21	36,538	50,731
		<u>59,163</u>	<u>62,423</u>
<b>Other assets</b>			
Cash at bank and in hand		<u>10,175</u>	<u>5,007</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		16,133	17,596
Deferred acquisition costs	22	-	188,109
Other prepayments and accrued income		1,274	5,190
		<u>17,407</u>	<u>210,895</u>
<b>Total assets</b>		<u><u>7,518,905</u></u>	<u><u>14,890,788</u></u>

The information on pages 17 to 70 forms an integral part of these financial statements

**WINTERTHUR LIFE UK LIMITED****BALANCE SHEET AS AT 31 DECEMBER 2011**

	Note	2011 £000	2010 £000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	23	27,400	27,400
Capital contribution	24	154,000	109,000
Revaluation reserve	24	1,397	882
Profit and loss account	24	(64,235)	8,809
Total shareholders' funds		<u>118,562</u>	<u>146,091</u>
<b>Fund for future appropriations</b>		<u>32,911</u>	<u>34,881</u>
<b>Technical provisions</b>			
Long-term business provision		1,841,869	1,782,100
Claims outstanding	19	<u>32,355</u>	<u>37,451</u>
		<u>1,874,224</u>	<u>1,819,551</u>
<b>Other technical provisions</b>			
Technical provisions for linked liabilities	27	<u>5,394,495</u>	<u>12,624,181</u>
<b>Provisions for other risks</b>	28	<u>6,017</u>	<u>3,043</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		580	2,307
Creditors arising out of reinsurance operations		1,454	1,996
Other creditors including tax and social security	29	<u>60,715</u>	<u>139,644</u>
		<u>62,749</u>	<u>143,947</u>
<b>Accruals and deferred income</b>	30	<u>29,947</u>	<u>119,094</u>
<b>Total liabilities</b>		<u><u>7,518,905</u></u>	<u><u>14,890,788</u></u>

The financial statements were approved by the Board of directors on 20 March 2012 and were signed on its behalf by



**A. M. Parsons**  
Director

The information on pages 17 to 70 forms an integral part of these financial statements

**WINTERTHUR LIFE UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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**1. STATEMENT OF ACCOUNTING POLICIES**

The principal accounting policies are set out below.

**Basis of presentation**

The financial statements have been prepared in accordance with the provisions of Schedule 3 of The Large & Medium-sized Companies & Groups (Accounts & Reports) Regulations 2008 applicable to insurance companies.

The financial statements have also been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention as modified by the revaluation of land and buildings, derivatives and financial instruments at fair value through profit and loss as set out in these notes and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 2005 and revised in December 2006.

Compliance with Statement of Accounting Practice ("SSAP") 19 (Accounting for Investment Properties) requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is provided in the accounting policy note relating to investments below

Under FRS 1 (Cash flow statements (revised 1996)), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent undertaking which produces a consolidated cash flow statement which is publicly available

The Company has taken advantage of section 400 of the Companies Act 2006 and has not produced consolidated financial statements on the basis that it is a subsidiary undertaking of FLG which prepares consolidated financial statements.

The Company has applied all applicable accounting standards and interpretations effective at 31 December 2011. This includes the improvement to FRS 29 (Financial Instruments: Disclosure) which was effective for accounting periods beginning on or after 1 January 2011. This has resulted in increased disclosures around the collateral held to mitigate credit risk. There have been no new standards, changes to standards or interpretations which are effective for accounting periods beginning on or after 1 January 2011 that have a material impact on these financial statements

**Contract classification**

FRS 26 (Financial Instruments: Measurement) requires contracts issued by an insurer to be classified as insurance, investment with a discretionary participation feature ("DPF") or investment. Contracts classified as investment fall within the scope of FRS 26 whilst those classified as insurance or investment with DPF fall within the scope of the ABI SORP

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The Company issues contracts that transfer insurance risk or financial risk or both

Insurance contracts are those contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are at least 10% more than the benefits payable if the insured event did not occur. A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations under the contract expire.

Investment contracts are those contracts that transfer financial risk but do not transfer significant insurance risk. Unit-linked contracts where the liability under the contract is dependent on the value of the underlying financial assets, derivatives or investment property are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

All with-profits contracts contain a DPF which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses

- that are likely to be a significant proportion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the Company, and
- that are contractually based on
  - the performance of a specified pool of contracts or a specified type of contract,
  - realised and/or unrealised investment returns on a specified pool of assets held by the Company,
  - the profit or loss of the fund that issues the contracts

The terms and conditions of these contracts, together with UK regulations and the Principles and Practices of Financial Management ("PPFM") for the Company set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise discretion as to the quantum and timing of their payment to policyholders.

With-profits contracts or mixed policies containing both unit-linked and with-profits elements are classified as either insurance contracts or investment with DPF contracts depending on the level of insurance risk transferred.

Unitised policies which contain both unit-linked and with-profits elements are split in accordance with a Scheme approved by the High Court in 2001 (as amended in 2004) with the unit-linked liabilities in the non-profit fund and the with-profits liability in the with-profits fund. Both elements are classified as insurance contracts if there is a transfer of significant insurance risk. If there is not significant insurance risk then the unit-linked component is classified as investment and the unitised with-profits component is classified as investment with DPF.

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Where business is written via contracts with legal form of reinsurance, the contract is assessed to determine whether it transfers significant risk. For this assessment a significant transfer of persistency or expense risk can give rise to insurance risk.

**Insurance contracts and with-profits investment contracts**

***Premium income and commission***

Premiums, reinsurance premiums, commission and reinsurance commission are accounted for when due, other than those in respect of unit-linked policies.

Premiums in respect of unit-linked policies are accounted for in the same period the policy liabilities resulting from those premiums are created.

***Claims***

Maturities and annuities are accounted for when due, death and disability claims when notified, and surrenders when paid, except for unit-linked business, where such transactions are accounted for when the policy ceases to hold units in the fund.

Reinsurance recoveries are accounted for when the related claims become due.

***Acquisition costs and deferred acquisition costs***

The costs of acquiring new business written outside of the with-profits fund which are expected to be recoverable from future revenue margins are deferred and recognised in the balance sheet as deferred acquisition costs. For business written within the with-profits fund, acquisition costs are not deferred.

The deferred acquisition cost asset is amortised over the period in which the costs, net of the related deferred tax provision, are expected to be recoverable out of margins arising from the related policies. The rate of amortisation is consistent with the pattern of emergence of such margins.

***Long-term reinsurance contracts***

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

Certain outwards reinsurance contracts, which transfer significant insurance risks, relate in whole or in part to underlying investment contracts that are subject to deposit accounting. Deposit accounting has been adopted for those elements of reinsurance contracts that relate to direct written inwards contracts which are classified as investment contracts and which are deposit accounted for. This presentation has been adopted in order to remove the accounting mismatch.

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that would otherwise arise in the profit and loss account in respect of gross and reinsurance premiums and claims

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

**Present value of future profits on non-profit business written in the with-profit fund**

In determining the realistic liabilities for with-profit policies, an amount is included as an allowance for future bonuses that will be payable out of profits from non-profit business written within the with-profits fund. An asset is therefore recognised to represent the present value of future profits ("PVFP") arising on this business. These profits include profits expected to arise from margins for prudence in the gross premium valuation basis.

The value of the PVFP is determined in accordance with the FSA's 'realistic' liability regime. In particular, the methodology and assumptions are based on current estimates of future experience and current market yields. The value is also adjusted to remove the value of regulatory capital requirements in respect of the non-profit business.

**Unit-linked investment contracts**

Amounts received in respect of unit-linked investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder. Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities' (see separate accounting policy note).

Fees receivable (included in other technical income) are recognised in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided.

Incremental costs that are directly attributable to securing unit-linked investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised on a straight line basis allowing for expected level of surrenders.

In addition, expected future payments to intermediaries, which will be funded by future income from policyholders, are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised in line with actual payments to intermediaries.

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**Outwards investment contracts**

Long-term business ceded to reinsurers under contracts which do not transfer significant risk but have the legal form of reinsurance are classified as financial instruments. Deposit accounting is adopted in respect of these contracts and the reinsurance asset is shown under assets held to cover linked liabilities.

**Investment return**

Investment income and expenses include dividends, interest, rent, gains and losses on the realisation of investments and related expenses (including those on land and buildings). Dividends are recognised on the date which shares are quoted ex-dividend. Income from government and other fixed income securities, loans and deposits is recognised on an accruals basis. Shareholder investment income and expenses are recognised in the non-technical account. Investment income and expenses of the long-term insurance business fund are recognised in the technical account.

Unrealised gains and losses represent the difference between the most recent valuation at the balance sheet date and either the valuation at the last balance sheet date or original cost if purchased during the period, net of disposals during the period. Unrealised gains and losses on assets are taken to the profit and loss account. Those arising from long-term business or held to cover linked liabilities are recognised in the technical account. Other unrealised gains and losses arising are included in the non-technical account.

Realised gains and losses are calculated as sale proceeds less purchase cost.

Expenses incurred and interest payable on the management of investments are accounted for on an accruals basis.

Purchases and sales of financial assets are accounted for at trade date.

**Other income**

Other income is accounted for on an accruals basis.

**Investments**

***Land and buildings***

Land and buildings are valued at open market value. Full valuations are made by independent, professionally qualified valuers every year.

Under the Companies Act 2006, land and buildings are required to be depreciated over their expected useful economic lives. In respect of freehold investment properties and leasehold investment properties with over 20 years to run, this requirement conflicts with the generally

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accepted accounting principle set out in SSAP 19 that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. It is considered that if depreciation was charged it would not be significant on the basis of expected future residual values.

In respect of owner-occupied freehold properties, the directors consider that the lives of these assets and their residual values (based on prices prevailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is therefore not provided.

***Investments in group undertakings and participating interests***

Shares in subsidiary undertakings owned by the long-term fund are valued at current value with valuation movements going to the profit and loss account. Shares in subsidiary undertakings held by the shareholders' fund are valued at current value with valuation movements going to the revaluation reserve.

Loans issued to group undertakings are initially stated at fair value plus directly attributable transaction costs and are then subsequently valued at amortised cost using the effective interest method. The effective interest rate is determined by identifying the yield on financial instruments with similar terms and conditions to the loans being valued.

***Other financial investments***

The Company designates all its shares, other variable yield securities, units in unit trusts and open ended investment companies, debt securities and other fixed interest securities at fair value through profit and loss. The designation of investments is determined at initial recognition.

Financial assets are recognised when the Company becomes a party to the contractual provision of the instruments. For equities and debt securities, this is taken to be the trade date. Financial assets are derecognised when the Company's contractual rights to the cashflows of the financial assets expire provided that substantially all risks and rewards have been transferred. For equities and debt securities the derecognition date is taken to be the trade date of the sale transaction.

Investments in the long-term fund are recorded at fair value through profit and loss. This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities with the movements in the financial assets backing these liabilities. Investments in the shareholders' fund are recorded at fair value through profit and loss because the assets are managed and their performance evaluated on a fair value basis.

The fair values of investments listed in an active market are based on current bid prices at the balance sheet date. The fair values of other unlisted investments, including corporate debts, for which no active market exists, are established by the directors using valuation techniques. The valuations are generally provided by an external broker pricing service, using proprietary models,

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based on techniques using observable inputs. During the period, the Company has performed independent reviews of the pricing models to ensure that appropriate methodologies have been applied.

