Direct Line Life Insurance Company Limited

Annual FSA Insurance Returns for the year ended

31 December 2012

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

Direct Line Life Insurance Company Limited

Year Ended 31st December 2012

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Statement of solvency - long-term insurance business

Name of insurer	Direct	Line Life Insurance	Company	Limite	d		
Global business							
Financial year ended	31 Dec	ember 2012					
Solo solvency calculation		Company registration number	GL/ CM	day	month	year	Units
	R2	2199286	GL	31	12	2012	£000
					s at er is fina yea	ncial	As at end of the previous year
					1		2
Capital resources							
Capital resources arising within the le	ong-term insura	nce fund	11			33793	39366
Capital resources allocated towards outside the long-term insurance fund		ance business arising	12			19553	17584
Capital resources available to cover resources requirement (11+12)	long-term insur	ance business capital	13			53346	56950
Guarantee fund							
Guarantee fund requirement	-		21			9202	10142
Excess (deficiency) of available capi requirement	tal resources to	cover guarantee fund	22			44144	46808
Minimum capital requirement (f	MCR)						
Long-term insurance capital requirer	ment		31			27606	30426
Resilience capital requirement	-		32				
Base capital resources requirement			33			2984	3056
Individual minimum capital requirem	ent		34			27606	30426
Capital requirements of regulated re	lated undertakir	ngs	35				
Minimum capital requirement (34+35	5)		36			27606	30426
Excess (deficiency) of available cap	ital resources to	cover 50% of MCR	37			39543	38237
Excess (deficiency) of available cap	ital resources to	cover 75% of MCR	38	L		32642	34131
Enhanced capital requirement							
With-profits insurance capital compo	onent		39				
Enhanced capital requirement			40			27606	30426
Capital resources requirement	(CRR)						
Capital resources requirement (great	ter of 38 and 40))	41			27606	30426
Excess (deficiency) of available cap insurance business CRR (13-41)	ital resources to	cover long-term	42			25740	26524
Contingent liabilities							
Quantifiable contingent liabilities in as shown in a supplementary note to	respect of long- o Form 14	term insurance business	51				

Covering Sheet to Form 2

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

P R Geddes

A J Reizenstein

T Woolgrove

Date 28 Mar-2013

Components of capital resources

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended	31 Dece	ember 2	012				
		Company registration	n	GL/ UK/ CM	day mon	th year	Units
	R3	2199	286	GL	31 12	2012	£000
				General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
				1	2	3	4
Core tier one capital			_				
Permanent share capital			11		44000	44000	44000
Profit and loss account and other reserves			12		9365	9365	9475
Share premium account							
Positive valuation differences	_		14		, ,		
Fund for future appropriations		15					
Core tier one capital in related undertakings	5		16				
Core tier one capital (sum of 11 to 16)			19		53365	53365	53475
Tier one waivers	-						
Unpaid share capital / unpaid initial funds a supplementary contributions	ind calls fo	or	21				
Implicit Items			22				
Tier one waivers in related undertakings	_		23				
Total tier one waivers as restricted (21+22-	23)		24				
Other tier one capital							
Perpetual non-cumulative preference share	es as restr	icted	25			·	
Perpetual non-cumulative preference share undertakings	es in relate	ed	26				
Innovative tier one capital as restricted			27				
Innovative tier one capital in related undert	akings		28		<u></u>		
The state of the s		_		T -			50475
Total tier one capital before deductions (19+24+25+26+27+28)			31		53365	53365	53475
Investments in own shares			32				
Intangible assets			33				
Amounts deducted from technical provisions for discounting							
Other negative valuation differences			35		19	19	25
Deductions in related undertakings			36				
Deductions from tier one (32 to 36)	Deductions from tier one (32 to 36)				19	19	25
Total tier one capital after deductions (3	1-37)		39		53346	53346	53450

Components of capital resources

Name of insurer

Direct Line Life Insurance Company Limited

Global business

(61-62-63)

inancial year ended	31 Dec	ember 2	012					
		Company registration		GL/ UK/ CM	(day mont	h yoar	Units
	R3	R3 219928		GL	31	12	2012	£000
	<u> </u>			General insurance business 1	Long- insura busin	ance less	Total as at the end of this financial year 3	Total as at the end of the previous year 4
Tier two capital				!	_	<u>. </u>		
Implicit items, (tier two waivers and amou	ints exclude	d from	41					
Perpetual non-cumulative preference shares excluded from line 25								_
Innovative tier one capital excluded from line 27			43				<u></u>	
Tier two waivers, innovative tier one capi cumulative preference shares treated as 43)	tal and perp tier two cap	etual non- ital (41 to	44					
Perpetual cumulative preference shares			45		ļ			
Perpetual subordinated debt and securiti	es		46					3500
Upper tier two capital in related undertak	ings		47					
Upper tier two capital (44 to 47)			49	<u> </u>				3500
			<u> </u>	-	T		, <u></u>	<u> </u>
Fixed term preference shares			51		ľ			
Other tier two instruments			52		ļ			
Lower tier two capital in related undertak	ings		53		<u> </u>			
Lower tier two capital (51+52+53)		_	59		<u> </u>			<u> </u>
		, .	T	<u> </u>	ī	 		1
Total tier two capital before restriction	ns (49+59)		61		<u> </u>			3500
Excess tier two capital	Excess tier two capital							
Further excess lower tier two capital	<u> </u>		63		<u> </u>			ļ
Total tier two capital after restrictions	, before de	ductions	69					350