Loans, receivables, deposits with credit institutions and certificates of deposits are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. These instruments are classified upon initial recognition at fair value through profit and loss. This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities in the long-term business fund with the movements in the financial assets backing these liabilities. Where the assets are in the shareholders' fund the policy is appropriate because the assets are managed on a fair value basis.

**Derivative financial instruments**

Derivative financial instruments include futures, forward foreign exchange contracts, over the counter swaptions, credit default swaps ("CDS"), currency swaps, equity put and call options and interest rate swaps. They are classified as held for trading. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques including option pricing models which have certain inputs based on observable market prices. Over the counter derivative valuations are obtained from counterparties.

The fair value of CDS is obtained from the Sophis system, valued internally and independently from fund management. Spread data required in the valuation is provided by "Markit", an external, independent pricing data provider. Markit receives contributed CDS data from market makers from their official books and records. This data then undergoes a rigorous cleaning process where they test for stale, flat curves, outliers and inconsistent data.

Changes in the fair value of derivative instruments are recognised immediately in net fair value gains in the profit and loss account for the period. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions. Unrealised gains and losses on derivatives and financial instruments attributable to the long-term funds or held to cover linked liabilities are included in the long-term business technical account.

**Loans and receivables, including debtors**

Loans and receivables are initially recorded at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost, using the effective interest method. Debtors are accounted for as loans and receivables.

**Impairment of assets**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset accounted for at amortised cost is impaired and

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impairment losses are incurred only if there is objective evidence of impairment. This may be as a result of one or more events that have occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial assets.

**Allocation of surpluses and the fund for future appropriations**

Surpluses arising from participating (with-profits) business are ascertained as a result of the annual actuarial valuations of the related assets and liabilities. The directors make appropriations from the surpluses to participating policyholders by way of bonuses charged to the long-term business technical account in a given year and comprise

- New reversionary bonuses declared (which are guaranteed once credited) in respect of that year which are provided within the calculation of the long-term business provision, and
- Terminal bonuses (which are not guaranteed) paid out to policyholders on maturity, death or surrender and are included within claims paid.

The fund for future appropriations ("FFA") represents the excess of assets over policyholder liabilities for the Company's with-profit fund. The main components of this are the value of future shareholders' transfers on a realistic valuation basis, plus a deferred tax asset, less the expected support required from the segregated sub fund. The segregated sub fund is a separate pool of assets maintained to provide support for the with-profits fund.

The amount of appropriated surplus released to the non-technical account is determined by the directors in accordance with applicable laws and regulations.

**Long-term business provision**

The long-term business provision is calculated using recognised actuarial methods, with due regard to the actuarial principles set out in Council Directive 2002/83/EC.

The principal assumptions underlying the calculation of the long-term business provision for non-participating policies are detailed in Note 25 "Technical provisions". Further details on the realistic valuation for participating policies are disclosed in Note 2 "Management of financial risk".

**Technical provision for linked liabilities**

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives or investment property.

Unit-linked contracts which transfer significant insurance risk are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date, based upon the value of the underlying assets.

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Unit-linked contracts classified as investment contracts are carried in the balance sheet at amortised cost. The amortised cost of these financial liabilities is equivalent to the amount payable on demand. The Company considers this basis to be equivalent in all material aspects to the valuation of contracts which transfer significant insurance risk and to the fair value of the liabilities.

In addition to the above, allowance is made within the technical provision for linked liabilities for associated tax obligations having regard to their expected timing.

**Other financial liabilities**

Other financial liabilities are held at fair value on initial recognition and then subsequently valued at amortised cost using the effective interest method, with movements included in the profit and loss account.

Financial liabilities are recognised when the Company becomes a party to the contractual provision of the instruments. Financial liabilities are derecognised when the obligation specified in the instrument is discharged, cancelled or expires.

**Offsetting financial instruments**

Financial assets and liabilities are only offset when a legally enforceable right to offset exists and when there is either an intention to settle on a net basis or it is intended to realise the asset and settle the liability simultaneously.

**Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Foreign currency transactions are recorded at the actual rate of exchange prevailing on the date of the transaction and any exchange differences are dealt with in the part of the profit and loss account in which the underlying transaction is reported.

Non monetary items measured in terms of historical cost in a foreign currency are translated into sterling at the actual exchange rate at the date of the transaction. Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date of latest valuation.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax liabilities, using the incremental liability method, on material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax assets are recognised to the extent that they are

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regarded as recoverable. Deferred tax is calculated using rates substantively enacted at the balance sheet date. Deferred tax balances have not been discounted.

The balance transferred from the long-term business technical account to the non-technical account is grossed up at the effective shareholders' corporation tax rate applicable.

## **2. MANAGEMENT OF FINANCIAL RISK**

### **Overview**

The Company in the course of doing business is exposed to the following categories of risk:

- Financial risks including market risk, credit risk and liquidity risk, and
- Operational risks arising from inadequate or failed internal processes or from people, systems or external events. Operational risks include regulatory, financial crime, people, legal, information technology and business protection risks.

The Board of FLG, an intermediate holding company, has overall responsibility for the Group's risk management framework and for setting its risk appetite and risk policies. The Company's risk management framework is aligned with the Resolution Limited risk management framework. The Resolution Limited board have approved a set of risk management policies within which the Company operates.

Management is responsible for putting in place the ongoing management and monitoring disciplines for risks and activities under its control. Through these mechanisms, risks are identified in a timely manner, their financial implications assessed, control procedures re-evaluated and, where appropriate, actions agreed and implemented.

### **Hedge accounting**

There are no current or forecasted transactions for which hedge accounting is used.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****Main classes of financial assets**

The main classes of financial assets that the Company are exposed to are Equities and Debt Securities and funds invested in other Insurance Funds as set out below. A full reconciliation of these amounts to the balance sheet is found in Notes 16 and 18.

	2011 £000	2010 £000
<b>Financial assets</b>		
<b>Equities:</b>		
Other financial investments (Note 14)	363,390	388,301
Linked assets (Note 18)	<u>2,850,165</u>	<u>7,568,917</u>
	<u>3,213,555</u>	<u>7,957,218</u>
<b>Debt securities:</b>		
Other financial investments (Note 15)	1,132,208	1,072,415
Linked assets (Note 18)	<u>439,215</u>	<u>772,440</u>
	<u>1,571,423</u>	<u>1,844,855</u>
<b>Other insurance funds:</b>		
Linked assets (Note 18)	<u>2,022,197</u>	<u>4,173,652</u>

**Market risk**

Market risk can be defined as the risk that movements in market factors namely equity, bond, property and commodity prices, interest rates and foreign exchange rates impact adversely the value of, or income from, shareholder and policyholder funds.

For an insurance company market risk appetite is required to reflect the aim of retaining prudent margins to avoid insolvency. Other factors which are relevant to market risk strategies are meeting the regulatory duty to Treat Customers Fairly and the desire to optimise investment performance.

The Group manages market risk attaching to assets backing specific policyholder liabilities and to assets held to deliver income and gains for the shareholder. Within the unit-linked funds and with-profits funds, the Group manages market risk so as to provide a return in line with the expectations of policyholders. The principal objective for shareholder assets is to manage them so that they meet the capital requirements of the Group, and support its future strategic and operational objectives.

In order to control market risk, assets are chosen, where relevant, to match underlying liability characteristics such as duration, inflation (e.g. index-linked) and currency. The investment guidelines for each portfolio document the necessary constraints to help control the impact of price risks on the portfolio.

The Board sets appetite for market risk for each of the different asset classes taking account of the risk appetite set by the Resolution Board. Consideration is given to the objectives of the asset pools to which they relate and the nature of the liabilities backed by those assets.

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The market risk policy sets out how market risk should be managed and is primarily owned by the Chief Investment Officer. As part of the annual refresh of risk policies, the Chief Risk Officer, supported by the Head of Financial Risk, is responsible for ensuring that the policy is reviewed.

The Market Risk Policy is further embedded in the business through the operation of Investment Limits. These specify the permitted asset classes for investment, the limits for exposures to asset classes including bond exposures, cash exposures, derivative exposures, equity and other exposure and also limits in relation to interest rate risk, inflation risk, foreign exchange risk, implied and equity and interest rate volatility. The relevant limits are also reflected in investment guideline documents which are maintained for each fund.

To support the setting of Investment Limits, the Asset and Liability Management (“ALM”) function is responsible for carrying out strategic asset allocation studies on each block of business within a three year life cycle. This review considers risk appetite, capital requirements and other metrics.

The Investment Oversight Committee which is a sub-committee of the FLG Board oversees investment policy and strategy, which the Group controls primarily through the use of investment fund mandates. Day-to-day implementation of investment policy and strategy is managed by AXA Investment Managers UK Limited (“AXA IM”).

Mandates are set for each fund within each of the insurance legal entities within the Group taking account of the relevant factors outlined above.

*With-profits funds*

The investment strategy of the with-profits funds is set out in the PPFM. The overall strategy is to invest in a broad range of asset types with the intention of providing the best investment return for the policyholders subject to the nature of the funds and its liabilities. The financial strength of the funds influences the proportion invested in equities and properties.

*Non-profit funds*

The investment strategy adopted aims to ensure that even under extreme investment conditions there are sufficient assets to back the liabilities and the value of assets remains broadly aligned to the value of liabilities. This means that the duration of fixed interest assets is closely matched with the liabilities.

*Shareholder funds*

Shareholder funds invest in cash and collateralised loans designed to generate a return over that available on cash deposits at low level of price risk.

Derivatives are used to facilitate efficient portfolio management where their use is provided for

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in the relevant fund mandates

In order to monitor market risk, liability and asset profiles are subject to annual price risk stress and scenario testing to examine the impact of significant market movements on shareholders' and policyholder funds and the implications for supporting capital requirements

*Valuation risk*

Financial instruments held at fair value are valued based on a range of methodologies set out in Note 1

*Determination of fair value hierarchy*

In accordance with the revised requirements of FRS 29 (Financial Instruments Disclosures), financial assets at fair value have been classified into three categories as set out below. Financial assets at fair value include shares and other variable yield securities, government securities, corporate bonds (including asset-backed securities), derivative financial instruments and deposits with credit institutions

**Level 1 – quoted prices (unadjusted) in active markets for identical assets** An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities and bonds in active markets and quoted unit trusts/open ended investment companies.

**Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices)** This category generally includes assets that are priced based on models using market observable inputs. Examples include certificates of deposit and derivatives

**Level 3 – inputs for the asset that are not based on observable market data** Assets with single price feeds and/or limited trading activity are included in this category. Examples include unlisted equities and private equity

The revised requirements of FRS 29 also require financial liabilities at fair value to be categorised into the above level 1, 2 or 3 hierarchies. Financial liabilities at fair value include derivative financial instruments. The classifications take into account the types of inputs used to determine the fair value measurements

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An analysis of financial assets and liabilities held at fair value in accordance with the fair value hierarchy is set out below

	2011			Total Fair Value
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets</b>				
Shares and other variable yield securities and holdings in collective investment schemes	5,046,792	186,772	-	5,235,752
Debt securities and other fixed income	1,255,434	315,989	-	1,571,423
Loans secured by mortgages	-	-	26,543	26,543
Other loans to policyholders	-	-	5,037	5,037
Deposits with credit institutions	-	49,440	-	49,440
Derivative assets	16,493	39,949	-	56,442
Cash	-	10,175	-	10,175
Total financial assets at fair value	<b>6,318,719</b>	<b>602,325</b>	<b>33,768</b>	<b>6,954,812</b>
<b>Financial liabilities</b>				
Derivative liabilities	<b>(2,716)</b>	<b>(8,831)</b>	-	<b>(11,547)</b>
	2010			Total Fair Value
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets</b>				
Shares and other variable yield securities and holdings in collective investment schemes	11,103,381	1,027,489	-	12,130,870
Debt securities and other fixed income	1,450,429	394,426	-	1,844,855
Loans secured by mortgages	-	-	26,737	26,737
Other loans to policyholders	-	-	5,447	5,447
Deposits with credit institutions	-	66,781	-	66,781
Derivative assets	36,340	10,989	-	47,329
Cash	-	5,007	-	5,007
Total financial assets at fair value	<b>12,590,150</b>	<b>1,504,692</b>	<b>32,184</b>	<b>14,127,026</b>
<b>Financial liabilities</b>				
Derivative liabilities	<b>(1,618)</b>	<b>(8,415)</b>	-	<b>(10,033)</b>

During the period, equities and debt securities amounting to £12.8m and £69.1m respectively were transferred from Level 1 to Level 2. Further transfers of equities and debt securities amounting to £481.2m and £127.2m respectively were made from Level 2 to Level 1. These

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changes arose from market activity and the changes in liquidity assessments. There were no significant changes between Level 1 and Level 2 for other financial assets.

The reconciliation of movement in financial instruments categorised as level 3 is as follows

<b>2011</b>						
	<b>At 1 January 2011 £000</b>	<b>Total gains / (losses) in P&amp;L £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Transfers (to) / from Level 1 &amp; 2 £000</b>	<b>At 31 December 2011 £000</b>
<b>Financial Assets</b>						
Shares and other variable yield securities and holdings in collective investment schemes	-	-	41	-	2,147	<b>2,188</b>
Loans secured by mortgages	<b>26,737</b>	19	-	(213)	-	<b>26,543</b>
Other loans to policyholders	<b>5,447</b>	-	-	(410)	-	<b>5,037</b>
<b>Total</b>	<b>32,184</b>	<b>19</b>	<b>41</b>	<b>(623)</b>	<b>2,147</b>	<b>33,768</b>

<b>2010</b>						
	<b>At 1 January 2010 £000</b>	<b>Total gains / (losses) in P&amp;L £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Transfers (to) / from Level 1 &amp; 2 £000</b>	<b>At 31 December 2010 £000</b>
<b>Financial Assets</b>						
Shares and other variable yield securities and holdings in collective investment schemes	148	-	-	(148)	-	-
Loans secured by mortgages	23,068	3,878	-	(209)	-	<b>26,737</b>
Other loans to policyholders	6,099	-	-	(652)	-	<b>5,447</b>
<b>Total</b>	<b>29,315</b>	<b>3,878</b>	<b>-</b>	<b>(1,009)</b>	<b>-</b>	<b>32,184</b>

*Interest rate risk*

The Company is exposed to fair value interest rate risk where changes to interest rate result in changes to fair values rather than cash flows. Bond related performance benchmarks within fund mandates are generally set so that asset profiles and hence interest rate risk is minimised.

Management of interest rate risk for the Company investments managed by AXA IM is largely

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undertaken by ALM, which is responsible for monitoring and managing net asset-liability interest rate risk across all of the Group

**Currency risk**

The Company is exposed to currency risk in respect of portfolios denominated in other currencies. Consequently the Company is exposed to the risk that the exchange rate of its presentational currency relative to other currencies may change in a manner that has an adverse effect on the value of the Company's financial assets and liabilities. Mitigation of this risk is achieved by matching the liabilities with assets in the same currency.

For unit-linked contracts, the currency risk is borne by the policyholder.

Business is transacted mainly in the United Kingdom and all business is denominated in sterling except for the Irish Life reinsurance arrangement which is denominated in Euros (and for which no new business is written). The amount included in the long-term business provision relating to Irish Life is £13.5m (2010: £18.4m). The currency exposure on this business is managed through asset and liability matching such that the net currency risk is not material.

The Company also has a loan to 787 Holdings LLC which is secured on property and denominated in US dollars. The amount included in other financial investments in respect of this loan is £26.5m (2010: £26.7m). The currency exposure on this loan is mitigated by a cross currency swap.

**Credit risk**

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades. Credit risk can arise from investment related assets or from non-investment related assets. Policies exist for the control of investment related credit risk and for non-investment related items. All financial assets are considered to be of an acceptable quality in accordance with company policy.

The Company is exposed to investment credit risk on its investment portfolio, primarily from investments in corporate bonds. Creditworthiness assessment for new and existing investments is largely undertaken on behalf of the Company by AXA IM. In their decision making, AXA IM will assess the extent of investment credit risk allowed by each fund as set out in the fund mandates and relative to defined performance benchmarks.

Derivatives purchased over the counter have the potential to expose the Company to substantial credit risk but this risk is significantly reduced through collateral arrangements with counterparties. The ALM function is responsible for recommending derivative strategies to the Board, and assisting other teams to put into place the appropriate internal management processes. The Company will endeavour only to transact over the counter derivatives with highly rated counter parties.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

Collateral is received from the derivative counterparty if the sum of all contracts held with the counterparty are in-the-money (i.e. is an asset to the Company). The Company has a legal right to this collateral if the counterparty does not meet its obligations but has no economic benefit from holding the assets and the counterparty may, at any time, substitute the collateral delivered with another asset of the same value and quality. It is repayable if the contract terminates or the contract's fair value falls. Contractual agreements between the Company and each counterparty exist to protect the interests of each party, taking into consideration minimum threshold, asset class of collateral pledged and the frequency of valuation. At 31 December 2011 the fair value of such collateral held was £33.6m (2010: £3.6m). This reduced exposure to these financial instruments by £30.7m (2010: £3.6m) leaving a remaining exposure to these derivative assets of £0.2m (2010: £0.6m). No collateral received from counterparties has been sold or repledged.

For investment related items, credit risk is actively accepted in anticipation of the potential returns to be made on the investments. The level of credit risk to which the portfolios are exposed is controlled to limit the exposure to any one counterparty and, in the case of fixed income and cash instruments, to limit total exposure to issuers with lower credit ratings.

An indication of the Company's exposure to credit risk is the credit quality of the investments that it holds. The Company is most exposed to credit risk on debt securities. The below table provides information regarding the external credit ratings of debt securities. Any unrated debt securities are included in the "below BBB" category.

<b>Ratings</b>	<b>2011 £000</b>	<b>%</b>	<b>2010 £000</b>	<b>%</b>
AAA	1,041,501	66.3	1,248,420	67.7
AA	39,578	2.5	79,887	4.3
A	259,295	16.5	280,961	15.2
BBB	217,862	13.9	223,459	12.1
Below BBB	13,187	0.8	12,128	0.7
<b>Total</b>	<b>1,571,423</b>	<b>100.0</b>	<b>1,844,855</b>	<b>100.0</b>

The total amount of financial assets exposed to credit risk, which includes debt securities, deposits with credit institutions, reinsurers' share of technical provisions, investments in funds of other insurance companies, loans, receivables and cash is £4,113.2m (2010: £6,538.2m).

Of £7,025.2m (2010: £14,216.5m) of financial assets held by the Company at the balance sheet date £7,005.8m (2010: £14,192.3m) is held at fair value through profit or loss, and therefore reflects any changes in value. The remaining £19.4m (2010: £24.3m) are held at amortised cost, and of those assets no amounts are past due but not impaired, and £nil (2010: £nil) have been impaired. All financial assets that are neither past due nor impaired are considered to be of acceptable credit quality in accordance with company policy.

The exposure of the Company to the governments of Portugal, Ireland, Italy and Spain in shareholder and non-profit funds at 31 December 2011 and 2010 is set out in the table below. Where the Company holds securities issued by financial companies, it has considered the

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

Company's financial strength and the ability of the domicile government to provide financial support in the event of stress. There is no exposure to Greece.

	2011			2010		
	Govt debt £000	Corporate debt £000	Total £000	Govt debt £000	Corporate debt £000	Total £000
Portugal	-	2,233	2,233	-	2,774	2,774
Ireland	-	-	-	-	461	461
Italy	-	11,988	11,988	-	13,045	13,045
Spain	7,841	6,939	14,780	7,972	3,804	11,776
Total	7,841	21,160	29,001	7,972	20,084	28,056

Non-investment items which generate credit risk generally arise as a by-product of the Company's insurance operations. Items covered by the non-investment credit risk policy include balances with external reinsurers, loans and advances to intermediaries, commission debts, policyholder premium debts, policyholder loans and other operational debts. Exposure to credit risk is controlled via the operation of a number of processes including external reinsurer selection and monitoring procedures, requirements for security over loans, and the active monitoring of premium debt.

At 31 December 2011, the Company has invested £2.0bn (2010: £4.2bn) of the assets backing its pension unit-linked liabilities with external providers of investment funds ("fund reinsurers"). The risk of default by the fund reinsurers is small but the size of the exposure is significant. The biggest exposure to a fund reinsurer at 31 December 2011 is £1.4bn (2010: £2.4bn), with Blackrock Advisors (UK) Limited. Exposures to the fund reinsurers are monitored on a monthly basis.

The Company has entered into a floating charge agreement with each of the fund reinsurers whereby the Company ranks (as a reinsurance policyholder) equally with direct policyholders.

The Company has developed processes to formally examine all reinsurers before entering into new business arrangements with them. Counterparty limits are set for each reinsurer and these limits are monitored.

The Company reinsures most of its immediate annuity liabilities. The reinsured reserve under this treaty as at 31 December 2011 was £391.6m (2010: £375.6m). The credit risk has been significantly mitigated, in respect of this transaction, by the use of collateralised security that would allow the Company to recover the bulk of the amounts paid to the reinsurer to cover future annuity liabilities, in the event of the insolvency of the reinsurer.

At the reporting date there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including reinsurance assets in the balance sheet plus the credit risk on the fund reinsurers.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****Liquidity and cash flow risk**

Liquidity or cash flow risk is defined as the risk that the Company, irrespective of solvency and profitability, may not have sufficient available cash (or near cash assets or funding facilities) to enable the Company to meet policyholder, government, regulatory or operational obligations as they fall due. This risk could arise as a result of illiquid asset holdings, inappropriate asset / liability matching, or inaccurate assessments of potential operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer term liquidity.

Liquidity risk in the Company is controlled via the requirements of the Group that business units carry out periodic liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business. These reviews incorporate the results of appraisals by the investment managers who monitor liquidity of the investment portfolios on an ongoing basis. The approach is reviewed and updated to reflect current and expected market conditions. Operating cash flow is also monitored on a daily basis.