Components of capital resources

Name of insurer

Direct Line Life insurance Company Limited

Global business

Financial year ended	31 De	cember 2	012					
		Company registration number		CM NKA CIA	d	lay mont	th year	Units
	R3	2199	286	GL	31	12	2012	£000
	<u> </u>			General insurance business	Long-i insura busin	nce	Total as at the end of this financial year	Total as at the end of the previous year
				1	2		3	4
Total capital resources								
Positive adjustments for regulated rundertakings	ion-insurance r	elated	71					
Total capital resources before de (39+69+71)		72			53346	53346	56950	
Inadmissible assets other than intar	ngibles and own	shares	73					
Assets in excess of market risk and	counterparty lir	nits	74)
Deductions for related ancillary serv	vices undertakir	ngs	75					
Deductions for regulated non-insura	ance related un	dertakings	76					
Deductions of ineligible surplus cap	ital		77					
Total capital resources after ded (72-73-74-75-76-77)	uctions		79			53346	53346	56950
Available capital resources for GEN	PRU/INSPRU te	sts			·			
Available capital resources for guar	antee fund requ	uirement	81			53346	53346	56950
Available capital resources for 50%	MCR requirem	ient	82			53346	53346	53450
Available capital resources for 75%	MCR requirem	nent	83			53346	53346	56950
Financial engineering adjustments					<u>,</u>			
Implicit items			91					
Financial reinsurance - ceded			92					
Financial reinsurance - accepted			93					
Outstanding contingent loans			94		<u> </u>			
Any other charges on future profits			95					
Sum of financial engineering adjus (91+92-93+94+95)	tments		96		<u> </u>		<u>.</u>	

22032013:11:28:33 Form 11

Calculation of general insurance capital requirement - premiums amount and brought forward amount

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Long term insurance business

Long term insurance business	Company GL/ registration UK/ number CM			day	mont	h year	Units	
	R11	2199286	G	L	31	12	2012	0003
					Th	s financ 1	ial year	Previous year 2
Gross premiums written				11			3405	3799
Premiums taxes and levies (included in	line 11)			12				
Premiums written net of taxes and levi	es (11-12)			13			3405	3799
Premiums for classes 11, 12 or 13 (inc	luded in line	13)		14				
Premiums for "actuarial health insuran	ce" (include	d in line 13)		15			2894	3229
Sub-total A (13 + 1/2 14 - 2/3 15)				16			1476	1646
Gross premiums earned							3405	3799
Premium taxes and levies (included in	line 21)		-	22				
Premiums earned net of taxes and levi	es (21-22)			23		_	3405	3799
Premiums for classes 11, 12 or 13 (inc		23)	-	24				
Premiums for "actuarial health insuran	ce" (include	d in line 23)		25			2894	3229
Sub-total H (23 + 1/2 24 - 2/3 25)				26			1476	1646
Sub-total I (higher of sub-total A and	d sub-total	H)		30			1476	1646
Adjusted sub-total I if financial year annual figure	is not a 12	month period to produ	ce an	31				
Division of gross adjusted premiums	x 0.18			32			266	296
amount sub-total I (or adjusted sub-total I if appropriate)	Excess (f any) over 61.3M EURO	x 0.02	33				
Sub-total J (32-33)				34			266	296
Claims paid in period of 3 financial year	ırs			41			12848	11959
Claims outstanding carried		ance business accounter writing year basis	d for on	42			465	535
forward at the end of the 3 year period	an accide	ance business accounte ent year basis		43				
Claims outstanding brought forward at the beginning of	an under	ance business accounte writing year basis						
the 3 year period		ance business accounte ent year basis	a tor on	45				
Sub-total C (41+42+43-44-45)			· · · ·	46			13313	12494
Amounts recoverable from reinsurers in Sub-total C	in respect o	f claims included		47			11690	10866
Sub-total D (46-47)				48			1623	1628
Reinsurance Ratio (Sub-total D /sub-total C or, if more	, 0.50 or, if	less, 1.00)		49			0.50	0.50
Premiums amount (Sub-total J x re				50			133	148
Provision for claims outstanding (beforeinsurance				51			233	268
Provision for claims outstanding (befo both 51.1 and 51.2 are zero, otherwise	re discounti e zero	ng and gross of reinsura	nce) if 	52				
Brought forward amount (See instr				53			473	544
Greater of lines 50 and 53				54			473	544

22032013:11:28:33 Form 12

Calculation of general insurance capital requirement - claims amount and result

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Long term insurance business

Long term insurance busines		Company registration number	GL/ UK/ CM	da	y mont	h yoar	Units	
	R12	2199286	GL	31	12	2012	£000	
				This	s finans	cial year	Previous year 2	
Reference period (No. of mon	iths) See INSPRU 1.1.63	R	11			36	36	
Claims paid in reference perio	od		21			12848	11959	
Claims outstanding carried	For insurance busines on an underwriting year		22			465	535	
forward at the end of the reference period		r insurance business accounted for an accident year basis						
Claims outstanding brought	For insurance busines on an underwriting year	24						
forward at the beginning of the reference period	For insurance busines on an accident year b	25						
Claims incurred in reference	period (21+22+23-24-25))	26			13313	12494	
Claims incurred for classes 1	1, 12 or 13 (included in 2	6)	27					
Claims incurred for "actuarial	health insurance" (include	ded in 26)	28					
Sub-total E (26 +1/2 27 - 2/3	28)		29	29 13313			12494	
Sub-total F - Conversion of and divide by number of mo	sub-total E to annual fi onths in the reference p	gure (multiply by 12 eriod)	31			4438	4165	
Division of sub-total F	x 0.26		32			1154	1083	
(gross adjusted claims amount)	Excess (if any) over 4	33						
Sub-total G (32-33)						1154	1083	
Claims amount Sub-total G x reinsurance ratio (11.49)			41	41 577			541	
Higher of premiums amount	Higher of premiums amount and brought forward amount (11.54)					473	544	
General insurance capital r	equirement (higher of l	ines 41 and 42)	43			577	544	