Assets with no stated maturity are available to address liquidity requirements across all periods,

<b>Maturity analysis</b>	<b>Less than 1 year £000</b>	<b>1 – 5 years £000</b>	<b>Over 5 years £000</b>	<b>No stated maturity £000</b>	<b>Total £000</b>
<b>2011</b>					
<b>Financial assets</b>					
Equities	-	-	-	5,235,752	5,235,752
Debt securities	96,441	373,141	1,100,959	882	1,571,423
Deposits with credit institutions	-	-	-	49,440	49,440
Loans	2,330	3,245	26,005	-	31,580
Receivables	32,190	-	-	-	32,190
Investments in group undertakings	-	-	-	1,397	1,397
Reinsurance asset	586	-	-	-	586
Cash	-	-	-	10,175	10,175
Derivatives	4,462	14,956	37,024	-	56,442
Other	-	-	-	36,216	36,216
<b>Total financial assets (see Note 16)</b>	<b>136,009</b>	<b>391,342</b>	<b>1,163,988</b>	<b>5,333,862</b>	<b>7,025,201</b>
Reinsurers' share of technical provisions	38,656	98,345	273,992	-	410,993
<b>Total</b>	<b>174,665</b>	<b>489,687</b>	<b>1,437,980</b>	<b>5,333,862</b>	<b>7,436,194</b>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

Maturity analysis 2010	Less than 1 year £000	1 – 5 years £000	Over 5 years £000	No stated maturity £000	Total £000
Financial assets					
Equities	-	-	-	12,130,870	12,130,870
Debt securities	82,653	436,308	1,279,456	46,438	1,844,855
Deposits with credit institutions	-	-	-	66,781	66,781
Loans	2,311	3,151	26,688	34	32,184
Receivables	50,806	-	-	-	50,806
Investments in group undertakings	-	-	-	882	882
Reinsurance asset	-	-	-	590	590
Cash	-	-	-	5,007	5,007
Derivatives	14,564	22,871	9,894	-	47,329
Other	-	-	-	37,207	37,207
Total financial assets (see Note 16)	150,334	462,330	1,316,038	12,287,809	14,216,511
Reinsurers' share of technical provisions	36,658	97,225	259,043	-	392,926
<b>Total</b>	<b>186,992</b>	<b>559,555</b>	<b>1,575,081</b>	<b>12,287,809</b>	<b>14,609,437</b>

Contractually all investment contract liabilities are repayable on demand and would fall into the "less than 1 year" category if analysed on that basis. The maturity analysis below shows the expected maturity of liabilities based on experience of customer behaviour together with the contractual maturity of creditors.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

<b>Maturity analysis</b>	<b>Less than 1 year £000</b>	<b>1 – 5 years £000</b>	<b>Over 5 years £000</b>	<b>Total £000</b>
<b>2011</b>				
<b>Financial liabilities</b>				
Investment contract liabilities	201,186	511,383	4,231,097	4,943,666
Investment contract liabilities with DPF – with-profits element	6,949	34,851	100,640	142,440
Creditors	62,749	-	-	62,749
<b>Total</b>	<b>270,884</b>	<b>546,234</b>	<b>4,331,737</b>	<b>5,148,855</b>

<b>Maturity analysis</b>	<b>Less than 1 year £000</b>	<b>1 – 5 years £000</b>	<b>Over 5 years £000</b>	<b>Total £000</b>
<b>2010</b>				
<b>Financial liabilities</b>				
Investment contract liabilities	514,707	1,565,049	10,047,992	12,127,748
Investment contract liabilities with DPF – with-profits element	9,437	33,991	96,092	139,520
Creditors	74,141	37,981	31,825	143,947
<b>Total</b>	<b>598,285</b>	<b>1,637,021</b>	<b>10,175,909</b>	<b>12,411,215</b>

The Company has financial liabilities which contain a discretionary participation feature arising as a result of investment within the Company's with-profits fund. The element of the carrying value of these instruments linked to the investment in the with-profits funds is disclosed in the table above at the realistic valuation required under FRS 27 (Life Assurance). The Company cannot measure reliably the fair value of these financial liabilities due to the lack of a reliable basis to measure the supplemental discretionary returns arising on with-profits contracts and because there is not an active market for such instruments.

**Sensitivities**

The Company uses a number of sensitivity based risk management tools to understand the volatility of earnings and capital management requirements, and to manage its capital efficiently. The key management metric measuring the risk adjusted value of the business and tracking its evolution over time is Market Consistent Embedded Value ("MCEV").

Prior to its sale to Resolution in 2011, the Company used European Embedded Value ("EEV") as the basis for calculations. The move to MCEV has introduced a few changes in assumptions, particularly around the valuation of non-financial risks. However these are not considered material enough to restate 2010 numbers.

The calculation methodology uses a "market-consistent" approach to setting asset return assumptions. Each cash flow is discounted at an appropriate discount factor. Mechanically, this

**WINTERTHUR LIFE UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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can be described as assuming that all assets will earn the risk-free rate (based on UK swap curve) adjusted to include an illiquidity premium of 90bps on annuity business

The major assumptions include

- “Best estimate” demographic assumptions based on recent experience and where appropriate long term trends,
- Expense assumptions are based on experience which has been adjusted for non-recurring expenses and one-time strategic spending. The impact on direct expenses of service agreements with third party providers is also taken into account in calculations,
- Some benefit from future mortality improvement is included, while annuity business includes an allowance for the costs of longevity increasing in all markets, and
- Non-financial risks are allowed for based on Individual Capital Assessment (“ICA”) capital requirements. Under EEV, non-financial risks were provided for through the cost of holding capital consistent with the level to obtain an AA rating at each operation

The sensitivity of the MCEV has been calculated for changes in major economic assumptions. The sensitivities are applied one at a time rather than in combination.

The sensitivities monitored are set out below

*Upward parallel shift of 100 basis points in reference interest rates*

This simulates a sudden shock to the initial conditions. This means changes to 1) the current market values of fixed-interest assets, with related possible changes to projected capital gains/losses and/or fee revenues, 2) future reinvestment rates for all asset classes, and 3) risk-discount rates. Inflation rates are not changed in this analysis. Policyholder and management behaviour is adjusted following normal behavioural modelling, and may not be wholly consistent with these conditions.

*Downward parallel shift of 100 basis points in reference interest rates*

This is the same as above but with a shift downward. Where the shift of 100 basis points would drop rates below 0%, the calculations assume a reference rate of 0%.

*10% higher value of equity and property markets at the start of the projection*

This simulates a shock to the initial conditions for equities and properties. This means changes to current market values of equities and properties, with related possible changes to projected capital gains/losses and/or fee revenues. Policyholder and management behaviour is adjusted to be consistent with these conditions.

*10% lower value of equity and property markets at the start of the projection*

This is the same as above but a decrease

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS***10% reduction of the value of sterling against other currencies*

This simulates a shock to the initial conditions. It is calculated using the equity sensitivities with the related possible changes to projected capital gains/losses and/or fee revenues. Policyholder and management behaviour is adjusted to be consistent with these conditions.

*10% increase of the value of sterling against other currencies*

This is the same as above but with an increase in the value of overseas assets.

*Widening of credit spreads by 100bps*

This simulates a widening to the spreads of corporate bonds held by the company. This means changes to the value of corporate bond assets (held in free surplus and required capital) are modelled. For annuities, the illiquidity premium of 90bps is stressed by an increase of 30bps as an approximate allowance for the impact of a change in credit spreads on annuity business. Policyholder and management behaviour is adjusted following normal behavioural modelling, and may not be wholly consistent with these conditions.

*Narrowing of credit spreads by 100bps*

This is the same as above but with a narrowing of the spreads.

The table below provides a summary of the estimated impact on MCEV of these sensitivities.

	<b>2011 £m</b>	<b>2011 %</b>	<b>*2010 £m</b>	<b>*2010 %</b>
Base calculated MCEV	<b>315</b>	<b>100</b>	440	100
Estimated upward parallel shift of 100 bp in risk free rates	<b>(31)</b>	<b>(10)</b>	(13)	(3)
Estimated downward parallel shift of 100 bp in risk free rates	<b>34</b>	<b>11</b>	19	4
10% higher value of equity and property markets at start of projection	<b>10</b>	<b>3</b>	15	3
10% lower value of equity and property markets at start of projection	<b>(10)</b>	<b>(3)</b>	(14)	(3)
10% reduction of the value of sterling against other currencies	<b>(2)</b>	<b>(1)</b>	-	-
10% increase of the value of sterling against other currencies	<b>2</b>	<b>1</b>	-	-
Widening of credit spreads by 100bps	<b>(19)</b>	<b>(6)</b>	-	-
Narrowing of credit spreads by 100bps	<b>23</b>	<b>7</b>	-	-

\* 2010 comparatives include amounts in respect of business transferred to AXA Wealth under the Part VII transaction during 2011. Comparatives are based on EEV and are not available for currency or credit sensitivities.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****3. NET LOSS ARISING ON PART VII TRANSACTION**

As disclosed in the Directors' report a portfolio of insurance reserves and associated assets were transferred to AXA Wealth Limited for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 14 September 2011. The assets and liabilities that have been transferred are as follows

	<b>Note</b>	<b>2011 £'000</b>
<b>Assets</b>		
Assets held to cover linked liabilities	18	6,565,410
Reinsurers' share of technical provisions		
Technical provision for linked liabilities	27	819
Debtors arising out of direct insurance operations		500
Deferred tax asset	28	7,523
Other debtors		11,137
Cash at bank and in hand		(5,630)
Deferred acquisition costs	22	199,035
<b>Liabilities</b>		
Long term business provision		(3,269)
Claims outstanding	19	(780)
Technical provisions for linked liabilities	27	(6,557,377)
Creditors arising out of direct insurance operations		(738)
Other creditors	29	(78,861)
Accruals and deferred income	30	(90,197)
<b>Net assets transferred</b>		<b>47,572</b>
<b>Consideration</b>		<b>-</b>
<b>Loss on transfer of net assets</b>		<b>47,572</b>

No consideration was received in respect of the transfer of business, the transfer having been reflected in the terms of the Sale and Purchase Agreement agreed between FLG and AXA UK plc on 15 September 2010

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****4. SEGMENTAL ANALYSIS**

In the opinion of the directors the Company operates in one business segment, being that of long-term insurance business principally in the United Kingdom

**(i) Gross premiums written and investment contract deposits**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Direct insurance	<b>86,592</b>	98,361
Reinsurance inwards	<b>894</b>	27
Gross premiums written as reported in the technical account	<b>87,486</b>	98,388
Non-participating investment contract deposits		
Direct	<b>1,242,785</b>	2,086,725
Reinsurance inwards	<b>209,088</b>	190,986
Non-participating investment contract deposits	<b>1,451,873</b>	2,277,711
Gross premiums written and non-participating investment contract deposits	<b>1,539,359</b>	2,376,099

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

		Gross direct premiums written	
		2011	2010
		£000	£000
Pensions	Non-participating	40,363	45,986
	Participating	1,500	1,701
Life	Non-participating	15,439	19,962
	Participating	24,502	28,311
PHI	Non-participating	5,215	2,097
	Participating	467	331
		<u>87,486</u>	<u>98,388</u>
Regular premiums		46,951	52,892
Single premiums		40,535	45,496
		<u>87,486</u>	<u>98,388</u>
Individual premiums		86,358	98,308
Premiums under group contracts		1,128	80
		<u>87,486</u>	<u>98,388</u>
		Non-participating investment contracts	
		2011	2010
		£000	£000
Pensions	Non-participating	1,389,901	2,212,432
Life	Non-participating	61,972	65,279
		<u>1,451,873</u>	<u>2,277,711</u>
Regular premiums		295,133	313,441
Single premiums		1,156,740	1,964,270
		<u>1,451,873</u>	<u>2,277,711</u>
Individual premiums		824,298	1,496,771
Premiums under group contracts		627,575	780,940
		<u>1,451,873</u>	<u>2,277,711</u>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****(ii) Gross new business premiums and new business investment contract deposits**

	2011 £000	2010 £000
Direct	1,047,069	1,899,585
Reinsurance inwards	209,747	190,662
<b>Gross new business premiums written and non-participating investment contract deposits on new business</b>	<b>1,256,816</b>	<b>2,090,247</b>