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Category of assets

Total other than long term insurance business assets

		rogistration number	CW NKA	day	month	year	Units	of assets
	R13	2199286	GL	31	12	2012	£000	1
	•		<u> </u>				d of this lal year	As at end of the previous year
							1	2
Land and buildings				11				

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares	Equity shares			
Other shares and other variable yield par	Other shares and other variable yield participations			
Holdings in collective investment schemes				
Rights under derivative contracts	Rights under derivative contracts			
	Approved	45		
Fixed interest securities	Other	46		
	Approved	47		
Variable interest securities	Other	48		_
Participation in investment pools	Participation in investment pools			
Loans secured by mortgages		50		
Loans to public or local authorities and n	ationalised industries or undertakings	51		
Loans secured by policies of insurance is	ssued by the company	52		
Other loans		53		
Bank and approved credit & financial	One month or less withdrawal	54	30197	13550
institution deposits	More than one month withdrawal	55		4458
Other financial investments				
Deposits with ceding undertakings				
A	Index linked	58		
Assets held to match linked liabilities	Property linked	59		

Name of insurer	Direct Line Life Insurance Company Limited								
Global business									
Financial year ended	31 De	cember 2012							
Category of assets	Total	other than long	term ins	uranc	e bu	siness	assets		
		Company registration number	GL/ UK/ CM	day	month	year	Units		Category of assets
	R13	2199286	GL	31	12	2012	£000		1
	<u> </u>				As at end of this financial year				As at end of the previous year
Data annual share of technical prove	Islans			.		-	1		2
Reinsurers' share of technical prov	ISIONS			60	Τ	= 1		T	
Provision for unearned premiums				61	+			\dashv	
Claims outstanding		<u> </u>		62	+		**	\dashv	
Provision for unexpired risks				63	╁	··		\dashv	
Other					<u> </u>				
Debtors and salvage	l Dali	cyholders		71	_		_	Т	
Direct insurance business		mediaries		72	+			+	
Salvage and subrogation recoveries	1			73					
	Acc	epted		74				\Box	
Reinsurance	Ced	ed		75				4	
Dependents		in 12 months or les		76	\bot			4	
Dependants		in more than 12 m		77	_				
Other		in 12 months or les		78	+-			+	
	due	in more than 12 m	onuns	79]	
Other assets			_	T	\top				
Tangible assets				80	+	· .			
Deposits not subject to time restriction of institutions	n withd	rawal with approved		81		- <u>-</u>			
Cash in hand				82				_	
Other assets (particulars to be specified	by way	of supplementary r	note)	83	\perp			_	
Accrued interest and rent				84				9	13
Deferred acquisition costs (general business only)							_		
Other prepayments and accrued income	Other prepayments and accrued income					_	.		
Deductions from the aggregate value of assets									
Grand total of admissible assets after d	eduction	of admissible ass	ets -	88	\top		302	06	18021
in excess of market risk and counterpar	y mints	(11 10 00 1035 01)				_			

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Category of assets

Total other than long term insurance business assets

	Company registration number	GL/ UK/ CM	day	menth	year	Units	Catogory of assets
R13	2199286	GL	31	12	2012	£000	1
		<u></u> -	<u> </u>		As at end of this financial year		As at end of the previous year
					•	i	2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	30206	18021
Admissible assets in excess of market and counterparty limits	92		_
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	·	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	30206	18021

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

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Category of assets

Total long term insurance business assets

	r	ompany ogistration umber	GL/ UK/ CM	day	month	year	Units	Category of assets
	R13	2199286	GL	31	12	2012	£000	10
	<u> </u>						d of this lal year	As at end of the previous year
							1	2
Land and buildings	-			11				

Investments in group undertakings and participating interests

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

Other financial investments

Other mariotal myodiments		41		
Equity shares				
Other shares and other variable yield par	ticipations *	42		
Holdings in collective investment scheme	98	43		
Rights under derivative contracts		44		
	Approved	45	31120	41515
Fixed interest securities	Other	46		
	Approved	47		
Variable interest securities	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and n	ationalised industries or undertakings	51		
Loans secured by policies of insurance i	ssued by the company	52		
Other loans		53		
Bank and approved credit & financial	One month or less withdrawal	54	4849	22922
institution deposits	More than one month withdrawal	55		7542
Other financial investments	56			
Deposits with ceding undertakings	57			
	Index linked	58		
Assets held to match linked liabilities	Property linked	59		