**Gross direct premiums written and non-participating investment contract deposits**

		Regular		Single	
		2011 £000	2010 £000	2011 £000	2010 £000
Pensions	Non-Participating	59,541	82,701	925,327	1,751,361
	Participating	-	-	229	233
		<u>59,541</u>	<u>82,701</u>	<u>925,556</u>	<u>1,751,594</u>
Life	Non-Participating	-	-	61,972	65,289
	Participating	-	-	-	-
		<u>-</u>	<u>-</u>	<u>61,972</u>	<u>65,289</u>
		<u>59,541</u>	<u>82,701</u>	<u>987,528</u>	<u>1,816,883</u>

As there is no outward reinsurance relating to new business the analyses of gross and net are the same

In classifying new business premiums and deposits, the following bases of recognition have been adopted:

- Recurrent single premium contracts, including Department of Work and Pensions rebates on certain pension products, are classified as periodic where they are deemed likely to renew at or above the amount of initial premium
- Increments under existing policies are classified as new business premiums or deposits
- Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written
- Regular premiums or deposits received other than annually are reported on an annualised basis

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>(iii) Reinsurance balance – credit balance</b>	<b><u>42,143</u></b>	<b><u>36,638</u></b>

The balance represents the aggregate total of all of those items included in the technical account for long-term business which relate to reinsurance transactions including reinsurance premiums, claims, commission and share of technical provisions

**5. INVESTMENT INCOME**

	<b>Long-term business technical account</b>		<b>Non-technical account</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Income from other financial investments</b>				
Income on assets at fair value through profit and loss	<b>250,701</b>	254,452	<b>1,629</b>	2,462
Income from group companies	<b>330</b>	2,119	-	-
Income from land and buildings	<b>3,519</b>	4,794	<b>719</b>	-
Gains on the realisation of investments	<b><u>553,961</u></b>	<u>1,403,485</u>	<b><u>1,728</u></b>	<u>2,213</u>
	<b><u>808,511</u></b>	<u>1,664,850</u>	<b><u>4,076</u></b>	<u>4,675</u>
<b>Investment expenses and charges including interest</b>				
Investment management charges	<b>(14,393)</b>	(12,655)	<b>(25)</b>	(25)
Interest payable	<b>(783)</b>	(1,286)	-	-
Losses on the realisation of investments	<b>(161,795)</b>	(124,114)	<b>(900)</b>	(105)
Transaction costs on investment purchases	<b><u>(2,314)</u></b>	<u>(3,640)</u>	<b><u>-</u></b>	<u>-</u>
	<b><u>(179,285)</u></b>	<u>(141,695)</u>	<b><u>(925)</u></b>	<u>(130)</u>
 Net unrealised (losses) / gains on investments	 <b>(1,088,763)</b>	 102,164	 <b>495</b>	 (620)
<b>Total investment return</b>	<b><u>(459,537)</u></b>	<u>1,625,319</u>	<b><u>3,646</u></b>	<u>3,925</u>

Investment income includes changes in the fair value of financial assets estimated using a valuation technique of £24 0m (2010 £20 0m)

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

	<b>Long-term business technical account</b>		<b>Non-technical account</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Included in the total investment return are net (losses) / gains on financial assets at fair value through profit and loss</b>				
Assets designated upon initial recognition	(727,097)	1,373,930	1,323	1,488
Assets held for trading	30,500	7,605	-	-
<b>Total net realised and unrealised (losses) / gains included in investment return</b>	<b>(696,597)</b>	<b>1,381,535</b>	<b>1,323</b>	<b>1,488</b>
<b>Interest income /(expense) for financial liabilities not at fair value through profit and loss</b>				
Interest income/ (expense) in respect of investment contracts	622,871	(1,383,288)	-	-
Interest income / (expense) in respect of the with-profits element of investment contracts with DPF	11,153	(14,415)	-	-
Interest expense payable on financial liabilities	(783)	(1,286)	-	-
<b>Total interest income / (expense) for financial liabilities not at fair value through profit and loss</b>	<b>633,241</b>	<b>(1,398,989)</b>	<b>-</b>	<b>-</b>

Interest income / (expense) in relation to financial liabilities in respect of unit-linked investment contracts is included in the Technical account under the change in technical provision for linked liabilities

Interest income / (expense) in relation to financial liabilities in respect of investment contracts and with-profits investment contracts is included in the Technical account under the change in long-term business provision

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****6. OTHER TECHNICAL INCOME, NET OF REINSURANCE**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Fees on unit-linked investment contracts	<b>72,145</b>	85,265
Change in deferred front end fees on unit-linked investment contracts	<b>13</b>	(5,352)
	<b><u>72,158</u></b>	<b><u>79,913</u></b>

**7. BONUSES**

The aggregate of the bonuses added to policies in the year was £22.3m (2010 £17.0m)

**8. NET OPERATING EXPENSES**

	<b>Long-term business technical account</b>	
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Acquisition costs	<b>38,628</b>	31,546
Change in deferred acquisition costs	<b>(10,926)</b>	(30,205)
Change in financial liability in respect of trail commission	<b>(3,619)</b>	12,876
Administrative expenses	<b>73,299</b>	72,254
Reinsurance commissions and profit participation	<b>-</b>	(1)
	<b><u>97,382</u></b>	<b><u>86,470</u></b>

Administrative expenses include £27.7m (2010 £31.5m) relating to net commissions on life and pension business

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****9. TAXATION**

	<b>Long-term business technical account</b>		<b>Non-technical account</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>UK corporation tax:</b>				
UK corporation tax	(8,049)	(5,827)	(966)	(1,351)
Adjustments in respect of prior periods	1,306	221	-	-
<b>Total UK corporation tax</b>	<b>(6,743)</b>	<b>(5,606)</b>	<b>(966)</b>	<b>(1,351)</b>
Withholding tax written off	(4,752)	(491)	-	-
Tax credit attributable to balance on long-term business technical account	-	-	4,795	2,564
<b>Total current tax</b>	<b>(11,495)</b>	<b>(6,097)</b>	<b>3,829</b>	<b>1,213</b>
<b>Deferred tax:</b>				
Origination and reversal of timing differences	18,829	(9,736)	(243)	243
<b>Total deferred tax</b>	<b>18,829</b>	<b>(9,736)</b>	<b>(243)</b>	<b>243</b>
<b>Tax credit / (charge) on loss on ordinary activities</b>	<b>7,334</b>	<b>(15,833)</b>	<b>3,586</b>	<b>1,456</b>

UK corporation tax shown under the technical account is charged on the basis applicable to life assurance companies. Corporation tax has been calculated at a rate of 26.5% (2010: 28%) on shareholders' profits and 20% (2010: 20%) on policyholders' income. Deferred tax has been calculated at rates expected to apply on reversal of the relevant timing differences. UK corporation tax shown under the non-technical account is charged at a rate of 26.5% (2010: 28%).

**Factors affecting the tax charge**

The tax assessed for the year is lower (2010: lower) than the standard rate of corporation tax in the UK (26.5%) (2010: 28%). The differences are explained below:

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

	<b>Non-technical account</b>	
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Loss on ordinary activities before tax</b>	<b>(76,630)</b>	<b>(3,905)</b>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	<b>20,307</b>	<b>1,093</b>
Difference between effective and standard rate in balance on long-term business account	<b>(16,478)</b>	<b>363</b>
Expenses not deductible for tax purposes	<b>(243)</b>	<b>-</b>
<b>Current and deferred tax credit for the period</b>	<b>3,586</b>	<b>1,456</b>

A gradual reduction in the UK corporation tax rate from 28% to 24% over four years was announced in the Emergency Budget of 22 June 2010. Subsequently, a further 1% reduction in the UK corporation tax was announced in the Budget of 23 March 2011, starting with a 2% reduction to 26% on 1 April 2011 and further 1% decreases over the next 3 years, resulting in a 23% UK corporation tax rate from 1 April 2014. The Finance Act 2011 enacted the rate reduction to 25% with effect from April 2012, the effect of which is included within the closing deferred tax assets of £22.0m. Subsequent reductions will be dealt with by future legislation. The effect on the Company's net assets from the further 2% reduction in the rate is estimated as approximately £0.1m and will be recognised as the legislation is substantively enacted.

**10. AUDITOR'S REMUNERATION**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Audit services</b>		
Fees payable to Company's auditor	<b>130</b>	<b>136</b>
<b>Non-audit services</b>		
Fees payable to the Company's auditor and its associates for other services		
Other services pursuant to legislation	<b>40</b>	<b>34</b>
	<b>170</b>	<b>170</b>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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**11. REMUNERATION OF DIRECTORS AND EMPLOYEES**

Until 30 November 2011, the directors in office were employed and paid by companies in the AXA Group and their directorships were held as part of that employment. These directors received total remuneration relating to that period of £3,629,000. As of 30 November 2011, all of the directors are employed and paid by companies in the Friends Life Group and their directorships are held as part of that employment. The directors received total remuneration for the period since acquisition of £157,000. Amounts for annual bonus payments to the directors for the year ended 2011 have been approved by the Remuneration Committee of Friends Life Group plc, but will be agreed by the Resolution Remuneration Committee after the signing of these accounts. The 2011 total remuneration therefore does not include amounts relating to this element. Directors are paid for services to either the AXA Group or the Friends Life Group and it is impractical to isolate the element of total remuneration relating to the Company.

Ms E B Bourke, Mr D E. Hynam and Mr A M Parsons were directors of Friends Life Group plc during the year. Their emoluments, which relate to the Friends Life Group as a whole, are disclosed in the financial statements of that company.

Mr J P D L Drouffe, Mr P J Evans and Mr F de Ménéval were also directors of the former intermediate parent company, AXA UK plc, during the year and their emoluments, which relate to their services to the AXA Group as a whole, are disclosed in the financial statements of that company.

**Highest paid director**

The total remuneration payable to directors includes £1,363,000 in respect of the highest paid director, of which £81,000 relates to long-term incentive schemes. This is the total of the costs incurred by the AXA Group in respect of the highest paid director due to it being impractical to isolate the element of total remuneration relating to the Company. The highest paid director is a member of a defined benefit pension scheme, and their accrued benefit increased by £3,000 during the year.

**Employees**

The Company has no employees during the year (2010: none). The costs of staff are borne by the service companies FLS and formerly WFS. The service companies levy management fees on the Company based upon standard rates and volumes of business processed. It is not therefore possible to identify separately the amounts of staff costs within the management fees. Staff costs are disclosed in the accounts of FLS and WFS.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****12. LAND AND BUILDINGS**

	<b>Investment properties £000</b>	<b>Properties for own use £000</b>	<b>Total £000</b>
As at 1 January	<b>4,775</b>	<b>5,900</b>	<b>10,675</b>
Revaluations	<b>(500)</b>	<b>-</b>	<b>(500)</b>
Disposals	<b>-</b>	<b>(5,900)</b>	<b>(5,900)</b>
As at 31 December	<b>4,275</b>	<b>-</b>	<b>4,275</b>

The cost of investment properties and properties for own use was £5.5m (2010: £5.5m) and £nil (2010: £16.0m) respectively

All land and buildings are held as freehold and are valued every year for the purpose of the financial statements at open market basis. The valuation was made at 31 December 2011 by GVA, a firm of independent Chartered Surveyors.

**13. INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS**

The amount in the Company's balance sheet for investments in group undertakings and participating interests is

	<b>Carrying value</b>		<b>Cost</b>	
	<b>2011 £000</b>	<b>2010 £000</b>	<b>2011 £000</b>	<b>2010 £000</b>
Subsidiary holdings	<b>1,397</b>	<b>882</b>	<b>-</b>	<b>-</b>

Subsidiary holdings are stated at current value. The assessment of current value in 2011 was based upon the net asset value of the subsidiary, consistent with the treatment in 2010.