Analysis of admissible assets								
Name of insurer	Direct Line Life Insurance Company Limited							
Global business								
Financial year ended	31 December 2012							
Category of assets	Total	long term insura	ance bus	iness a	asse	ts		
		Company registration number	GL/ GL/	day m	onth y	yoar	Units	Category of assets
	R13	2199286	GL	31	12	2012	£000	10
					-	financi	d of this al year	As at end of the previous year
Reinsurers' share of technical prov	isions				1	<u> </u>		22
Provision for uneamed premiums				60				
Claims outstanding			<u>.,</u>	61		_		
Provision for unexpired risks				62				
Other				63				
Debtors and salvage								-
Direct insurance business		cyholders mediaries		71 72	-		1244	1564
Salvage and subrogation recoveries	inte	medianes		73	 			
Reinsurance	Acc	epted		74				
Reinsurance	Ced			75	-		2736	1486
Dependants		in 12 months or les		76	╁			
		in 12 months or les		78	1	,	4170	3917
Other	due	in more than 12 mo	onths	79	1			
Other assets							-	
Tangible assets				80				3
Deposits not subject to time restriction of institutions	on withd	rawal with approved		81			187	104
Cash in hand				82				
Other assets (particulars to be specified	by way	of supplementary n	ote)	83	┸			
Accrued interest and rent			84			629	1042	
Deferred acquisition costs (general business only)			85	<u> </u>				
Other prepayments and accrued incom	e			86			7684	10947
Deductions from the aggregate value o	f assets			87				
Grand total of admissible assets after din excess of market risk and counterpart	eduction	of admissible asse	ets	89			52618	91042

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Category of assets

Total long term insurance business assets

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2199286	GL	31	12	2012	£000	10
<u> </u>		•	<u></u>		As at en financi	d of this al year	As at end of the previous year
						l	2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	52618	91042
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		·
Other differences in the valuation of assets (other than for assets not valued above)	98	19	25
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	94731	82762
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	147368	173829

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

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Long term insurance business liabilities and margins

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Total business/Sub fund

reporting (71 to 75)

Ordinary Long Term

Units

As at end of
the previous
year
2

Mathematical reserves, after distribution of surplus			11790	14380
Cash bonuses which had not been paid to policyholders prior to end of the financial year				
Balance of surplus/(valuation de	ficit)	13	33793	39366
Long term insurance business fu	and carried forward (11 to 13)	14	45583	53746
	Gross	15	4220	4867
Claims outstanding	Reinsurers' share	16	3587	4129
	Net (15-16)	17	633	738
	Taxation	21		
Provisions	Other risks and charges	22		·
Deposits received from reinsure	rs	23		
	Direct insurance business	31	1048	1237
Creditors	Reinsurance accepted	32	_	
	Reinsurance ceded	33	30	34
	Secured	34		
Debenture loans	Unsecured	35		
Amounts owed to credit institution	ons	36		
- 11.	Taxation	37	2065	1933
Creditors	Other	38	3260	33354
Accruals and deferred income		39		
Provision for "reasonably forese	eable adverse variations"	41		
Total other insurance and non-in	nsurance liabilities (17 to 41)	49	7036	37296
Excess of the value of net admis	ssible assets	51		
Total liabilities and margins		59	52619	91042
		 -		
Amounts included in line 59 attri other than those under contracts	ibutable to liabilities to related companies, s of insurance or reinsurance	61	3006	33090
Amounts included in line 59 attri linked benefits	butable to liabilities in respect of property	62		
Total liabilities (11+12+49)		71	18826	51676
Increase to liabilities - DAC rela	ted	72		
Reinsurers' share of technical p		73	94732	82762
Other adjustments to liabilities (74	<u></u>	
Capital and reserves and fund f		75	53365	53475
Total liabilities under insurance	accounts rules or international accounting irm for the purpose of its external financial	76	166923	187913

Liabilities (other than long term insurance business)

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended	31 Dece	ember 2012			
		Company registration number	GL/ UK/ CM	day month year	Units
	R15	2199286	GL	31 12 2012	£000
				As at end of this financial year 1	As at end of the previous year 2
Technical provisions (gross am	ount)				
Provisions for unearned premiums			11		
Claims outstanding	-		12		
Provision for unexpired risks			13		
	Credit bu	usiness	14		
Equalisation provisions	Other th	an credit business	15		
Other technical provisions			16		
Total gross technical provisions (11	to 16)		19		
Provisions and creditors					
	Taxation	<u> </u>	21		
Provisions		sks and charges	22		
Deposits received from reinsurers	100101110	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	31		
Deposits received nonintensorers	Direct in	surance business	41		
Creditors		ance accepted	42		
Creditors		ance ceded	43		.
-	Secured	 	44		
Debenture loans	Unsecu		45		
	Unsecui	<u> </u>	46		
Amounts owed to credit institutions	1=		47	152	437
	Taxation			7000	
Creditors		able dividend	48	7000	
	Other		49		
Accruals and deferred income			51	7152	437
Total (19 to 51)			59	7132	407
Provision for "reasonably foreseeab		variations"	61		
Cumulative preference share capita	<u> </u>		62	2502	3500
Subordinated loan capital			63	3500	3937
Total (59 to 63)			69	10652	3537
Amounts included in line 69 attribute than those under contracts of insura	able to liabil ance or rein	lities to related insurers, other surance	71		
				· · ·	
Amounts deducted from technical p		r discounting	82		
Other adjustments (may be negative	e) .		83		
Capital and reserves			84		
Total liabilities under insurance acc standards as applicable to the firm reporting (69-82+83+84)	ounts rules for the purp	or international accounting ose of its external financial	85	10652	3937

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Profit and loss account (non-technical account)