The Company's investments are wholly-owned, direct subsidiary undertakings of the Company. All holdings are of fully paid ordinary shares with full voting rights. All principal subsidiaries are incorporated and registered in England and Wales.

<b>Name</b>	<b>Nature of business</b>
<b>Investments of the Company's long-term fund</b>	
Dextra Court Properties Limited ("DCP")	Property investment
<b>Investments of the Company's shareholders' fund</b>	
Winterthur Finance Limited	Lending

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****14. SHARES AND OTHER VARIABLE YIELD SECURITIES AND HOLDINGS IN COLLECTIVE INVESTMENT SCHEMES**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
UK listed	<b>155,692</b>	246,538
Other listed	<b>66,934</b>	20,743
Unlisted	<b>140,764</b>	121,020
	<b><u>363,390</u></b>	<b><u>388,301</u></b>

Included in the current year balance for unlisted investments is £140.8m (2010: £121.0m) relating to an investment in an AXA IM collective investment fund, which is a cash management fund

**15. DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
UK listed	<b>785,846</b>	842,741
Other listed	<b>346,362</b>	229,674
	<b><u>1,132,208</u></b>	<b><u>1,072,415</u></b>

**16. OTHER FINANCIAL INVESTMENTS**

<b>Financial Assets</b>	<b>Carrying Value</b>		<b>Cost</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets at fair value through profit and loss</b>				
Designated at initial recognition	<b>6,949,369</b>	14,145,225	<b>6,227,254</b>	12,077,622
Derivative financial instruments – held for trading	<b>56,442</b>	47,028	<b>22,511</b>	27,622
	<b><u>7,005,811</u></b>	<b><u>14,192,253</u></b>	<b><u>6,249,765</u></b>	<b><u>12,105,244</u></b>
<b>Loans and receivables, at amortised costs</b>	<b>19,390</b>	24,258	<b>17,993</b>	23,376
<b>Total financial assets</b>	<b><u>7,025,201</u></b>	<b><u>14,216,511</u></b>	<b><u>6,267,758</u></b>	<b><u>12,128,620</u></b>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

These amounts are included in the balance sheet as follows

	<b>Carrying Value</b>		<b>Cost</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Other financial investments</b>				
Shares and other variable yield securities and holdings in collective investment schemes (Note 14)	<b>363,390</b>	388,301	<b>367,124</b>	355,557
Debt securities and other fixed income securities (Note 15)	<b>1,132,208</b>	1,072,415	<b>1,021,157</b>	1,052,033
Derivative assets (Note 17)	<b>56,415</b>	47,028	<b>22,511</b>	27,622
Loans secured by mortgages	<b>26,543</b>	26,737	<b>20,861</b>	21,074
Loans secured by insurance policies	<b>5,037</b>	5,447	<b>5,037</b>	5,447
Deposits with credit institutions	<b>13,964</b>	13,481	<b>13,964</b>	13,481
<b>Total other financial investments</b>	<b>1,597,557</b>	1,553,409	<b>1,450,654</b>	1,475,214
Linked assets (see Note 18)	<b>5,398,079</b>	12,633,837	<b>4,788,936</b>	10,625,023
Receivables	<b>17,407</b>	22,786	<b>17,407</b>	22,786
Investment in group undertakings (Note 13)	<b>1,397</b>	882	-	-
Reinsurance asset	<b>586</b>	590	<b>586</b>	590
Cash	<b>10,175</b>	5,007	<b>10,175</b>	5,007
<b>Total financial assets</b>	<b>7,025,201</b>	14,216,511	<b>6,267,758</b>	12,128,620
<b>Other assets</b>				
Land and buildings (Note 12)	<b>4,275</b>	10,675	<b>5,500</b>	21,544
Present value of future profits on non-profit business written in the with-profits fund	<b>19,859</b>	20,734	<b>19,859</b>	20,734
Reinsurers share of technical provisions	<b>410,993</b>	392,926	<b>410,993</b>	392,926
Debtors	<b>58,577</b>	61,833	<b>58,577</b>	61,833
Deferred acquisition costs (Note 22)	-	188,109	-	188,109
<b>Total assets</b>	<b>7,518,905</b>	14,890,788	<b>6,762,687</b>	12,813,766

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****17. DERIVATIVES VALUED IN ACCORDANCE WITH FAIR VALUE ACCOUNTING RULES**

The Company enters into derivative contracts to manage the market risk and credit risk arising from its investment activities. The nature and extent of derivative instruments held at 31 December 2011 are as follows

**Notional and fair value of derivatives**

	2011			2010		
	Notional Amount £000	Fair Value Asset £000	Fair Value Liability £000	Notional Amount £000	Fair Value Asset £000	Fair Value Liability £000
<b>Net assets</b>						
Swaptions	109,914	1,064	-	124,350	1,453	-
Interest rate swaps	245,600	36,613	(6,383)	270,968	9,016	(3,109)
Credit default swaps	96,640	2,272	(249)	96,440	520	(2,956)
Cross currency swaps	18,695	-	(2,199)	18,695	-	(2,350)
Futures	95,023	-	(2,716)	148,002	-	(1,618)
Options	167,224	16,466	-	227,207	36,039	-
<b>Total</b>	<b>733,096</b>	<b>56,415</b>	<b>(11,547)</b>	<b>885,662</b>	<b>47,028</b>	<b>(10,033)</b>

	2011			2010		
	Notional Amount £000	Fair Value Asset £000	Fair Value Liability £000	Notional Amount £000	Fair Value Asset £000	Fair Value Liability £000
<b>Assets held to cover linked liabilities</b>						
Futures and options	2,435	27	-	16,994	301	-

**18. ASSETS HELD TO COVER LINKED LIABILITIES**

	Carrying Value		Cost	
	2011 £000	2010 £000	2011 £000	2010 £000
Assets held to cover linked liabilities	<u>5,398,079</u>	<u>12,633,837</u>	<u>4,788,936</u>	<u>10,625,023</u>

£6,565m of assets held to cover linked liabilities were transferred on the transfer of the underlying policies to AXA Wealth as disclosed in Note 3

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

The carrying value of linked assets comprises

	2011 £000	2010 £000
Equity	2,850,165	7,568,917
Debt securities	439,215	772,440
Land and buildings	38,164	39,727
Deposits with credit institutions	35,476	53,300
Debtors and accrued income	14,783	28,020
Derivative assets	27	301
Investments in funds of other insurance companies	2,022,197	4,173,652
<b>Total assets</b>	<b>5,400,027</b>	<b>12,636,357</b>
Creditors	(1,948)	(2,520)
<b>Net assets</b>	<b>5,398,079</b>	<b>12,633,837</b>

These investments are measured at fair value through profit and loss. As disclosed in Note 2, the financial risks associated with these contracts are borne by policyholders.

Included within assets held to cover linked liabilities are bank loans that have been secured on the unit-linked properties. Interest is payable on these loans at variable rates between base rate and 3.5% per annum above base rate and fixed rates between 9.5% per annum and 12.5% per annum. The loans are repayable as shown below.

	2011 £000	2010 £000
In less than one year	1,243	1,796
Between one and two years	356	366
Between two and five years	309	314
In five years or more	40	44
	<b>1,948</b>	<b>2,520</b>

An analysis of total financial assets, including assets held to cover linked liabilities is provided in Note 16 "Other financial investments".

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****19. CLAIMS OUTSTANDING**

As a result of deposit accounting for insurance and investment contracts with DPF, the change in the provision for claims recorded in the technical account for long-term business does not equal the movement in the claims outstanding. The differences are explained below.

	<b>Gross Amount</b>		<b>Reinsurers' Share</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>These amounts are included in the technical account as follows:</b>				
Change in the provision for claims	<u>(3,630)</u>	<u>4,464</u>	<u>1,897</u>	<u>167</u>
Change in the provision for claims arising from deposit accounting	<u>7,946</u>	<u>(8,604)</u>	<u>-</u>	<u>-</u>
Change in provision for claims outstanding on a consistent basis with balance sheet classification	<u>4,316</u>	<u>(4,140)</u>	<u>1,897</u>	<u>167</u>
Part VII transaction	<u>780</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>5,096</u>	<u>(4,140)</u>	<u>1,897</u>	<u>167</u>
<b>Balance sheet movement in provision for claims outstanding</b>	<u>5,096</u>	<u>(4,140)</u>	<u>1,897</u>	<u>167</u>

**20. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Amounts due from policyholders	<u>10</u>	<u>136</u>

**21. OTHER DEBTORS**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Loans to other group undertakings	2,838	28,813
Amounts due from other group undertakings – other amounts	55	-
Amounts owed by intermediaries	16	52
Taxation recoverable	29,046	3,356
Other debtors	4,583	18,510
	<u>36,538</u>	<u>50,731</u>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

Loans to other group undertakings include a loan by the non-profit fund to DCP, a subsidiary of the Company, in the amount of £2.8m (2010: £5.5m). The loan is repayable either on demand with twelve months notice or by 31 December 2012, and interest is payable at a rate of 6%. The loan is secured by way of a first all monies legal charge over the freehold property owned by DCP. The carrying value of the loan is a reasonable approximation of its fair value.

Loans to other group undertakings in 2010 included a loan by the shareholders' fund to WLUKH, in the amount of £23.3m, established on 24 June 2010. The loan was repaid in September 2011.

**22. DEFERRED ACQUISITION COSTS**

	<b>2011</b>	2010
	<b>£000</b>	£000
On non-participating investment contracts	<u>-</u>	<u>188,109</u>

In 2010 deferred acquisition costs represented £188.1m in respect of future amounts receivable from policyholders on wealth policies from a cancellation of units in their investment contracts, to fund the payment of flexible advisor remuneration to intermediaries on behalf of the policyholder, and for which a corresponding liability for future trail commission payable was included within Creditors. The carrying value as at 1 October 2011 of £199.0m was eliminated on the transfer of the underlying policies to AXA Wealth (see Note 3).

**23. CALLED UP SHARE CAPITAL**

	<b>2011</b>	2010
	<b>£000</b>	£000
<b>Allotted and fully paid</b>		
27,400,000 ordinary shares of £1 each	<u>27,400</u>	<u>27,400</u>

**24. RESERVES**

	<b>Capital contribution £000</b>	<b>Revaluation reserve £000</b>	<b>Profit and loss account £000</b>	<b>Total £000</b>
At 1 January 2011	109,000	882	8,809	118,691
Retained loss for the financial year	-	-	(73,044)	(73,044)
Revaluation of investments in group undertakings	-	515	-	515
Capital contribution received	45,000	-	-	45,000
At 31 December 2011	<u>154,000</u>	<u>1,397</u>	<u>(64,235)</u>	<u>91,162</u>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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Distributable profits for insurance companies writing long-term business are determined after taking into account the deficit in any funds within the Company calculated under prudential reporting requirements. The amount of distributable profits is calculated in accordance with the Companies Act 2006 requirements, taking into account only realised profits in the shareholders' fund, the cost of bonus transferred from the with-profits fund and deducting any deficits on non-profit funds.

As at 31 December 2011 the capital contribution and profit and loss account include £48.0m (2010: £63.4m) which is distributable.

**25. TECHNICAL PROVISIONS***With-profits fund*

The Company has one UK with-profits fund.

For with-profits contracts, the long-term business provision is calculated in accordance with the FSA's 'realistic' liability regime. In particular, provision is made for all declared and future bonuses estimated in a manner consistent with the PPFM.

The liabilities are based on the aggregate value of policy asset shares reflecting the premiums paid, investment return earned and expenses incurred in respect of each policy (the "with-profits benefit reserve"). The liabilities also include allowances for:

- the time and intrinsic value of options and guarantees and for possible future management actions such as changes to bonus rates, and
- other differences between the value of policy payouts (including future bonuses) and asset shares, due to either planned enhancements to payouts or smoothing practice.

These allowances are determined using a market-consistent, risk-neutral, stochastic model simulating future investment returns and bonuses.

The liabilities include allowance for the shareholders' share of future bonuses. At 31 December 2011 this amounted to £10.8m (2010: £13.2m). Under FRS 27, this amount is excluded from the liabilities and forms part of the FFA.

The Court Schemes covering the governance of the with-profits fund requires all of the surplus assets held in the Company's with-profits fund to be distributed. Surplus assets in the fund are distributed as enhancements to the with-profits benefits reserve. Similarly, subject to covering the value of any policy options and guarantees in the fund, where a deficit exists there are provisions to recover the deficit by making deductions from the with-profits benefits reserve. As a consequence, on this basis, the realistic value of the assets is equal to the realistic value of the liabilities, after allowance for the support arrangement assets provided by the segregated sub fund.

The principal assumptions underlying the calculation of the with-profits liabilities are set out below in "Main assumptions".

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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*Present value of future profits on non-profit business written in the with-profits funds*

Since the realistic liabilities for with-profits policies include an allowance for future bonuses that will be payable out of profits from non-profit business written within the with-profits funds, an asset is recognised representing the present value of future profits ("PVFP") arising from such business. These profits include profits expected to arise from margins for prudence in the gross premium valuation basis. No corresponding asset is recognised for business written in the non-profit funds.

The value of the PVFP is determined in accordance with the FSA's 'realistic' liability regime. In particular, the methodology and assumptions are based on current estimates of future experience and current market yields. The value is also adjusted to remove the value of the regulatory capital requirements in respect of the non-profit business.

*Non-profit fund*

For almost all conventional non-profit business, the long-term business provision is determined using a gross premium valuation method, which values guaranteed benefits, future expenses and the full premiums receivable. The assumptions used for this valuation include margins in comparison with corresponding assumptions used for the realistic valuation.

*Unit-linked business*

The technical provision for unit-linked liabilities is determined according to the policy set out in Note 1 (Statement of Accounting Policies). Additional technical provisions arising from unit-linked contracts classified under FRS 26 as insurance or investment with DPF contracts are held within the long-term business provision, and include an allowance for any excess of future costs over policy charges. A discounted cash-flow valuation method has been adopted to determine these additional provisions for all major classes of business. The main assumptions relate to the discount rate, future expenses, unit price growth and mortality experience. Further provisions are also held.

For the unit-linked liabilities, management's policy is to ensure that there is no significant mismatching between the assets and liabilities in each unit fund. Assets and liabilities for the non-linked business in the non-profit fund are broadly matched and therefore the risks from changes in market conditions are limited.

The principal assumptions underlying the calculation of the non-profit liabilities are set out below in "Main assumptions".

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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**Main assumptions****With-profits business***Economic*

The realistic assets and liabilities are calculated using a dynamic stochastic model based on economic data provided from a market consistent asset model. This includes the cost of any options, guarantees or smoothing together with the value of any enhancement (or charges) to the with-profits benefit reserve.

The assumptions underlying the projection of the realistic assets and liabilities are based upon best estimates.

For the valuation of with-profits business, the yields are derived from UK gilts, which are assumed to be risk-free. The equity asset model is calibrated to market implied volatilities of FTSE100 put options, taking into account the extent to which policy guarantees are 'out of the money'.

The asset model used is Barrie & Hibbert Economic Scenario Generator. This is an arbitrage-free deflator model built for the purpose of pricing contingent claims written on multiple asset classes. The model is capable of recovering prices for assets and liabilities that can be directly verified from the market and is calibrated to recover the market-consistent prices for those assets that reflect the nature and term of the with-profits liabilities of the fund.

This asset model provided 2,000 simulations of the future comprising a range of good, average and poor economic scenarios which when combined were consistent with earlier calibration. These simulations were then used to project the realistic value of the assets and liabilities.

The stochastic model is an annual model and projects cash flows over a period of 29 years. At the end of this period any residual cost of guarantees is estimated and included in the projected liabilities.

The model dynamically allows for management and policyholder actions to be taken as economic conditions change. The range of actions have been detailed below.

*Mortality*

The mortality assumptions used in the model are largely based upon standard industry tables adjusted to broadly reflect the expected experience of the fund. For life and pensions business before retirement, the rates reflect 80-90% of AM92 or AF92 as appropriate (2010 the same). In retirement male rates reflect 107.5% of PCMA00 with CMI 2011 (1.25%) improvements (2010 107.5% of PCMA00 Medium Cohort before 2004 and PCMA00 Medium Cohort with 1.7% minimum improvements from 2004). In retirement female rates reflect 107.5% of PCFA00 with CMI 2011 (1.25%) improvements (2010 107.5% of PCFA00 Medium Cohort before 2004 and PCFA00 75% Medium Cohort with 1.5% minimum improvements from 2004).

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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*Persistency*

Policy lapse assumptions are based upon recent past experience. Provision is also made for policyholder actions on dates where market value reductions do not apply.

*Expenses*

The expense assumptions reflect the estimated future policy and investment expenses. Under the terms of the Scheme of Transfer the expenses are capped. It has been assumed that the expense cap will apply in the future. On average these expenses were assumed to increase at 3.8% p.a. (2010 4.1% p.a.) Investment expenses were assumed to be 19 basis points (2010 15 basis points).

*Bonus rates*

The bonus policy of the Company is explained in detail in the PPFM. In setting regular bonus rates the Company aims to ensure that final bonus should represent a targeted proportion of the total maturity payout. Subject to these principles the Company will seek to smooth the amount by which regular bonus changes at any one time.

The Company uses asset shares, or other appropriate models, as a guide to determining final bonus rates. The general aim is that claim amounts should be based upon targeted proportions of the policy asset share, allowing for smoothing and subject to averaging over policies with the same scale of final bonus. Subject to smoothing, the current practice is to target 100% of the asset share on maturity or death and 95% of the asset share for surrenders, transfers and switches. For surrenders, transfers and switches, where a final bonus is not being applied, the Company targets a payout of 100% of asset share.

Included within the long-term business provision are amounts of £119.3m (2010 £121.9m) relating to liabilities under with-profits investment contracts. The Company cannot measure reliably the fair value of with-profits investment contracts due to the lack of a reliable basis to measure the supplemental discretionary returns and because there is not an active market for such instruments. The realistic liabilities are, however, considered to be an appropriate proxy for fair value.

**Non-profit business**

The principal assumptions underlying the calculation of the non-profit liabilities in the long-term business provision are as follows:

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

<b>Rates of interest:</b>		<b>2011</b>	<b>2010</b>
With-profits fund	- life (immediate annuities)	<b>1.70%</b>	2.55%
	- pensions (immediate annuities)	<b>2.10%</b>	3.15%
	- life (other)	<b>1.70%</b>	2.40%
	- pensions (other)	<b>2.10%</b>	3.15%
Non-profit fund	- life	<b>2.10%</b>	2.40%
	- pensions (immediate annuities)	<b>3.20%</b>	3.95%
	- pensions (other)	<b>2.90%</b>	3.55%

<b>Mortality tables:</b>		<b>2011</b>	<b>2010</b>
Term Assurance	Life and Pension	<b>Males TM92 ult (150% Smoker, 80% Non-Smoker)</b>	Males TM92 ult (150% Smoker, 80% Non-Smoker)
		<b>Females TF92 ult (165% Smoker, 90% Non-Smoker)</b>	Females TF92 ult (165% Smoker, 90% Non-Smoker)
Immediate annuities	Life and Pension	<b>Males 98.9% CMI 2011 (Medium Cohort with 2% long term improvements)</b>	Males 95% PCMA00 (Medium Cohort with 1.7% min improvement)
		<b>Females 98.9% CMI 2011 (Medium Cohort with 2% long term improvements)</b>	Females 95% PCFA00 (75% Medium Cohort with 1.5% min improvement)

From October 2011 the surrender rate changed from 0% to 4% on the Colonial Pacesetter Investment Plan, which is a whole life unit-linked product. No other allowance has been made for lapses.

In common with other life offices in the United Kingdom, the Company has written pension transfer and opt-out business. A provision of £3.5m (2010: £4.0m) has been made in respect of rectification costs for pension transfers and opt-outs from occupational schemes, and this is included in the long-term business provision. The provision has been determined with due consideration to the guidelines issued by the Securities and Investments Board in October 1994, and subsequently by the FSA. The principal assumptions and estimates made in determining the provision relate to the number of cases which on investigation give rise to a loss to the policyholder, and the average costs of making good the loss.

**WINTERTHUR LIFE UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Options and guarantees**

*With-profits business*

Some with-profits policies contain options and guarantees that can increase the benefits payable to the policyholder

The most significant options and guarantees are

- Options attaching to the pensions pure endowments Typically the maturity value can be converted to a pension on guaranteed terms consistent with a pension of £1 p a in respect of every £10 of maturity value (for a male aged 65)
- Options attaching to the pensions deferred annuities Typically the pension can be converted to a maturity value on guaranteed terms consistent with a value of £9 in respect of every £1 per annum of pension (for a male aged 65)
- For other conventional with-profits policies there is a risk that the sum assured (plus any declared bonus) will be greater than the value of the assets underlying the policy at maturity Where it is felt appropriate these risks may be hedged by purchasing suitable instruments (such as equity options)
- For unitised with-profits business the main options relate to the ability to take benefits at maturity (or at specific other dates) when investment values may be depressed, without an adjustment to reflect the underlying market value of the assets supporting the policy In particular, investment bonds have dates from which benefits can be taken without any market value reduction, for some this is at any point after the eighth or tenth anniversary of the bond, and for others this is every anniversary from the seventh onwards All bonds are now past the relevant dates when this first applies

*Non-profit business*

For non-profit business the options are not material and the amount of policy benefits are largely fixed The investment policy of the Company is to follow a broadly matched investment position to limit the risk of being unable to meet liabilities on a realistic basis as they fall due This may lead to some degree of mismatch on a statutory basis

**26. CAPITAL MANAGEMENT**

**Capital management policies**

The Company's objectives in managing its capital are

- to ensure that guarantees to policyholders are met,
- to permit the management of the with-profits fund in accordance with the PPFM,
- to support the writing of new business,
- to satisfy the capital requirements of the regulators, and
- to assist in the efficient use of available capital in the Friends Life Group

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

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**Regulatory capital resources**

The available capital of the Company's with-profits fund has been determined in accordance with FSA regulations and includes the FFA. The FFA represents the estimated surplus in the fund that is available to meet the regulatory and solvency requirements of the fund. In determining the available capital of the fund, assets and liabilities are restated onto a regulatory basis.

The with-profits fund has available capital of £81.4m (2010: £58.1m). In accordance with accounting rules, the realistic balance sheet liabilities only represent amounts relating to policyholders and do not include the shareholders' share of all future bonuses. The shareholders' share of bonuses which is shown as a separate adjustment in the capital statement is a deduction from capital which is available to meet regulatory requirements.

The available capital in the Company's non-profit fund and the segregated sub fund has been determined in accordance with FSA regulations and amounts to £13.0m and £19.6m (2010: £24.5m and £21.8m) respectively.

The shareholders' fund held outside the long-term insurance fund is shown separately in the capital statement. This amounted to £76.8m (2010: £68.1m) at the balance sheet date.