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

-inanciai year ended		JI Decem	Company registration number	GL/ UK/ CM	day	month	yoar	Units
		R16	2199286	GL	31	12	2012	£000
	_				Th	nis fina yea 1		Previous year 2
Transfer (to)/from the		From Fo	nrm 20	11				
general insurance business technical account			ation provisions	12				
Transfer from the long term insurance business revenue account		13			12000	57000		
	Inco	me		14			624	1649
Investment income	Value re-adjustments on investments		15					
	4	Gains on the realisation of investments		16				
	Investment management charges, including interest		17					
Investment charges	Valu	ue re-adjustments on estments		18				
	1	on the rea	alisation of	19				
Allocated investment returninsurance business technic	transfe	rred to the	general	20				
Other income and charges by way of supplementary n	(particu		specified	21				
Profit or loss on ordinary ac (11+12+13+14+15+16-17-1	tivities	before tax 0+21)		29			12624	58649
Tax on profit or loss on ord				31		_	152	437
Profit or loss on ordinary a	ctivities	after tax (2	9-31)	39		_	12472	58212
Extraordinary profit or loss by way of supplementary n	(particu ote)	lars to be s	pecified	41				·
Tax on extraordinary profit				42				
Other taxes not shown und	er the p	receding it	ems	43				
Profit or loss for the financial	Profit or loss for the financial year (39+41-(42+43))		49			12472	58212	
Dividends (paid or foresee	able)			51			7000	50000
Profit or loss retained for th	ne financ	cial year (4	9-51)	59			5472	8212

Long-term insurance business : Revenue account

Name of insurer

Direct Line Life Insurance Company Limited

Total business / subfund

Ordinary Long Term

Financial year ended

31 December 2012

Units

		Financial year	Previous year
Income			
Earned premiums	11	21882	22646
Investment income receivable before deduction of tax	12	887	514
Increase (decrease) in the value of non-linked assets brought into account	13	(85)	614
Increase (decrease) in the value of linked assets	14		
Other income	15		1
Total income	19	22684	23775
Expenses payable	22	11946	10697
Expenditure Claims incurred	21	4649	6322
Interest payable before the deduction of tax	23		
Taxation	24	2252	1639
Other expenditure	25		
Transfer to (from) non technical account	26	12000	57000
Total expenditure	29	30847	75658
Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(8163)	(51883
Fund brought forward	49	53746	105629
Fund carried forward (39+49)	59	45583	53746

Long-term insurance business : Analysis of premiums

Name of insurer

Direct Line Life Insurance Company Limited

Total business / subfund

Ordinary Long Term

Financial year ended

31 December 2012

Units

£000

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

Gross

Regular premiums	11	38083	38083	41080
Single premiums	12	8526	8526	6976

Reinsurance - external

Regular premiums	13	24727	24727	25410
Single premiums	14			

Reinsurance - intra-group

Regular premiums	15			
Single premiums	16			

Net of reinsurance

Regular premiums	17	13356	13356	15670
Single premiums	18	8526	8526	6976

Total

Gross	19	46609	46609	48056
Reinsurance	20	24727	24727	25410
Net	21	21882	21882	22646

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Long-term insurance business : Analysis of claims

Name of insurer Direct Line Life Insurance Company Limited

Total business / subfund Ordinary Long Term

Financial year ended 31 December 2012

Units £000

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
11	2	3	4	5

Form 42

Gross

					· · · · · · · · · · · · · · · · · · ·
Death or disability lump sums	11	22934		 22934	22481
Disability periodic payments	12			 	
Surrender or partial surrender	13		_		
Annuity payments	14				
Lump sums on maturity	15				
Total	16	22934		 22934	22481

Reinsurance - external

Itomodiane execute.			 	 	
Death or disability lump sums	21	18285		 18285	16159
Disability periodic payments	22				
Surrender or partial surrender	23			 	
Annuity payments	24			 	
Lump sums on maturity	25				
Total	26	18285		18285	16159

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	4649		4649	6322
Disability periodic payments	42				
Surrender or partial surrender	43				
Annuity payments	44		 		,, ·
Lump sums on maturity	45				
Total	46	4649		4649	6322

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Long-term insurance business : Analysis of expenses

Name of insurer

Direct Line Life Insurance Company Limited

Total business / subfund

Ordinary Long Term

Financial year ended

31 December 2012

Units

£000

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

Gross

Commission - acquisition	11			
Commission - other	12	4375	4375	1297
Management - acquisition	13			2197
Management - maintenance	14	1832	1832	1808
Management - other	15	5739	5739	5395
Total	16	11946	11946	10697

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	1	
Commission - other	2	
Management - acquisition	3	
Management - maintenance	4	
Management - other	5	
Total	6	

Net of reinsurance

Commission - acquisition	41			
Commission - other	42	4375	4375	1297
Management - acquisition	43			2197
Management - maintenance	44	1832	1832	1808
Management - other	45	5739	5739	5395
Total	46	11946	11946	10697

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Long-term insurance business : Summary of new business

Name of insurer

Direct Line Life Insurance Company Limited

Total business

Financial year ended

31 December 2012

Units

£000

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

Number of new policyholders/

scheme members for direct insurance business

Illaniance pusiness			 		
Regular premium business	11				1859
Single premium business	12	10		10	12
Total	13	10		10	1871

Amount of new regular premiums

Direct insurance business	21			560
Direct instrance business	<u> - ' </u>	<u> </u>		
External reinsurance	22		 	
Intra-group reinsurance	23			
Total	24			560

Amount of new single premiums

Direct insurance business	25	8526		8526	6976
External reinsurance	26				
Intra-group reinsurance	27				
Total	28	8526		8526	6976

Long-term insurance business : Analysis of new business

Name of insurer

Total business

Financial year ended

Units

UK Life / Direct Insurance Business

Direct Line Life Insurance Company Limited

31 December 2012

		Regular prem	ium business	Single premium business		
Product code number	Product description	Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums	
1	2	3	4	5		
300	Regular premium non-profit WL/EA OB					
325	Level term assurance					
330	Decreasing term assurance			· · · · · · · · · · · · · · · · · · ·		
345	Accelerated critical illness (reviewable premiums)					
415	Collective life			10	8526	
<u></u>						
L						

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

Name of insurer

Direct Line Life Insurance Company Limited

Category of assets

10 Total long term insurance business assets

Financial year ended

31 December 2012

Units

£000

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

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

Land and buildings	11					
Land and buildings	12	31744	31744	1330	1.04	
Approved fixed interest securities		V.II. 11	25.1970/4	(4526-2)		-
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16			8		
Unlisted equity shares	17					
Other assets	18	20874	20874	20	0.42	
Total	19	52618	52618	1350	0.79	

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

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

Overall return on with-profits assets

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

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Long-term insurance business : Summary of mathematical reserves

Name of insurer

Direct Line Life Insurance Company Limited

Total business / subfund

Ordinary Long Term

Financial year ended

31 December 2012

Units

£000

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

Gross

01000				
Form 51 - with-profits	11			
Form 51 - non-profit	12	102934	102934	93013
Form 52	13			
Form 53 - linked	14			
Form 53 - non-linked	15			
Form 54 - linked	16			
Form 54 - non-linked	17			
Total	18	102934	102934	93013

Reinsurance - external

110111001100	·		 	
Form 51 - with-profits	21			
Form 51 - non-profit	22	91144	91144	78633
Form 52	23			
Form 53 - linked	24			
Form 53 - non-linked	25			
Form 54 - linked	26			
Form 54 - non-linked	27			
Total	28	91144	 91144	78633

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42	11790		11790	14380
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
Total	48	11790		11790	14380

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Life / Gross

Direct Line Life Insurance Company Limited

Ordinary Long Term

31 December 2012

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	4029	15544	823				3155
325	Level term assurance	101476	10233677	21796				69961
330	Decreasing term assurance	36696	3374889	7778				7631
340	Accelerated critical illness (guaranteed premiums)	1039	75407	311				3219
345	Accelerated critical illness (reviewable premiums)	13101	1180704	6011				15866
355	Stand-alone critical illness (reviewable premiums)	248	11778	48				307
365	Income protection non-profit (reviewable premiums)	230	2497	40				53
380	Miscellaneous protection rider			1				1
385	Income protection claims in payment							465
415	Collective life		1033007					2276
440	Additional reserves non-profit OB							
	141							

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

Name of insurer

Total business / subfund

Financial year ended

Units

UK Life / Reinsurance ceded external

Direct Line Life Insurance Company Limited

Ordinary Long Term

31 December 2012

Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
2	3	4	5	6	7	8	9
Regular premium non-profit WL/EA OB		236	6				50
Level term assurance		8864451	18668				65220
Decreasing term assurance		2967435	6654		Excis E		6721
Accelerated critical illness (guaranteed premiums)		67866	280				2944
Accelerated critical illness (reviewable premiums)		1062634	5410				15641
Stand-alone critical illness (reviewable premiums)		10600	43				303
Income protection non-profit (reviewable premiums)		1215	20				32
Miscellaneous protection rider			0				0
Income protection claims in payment							233
		-					
					I HE		
	Regular premium non-profit WL/EA OB Level term assurance Decreasing term assurance Accelerated critical illness (guaranteed premiums) Accelerated critical illness (reviewable premiums) Stand-alone critical illness (reviewable premiums) Income protection non-profit (reviewable premiums) Miscellaneous protection rider	Product description policyholders / scheme members 2 Regular premium non-profit WL/EA OB Level term assurance Decreasing term assurance Accelerated critical illness (guaranteed premiums) Accelerated critical illness (reviewable premiums) Stand-alone critical illness (reviewable premiums) Income protection non-profit (reviewable premiums) Miscellaneous protection rider	Product description policyholders / scheme members 3 4 Regular premium non-profit WL/EA OB 236 Level term assurance 8864451 Decreasing term assurance 2967435 Accelerated critical illness (guaranteed premiums) 67866 Accelerated critical illness (reviewable premiums) 1062634 Stand-alone critical illness (reviewable premiums) 10600 Income protection non-profit (reviewable premiums) 1215	Product description policyholders / scheme members 2 Regular premium non-profit WL/EA OB Level term assurance Decreasing term assurance Accelerated critical illness (guaranteed premiums) Accelerated critical illness (reviewable premiums) Stand-alone critical illness (reviewable premiums) Miscellaneous protection rider Product description policyholders / scheme members 4 5 Amount of benefit annual office premiums 5 Amount of benefit annual office premiums 5 Accelerated critical illness (8864451 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668 18668	Product description policyholders / scheme members 3 4 5 6 Regular premium non-profit WL/EA OB 236 6	Product description policyholders / scheme members 3 4 5 6 7 Regular premium non-profit WL/EA OB 236 6	Product description Product d

Long-term insurance business: Analysis of valuation interest rate

Name of insurer

Direct Line Life Insurance Company Limited

Total business

Ordinary Long Term

Financial year ended

31 December 2012

Units

Product group	Net mathematical reserves	Net valuation Interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets 5
UK Pens NP Form 51 assurances (excluding credit assurance)	9514		0.01	0.02
UK Ł&GA Form 51 Credit Assurance	2276			0.00
Total	11790			

Long-term insurance business : Distribution of surplus

Name of insurer

Direct Line Life Insurance Company Limited

Total business / subfund

Ordinary Long Term

Financial year ended

31 December 2012

Units

£000

Financial year	Previous year
1	2
	

Valuation result

Fund carried forward	11	45583	53746
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	12000	57000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	57583	110746
Mathematical reserves	21	11790	14380
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	45793	96366