*Regulatory capital requirements*

The regulatory capital resources must be sufficient to meet the regulatory capital requirements prescribed by the FSA. There are two components of regulatory capital requirements:

- the Long-Term Insurance Capital Requirement ("LTICR"), which is determined by applying various fixed percentages to liabilities and sums at risk,
- the With-Profits Insurance Capital Component ("WPICC"), which is described below.

The WPICC is determined in respect of the with-profits funds, and is equal to the amount of additional capital, if any, required to adjust from regulatory to realistic requirements. The realistic valuation is on the same basis as that reported on the balance sheet and described above, except that the WPICC also includes the Risk Capital Margin ("RCM"), which is the amount needed to cover various stress tests applicable to the realistic valuation.

As described above, regulatory capital requirements differ between with-profits and other business. In all cases the minimum requirement is based on a prudent valuation of guaranteed benefits, while for with-profits business additional capital may be needed to cover the realistic valuation of all prospective benefits.

*Individual Capital Guidance*

The FSA requires the Company to determine its Individual Capital Assessment ("ICA"). The ICA is based on the Company's own assessment of the risks that it is subject to, including business risks not covered by the RCM. The ICA is determined in accordance with guidance laid down by the FSA.

**WINTERTHUR LIFE UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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The Company capital policy is to maintain capital resources which meet, as a minimum, the greater of the Company's assessment of

- 150% of Pillar 1 capital resources requirement (excluding WPICC), and
- 125% of Pillar 2 ICA

at all times and these capital ratios are not altered without the prior written consent of the FSA

The Company has complied with all regulatory capital requirements during this accounting period

**Restrictions on available capital resources**

Any available capital held in the with-profits fund can only be applied to meet the requirements of the Fund or be distributed to policyholders and shareholders. Shareholders are entitled to an amount not exceeding one-ninth of the amount distributed to policyholders in the form of bonuses. No new loans may be made by the with-profits fund.

The segregated sub fund is a separate pool of assets maintained to provide support to the with-profits fund. For the non-profit fund, surplus can generally be distributed to shareholders subject to meeting regulatory requirements and other capital management objectives of the Company.

No transfers from the with-profits or non-profit funds can take place without an up to date actuarial valuation.

The capital held within the shareholders' funds is generally available to meet any requirements, including distribution to the shareholders, provided that regulatory requirements and other capital management objectives of the Company remain satisfied.

**Arrangements to provide capital**

The segregated sub fund was set up under the Colonial demutualisation scheme in 1996 and is available as an additional source of capital to support the with-profits fund under certain circumstances. It amounted to £19.6m (2010: £21.8m) at the balance sheet date.

**Sensitivity of liabilities and capital to changes in market variables**

*With-profits fund*

The enhanced capital requirement for the fund is determined by examining liabilities on a realistic basis. As discussed above, this uses a market consistent stochastic approach projecting the cash flows of the fund in the future for a large number of potential different scenarios. The present value of these cash flows is taken to form a realistic balance sheet. In the projections provision is made for management and policyholder actions to be taken on a dynamic basis in response to the changing conditions.

## NOTES TO THE FINANCIAL STATEMENTS

The key management actions that are allowed for within these projections are

- changing regular bonus rates
- changing final bonus rates
- changes to the assumed asset allocation for the fund
- refinement to the term of fixed interest assets assumed to be held in the fund
- enhancements (or deductions) from the with-profits benefit reserve

Policyholder actions relate to the exercise of options in different scenarios. For instance, guaranteed annuity options are assumed to be taken if they are in the money on a particular scenario.

In certain adverse scenarios, there is provision within the Scheme of Transfer for the segregated sub fund to provide support to the with-profits fund. On a realistic basis, the expected amount of support that will be provided by the segregated sub fund amounts to £8.4m (2010: £6.1m).

On a realistic basis the capital requirement for the with-profits fund is calculated as the capital required to cover additional liabilities on set criteria of adverse scenarios laid down by the FSA. The set of scenarios requiring the largest amount of capital is selected, giving the risk capital margin.

On this basis the capital required to support the fund is £14.4m (2010: £10.5m). This relies upon £8.4m (2010: £6.1m) capital support being provided by the segregated sub fund and risk capital margin of £6.0m (2010: £4.4m) to cover the additional liabilities under adverse scenarios.

The capital available in the fund amounts to £81.4m (2010: £58.1m). However on a realistic basis, under the governance arrangements for the fund, this is all distributed and additional capital of £14.4m (2010: £10.5m) is required. The capital requirement for the fund is made up of the minimum capital requirement of £34.1m (2010: £37.7m) and the with-profits insurance capital component of £58.0m (2010: £22.1m) giving an overall capital requirement of £92.1m (2010: £59.8m).

### *Non-profit fund*

The assumptions to which the long-term business provision is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

## 27. TECHNICAL PROVISION FOR LINKED LIABILITIES

	2011 £000	2010 £000
Investment contracts with no DPF	4,943,666	12,127,748
Insurance contract liabilities	450,829	496,433
<b>Technical provision for linked liabilities</b>	<b>5,394,495</b>	<b>12,624,181</b>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet at amortised cost which closely approximates fair value

As a result of deposit accounting for unit-linked investment contracts, the change in technical provisions for linked liabilities recorded in the technical account for long-term business does not equal the movement in the technical provision for linked liabilities. In addition, the change in reinsurers' share of technical provisions for linked liabilities for long-term business does not equal the movement in the reinsurers' share of the technical provision for linked liabilities. The differences are explained below

	<b>Gross Amount</b>		<b>Reinsurers' Share</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>These amounts are included in the technical account as follows:</b>				
Change in technical provision for linked liabilities	(647,776)	1,462,124	(453)	26
Adjustments made for contracts which do not transfer significant risk				
Gross premiums written	1,451,873	2,277,711	-	-
Claims paid	(1,404,261)	(1,941,381)	-	-
Other technical income	(72,145)	(85,265)	-	-
Change in technical provision arising from deposit accounting	(24,533)	251,065	-	-
Change in technical provision for linked liabilities on a consistent basis with balance sheet classification	(672,309)	1,713,189	(453)	26
Part VII transaction	(6,557,377)	-	819	-
	<u>(7,229,686)</u>	<u>1,713,189</u>	<u>366</u>	<u>26</u>
Balance sheet movement in technical provision for linked liabilities	<u>(7,229,686)</u>	<u>1,713,189</u>	<u>366</u>	<u>26</u>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****28. DEFERRED TAXATION AND PROVISIONS FOR OTHER RISKS****a) Deferred taxation**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
At 1 January	(10,966)	(20,459)
Movement in year	(18,586)	9,493
Part VII transaction	7,523	-
<b>At 31 December</b>	<b>(22,029)</b>	<b>(10,966)</b>

The balance in respect of deferred tax asset can be analysed as follows

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Unrealised (losses) / gains on investments	(2,866)	8,637
Capital losses carried forward	(17,392)	(19,357)
Deferred acquisition costs	-	29,253
Deferred income liability	(6,666)	(22,045)
Short-term timing differences	8,046	11,505
Trading losses carried forward	(3,151)	(18,959)
<b>Total asset</b>	<b>(22,029)</b>	<b>(10,966)</b>

HMRC have stated that draft legislation in respect of the new UK tax regime applicable to life insurance business is to be published in the Finance Bill on 29 March 2012. This follows the significant announcements previously made in the 2011 Budget and initial draft legislation published for consultation on 6 December 2011. The legislation is expected to take effect from 1 January 2013.

The Company's preliminary analysis is that the deferred tax assets and liabilities of WLUK as at 31 December 2011 are not expected to be materially affected by the new legislation.

**b) Other provisions**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Provisions for other risks and charges</b>	<b>6,017</b>	<b>3,043</b>

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

	<b>Endowment complaints £000</b>	<b>Other provisions £000</b>	<b>Total £000</b>
At 1 January 2011	2,543	500	3,043
Charged in the year	1,373	2,945	4,318
Utilised in the year	(1,191)	(153)	(1,344)
At 31 December 2011	<u>2,725</u>	<u>3,292</u>	<u>6,017</u>

The endowment complaints provision relates to the compensation costs likely to be incurred in respect of complaints relating to mis-sold policies. Other provisions include £3.2m (2010: £nil) in respect of potential compensation and professional fees expected to arise as a result of reviewing administrative procedures.

The provisions are reviewed on a regular basis and are anticipated to be fully utilised on completion of the investigations.

**29. OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY**

	<b>2011 £000</b>	<b>2010 £000</b>
Amounts owed to group undertakings	3,718	3,309
Tax payable	33,063	7,648
Other creditors	23,934	46,207
Financial liability in respect of trail commission	-	82,480
	<u>60,715</u>	<u>139,644</u>

In 2010 other creditors included £82.4m in respect of future trail commission payable on wealth policies. The carrying value as at 1 October 2011 of £78.9m was eliminated on the transfer of the underlying policies to AXA Wealth (see Note 3).

In 2010 other creditors also included two interest-bearing loans by the Company's former parent, WLUKH, repayment of which was contingent on the emergence of surplus on tranches of business in force in the non-profit fund. The loans were repaid in September and October 2011 respectively in preparation for the sale of the Company in November 2011.

All remaining creditors are payable within a period of one year.

**WINTERTHUR LIFE UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS****30. ACCRUALS AND DEFERRED INCOME**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Other accruals and deferred income	<b>3,280</b>	2,217
Deferred front end fees	<b>26,667</b>	116,877
	<b>29,947</b>	119,094

In 2010 accruals and deferred income included £85 0m in respect of deferred front end fees receivable on wealth policies. The carrying value as at 1 October 2011 of £90 2m was eliminated on the transfer of the underlying policies to AXA Wealth (see Note 3)

**31. CONTINGENT LIABILITIES**

a) As part of certain arrangements with a number of tied and formerly tied estate agencies, the Company had previously undertaken to guarantee the rental payments falling due in respect of a number of property leases (2010 32). The guarantees were extinguished on the sale of the Company in November 2011.

b) The Company had previously provided a guarantee (2010 £5 0m) to the Royal Bank of Scotland in respect of overdrafts on client accounts administered by AXA Wealth Services Limited. The guarantee was extinguished on the sale of the Company in November 2011.

c) The Company has a contingent liability of £3 5m (2010 £3 5m) in relation to certain SIPP cases that have exceeded the 20% permitted links limit on investments in unregulated collectives.

No amount has been recognised under the financial guarantee requirements of FRS 26 as the likelihood of any liability arising from the above items is considered remote and so its fair value is deemed to be immaterial.

**32. ASSETS ATTRIBUTABLE TO THE LONG-TERM BUSINESS FUND**

The total assets attributable to the long-term business fund valued in accordance with the Large & Medium-sized Companies & Groups (Accounts and Reports) Regulations 2008 is £7 4bn (2010 £14 8bn).

**33. SHAREHOLDINGS IN EXCESS OF TWENTY PER CENT**

There are no holdings that exceed 20% of one class of shares for UK equities.

**WINTERTHUR LIFE UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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**34. RELATED PARTIES**

As the Company is a wholly-owned subsidiary it has taken advantage of the exemption granted under FRS 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available

**35. IMMEDIATE AND ULTIMATE PARENT COMPANY**

The Company's ultimate parent undertaking is Resolution Limited, which is incorporated in Guernsey. Copies of the Group Report and Accounts of Resolution Limited can be viewed via its website at [www.resolution.gg](http://www.resolution.gg)

The smallest group in which the results of the Company are consolidated is that headed by Friends Life Group plc. Copies of the Group Report and Accounts can be viewed via its website at [www.friendslife.co.uk](http://www.friendslife.co.uk)