Composition of surplus

Balance brought forward	31	39366	89970
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	6427	6396
Total	39	45793	96366

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	12000	57000
Total distributed surplus (46+47)	48	12000	57000
Surplus carried forward	49	33793	39366
Total (48+49)	59	45793	96366

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance capital requirement

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2012

Units

£000

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

Insurance death risk capital component Life protection reinsurance 0 307 0.1% 151 151 12 Classes I (other), II and IX 474 187 249436 249436 0.50 0.15% 13 Classes I (other), II and IX 25940 23342 2689489 0.3% 15561533 Classes I (other), II and IX 14 15 0.3% Classes III, VII and VIII 23529 26721 2939076 16 15811120 Total

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life 21 577 544

health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	102110	11532	0.85	868	783
Classes III, VII and VIII (investment risk)	33	1%					
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%	824	258	0.85	7	7
Class V	37	1%					
Class VI	38	1%					
Total	39					875	790

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	102110	11532	0.85	2604	2349
Classes III, VII and VIII (investment risk)	43	3%					
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%	824	258	0.85	21	22
Class V	47	0%					
Class VI	48	3%		5			
Total	49		102934	11790		2625	2371

Long term insurance capital requirement	51			27606	30426

Name of company DIRECT LINE LIFE INSURANCE COMPANY LIMITED

Financial year ended 31 December 2012

Appendix 9.4

Abstract of valuation report

- 1. (1) The valuation date is 31 December 2012.
 - (2) The previous valuation date was 31 December 2011.
 - (3) No interim valuations have been carried out since the previous valuation date.
- 2. There have been no significant changes in existing products over the year. The company is currently closed to new business.
- 3. (1) Not applicable.
 - (2) The premium review on reviewable premium critical illness and accelerated critical illness policies written prior to October 2008 was completed in 2011.
 - (3) Not applicable.
 - (4) Not applicable.
 - (5) Not applicable.
 - (6) Not applicable.
 - (7) Not applicable.
 - (8) Not applicable.
 - (9) Not applicable.
 - (10) Not applicable.
- 4. (1) All contracts, with the exception of group credit life business, have been valued by the gross premium method. Provision has been made for renewal expenses as described in paragraph 4(6). Reserves for reinsurance ceded have been calculated as the difference between reserves calculated gross and net of reinsurance.

The methods of valuation for credit insurance vary by the type of scheme, and are listed below.

For the DLFS Mastercard credit card scheme, a reserve equal to twice the monthly premium (net of commission) payable in the month ending on the valuation date has been established. For all other credit card schemes, a reserve equal to the monthly premium (net of commission) payable in the month ending on the

Name of company DIRECT LINE LIFE INSURANCE COMPANY LIMITED

Financial year ended 31 December 2012

valuation date has been established. Due account is taken of the liability in respect of claims incurred but not reported by the valuation date.

- For the Natwest Personal Loans and Business Loans schemes, reserves have been taken as 95% of a proportion of the single premium (net of commission where applicable). The proportion is calculated by dividing the outstanding term of the loan by the original term. The original term is between one and ten years.
- For other single premium loan schemes, reserves have been taken as 100% of a proportion of the single premium (net of commission where applicable). The proportion is calculated by dividing the outstanding term of the loan by the original term.
- For Natwest Regular Premium Loans Schemes, a regular premium is payable to cover, in the event of death or sickness, the balance outstanding under a loan repaid by level instalments. For this scheme reserves are calculated as 100% of one month's forecast premiums based on the most recent month's actuals.
- For any decreasing term assurance, fixed term assurance or whole of life policy providing a waiver of premium benefit or subject to an extra premium, the reserve has been increased by the annual amount of such premium less the proportion of benefit reinsured. Reserves in respect of premiums currently being waived are calculated as for outstanding claims under income protection contracts, by taking the annual claim amount and multiplying by an annuity factor calculated over the outstanding term of the policy.
- (2) No interest rate assumption is made for credit insurance. For all other product groups an interest rate of 1.0% was assumed at the end of the financial year in question, changed from 1.2% in the previous financial year.
- (3) To determine the risk adjusted yield in Form 57, the yield on all fixed interest securities was reduced by 0.1% to exclude that part of the yield that represents compensation for credit risk arising from the asset. This small adjustment reflects the high security of the bonds currently held within the asset portfolio.
- (4) The mortality bases used at the current and previous valuation date are listed below.

Financial year ended 31 December 2012

	31 Decen	nber 2012	31 Decen	nber 2011
Product type	Male	Female	Male	Female
Credit				
insurance	n/a	n/a	n/a	n/a
Critical	Combined	Combined	Combined	Combined
illness	mortality/	mortality/	mortality/	mortality/
	morbidity tables	morbidity tables	morbidity tables	morbidity tables
	used - see (5)	used - see (5)	used - see (5)	used - see (5)
	below	below	below	below
Decreasing	80% of TMN00	80% of TFN00	80% of TMN00	80% of TFN00
term	Ultimate for non-	Ultimate for non-	Ultimate for non-	Ultimate for non-
assurance	smokers and	smokers and	smokers and	smokers and
	80% of TMS00	80% of TF\$00	80% of TMS00	80% of TFS00
	Ultimate for	Ultimate for	Ultimate for	Ultimate for
	smokers	smokers	smokers	smokers
Level term	80% of TMN00	80% of TFN00	80% of TMN00	80% of TFN00 Ultimate for non-
assurance	Ultimate for non-	Ultimate for non-	Ultimate for non-	smokers and
	smokers and	smokers and	smokers and 80% of TMS00	80% of TFS00
	80% of TMS00	80% of TFS00	Ultimate for	Ultimate for
	Ultimate for	Ultimate for	smokers	smokers
1 120	smokers	smokers 80% of TFN00	80% of TMN00	80% of TFN00
Whole life	80% of TMN00	Ultimate for non-	Ultimate for non-	Ultimate for non-
	Ultimate for non-	smokers and	smokers and	smokers and
	smokers and	80% of TFS00	80% of TMS00	80% of TFS00
	80% of TMS00 Ultimate for	Ultimate for	Ultimate for	Ultimate for
	smokers	smokers	smokers	smokers
Incomo	55% of TMN00	55% of TFN00	55% of TMN00	55% of TFN00
Income	Ultimate for non-	Ultimate for non-	Ultimate for non-	Ultimate for non-
protection	smokers and	smokers and	smokers and	smokers and
	55% of TMS00	55% of TFS00	55% of TMS00	55% of TFS00
	Ultimate for	Ultimate for	Ultimate for	Ultimate for
	smokers	smokers	smokers	smokers
Whole life	X% of Interim Life	X% of Interim Life	X% of Interim Life	X% of Interim Life
Guaranteed	Tables; where	Tables; where	Tables; where	Tables; where
Acceptance	X% = 207%	X% = 207%	X% = 207%	X% = 207%
Product	reducing linearly	reducing linearly	reducing linearly	reducing linearly
.,,,,,	to 103.5% over	to 103.5% over	to 103.5% over	to 103.5% over
	15 years, after	15 years, after	15 years, after	15 years, after
	which it remains	which it remains	which it remains	which it remains
	constant at	constant at	constant at	constant at
	103.5%. The	103.5%. The	103.5%. The	103.5%. The
	Interim Life	Interim Life	Interim Life	Interim Life
	Tables are those	Tables are those	Tables are those	Tables are those
	published by the	published by the	published by the	published by the
	Government	Government	Government	Government
	Actuary	Actuary	Actuary	Actuary
	Department	Department	Department	Department
	website in	website in	website in	website in
	March 2006.	March 2006.	March 2006.	March 2006.

Financial year ended 31 December 2012

- (5) The morbidity bases assumed for the income protection business are given below.
 - Inception rates of 120% DTS (basic) sickness and accident and termination rates of 56% DTS (basic) average of sickness and accident in the first two years and 80% DTS (basic) average of sickness and accident thereafter with an additional loading of 6.5% of the claim value. The DTS (basic) morbidity table is the Disability Table Study Basic Table. This is the 1985 CIDA (Commissioners Individual Disability Table A) without the valuation margin added.
 - The above inception rates were increased by 50% for females and by 40% for smokers and by 100%, 200% and 300% for occupational classes II, III and IV respectively.

The morbidity bases assumed for the critical illness business are given below:

- For critical illness policies with guaranteed premiums, the inception rates for male and female non-smokers assumed in the valuation were modified CIBT93 male and CIBT93 female respectively. Rates from CIBT93 were multiplied by 120% and the ratio of TM92 (females – TF92) to ELT15M (females – ELT15F). For future years the rates are increased by 2.0% per annum to allow for possible deterioration in experience.
- For critical illness policies with reviewable premiums, the inception rates for males and females assumed in the valuation were modified CIBT93 male and CIBT93 female respectively. Rates from CIBT93 were multiplied by 115% and the ratio of TM92 (females – TF92) to ELT15M (females – ELT15F). For future years the rates are increased by 1.0% per annum to allow for possible deterioration in experience.
- For critical illness policies, with either reviewable or guaranteed premiums, for smokers the above rates were multiplied by 160% for accelerated critical illness policies and by 180% for standalone policies.

The morbidity inception rates for model ages for critical illness policies are given below.

	Inception	ranteed 		
	Non si	mokers	Smo	kers
Age	Male	Female	Male	Female
25	0.00130	0.00097	0.00208	0.00156
35	0.00164	0.00186	0.00262	0.00298
45	0.00393	0.00373	0.00629	0.00596
55	0.01085	0.00817	0.01736	0.01308

Name of company DIRECT LINE LIFE INSURANCE COMPANY LIMITED

Financial year ended 31 December 2012

	Inception	Inception Rates for accelerated CI (reviewable premiums)						
	Non s	mokers	Sm	okers				
Age	Male	Female	Male	Female				
25	0.00125	0.00093	0.00199	0.00149				
35	0.00157	0.00178	0.00251	0.00285				
45	0.00377	0.00357	0.00603	0.00571				
55	0.01040	0.00783	0.01664	0.01253				

	Inception Rate	s for stand alon	e CI (reviewal	ole premiums)
	Non smokers		Sm	okers
Age	Male	Female	Male	Female
25	0.00125	0.00093	0.00224	0.00168
35	0.00157	0.00178	0.00282	0.00321
45	0.00377	0.00357	0.00678	0.00643
55	0.01040	0.00783	0.01872	0.01410

- No expense assumption is made for credit insurance. For all other product groups, renewal expenses were assumed to be £14.50 per policy per annum, increasing at 5.5% per annum compound compared with the previous valuation assumption of £13.90 per policy per annum increasing at 5.5% per annum compound. No tax relief was assumed to be available on expenses and no Zillmer adjustment has been made.
- (7) Not applicable.
- (8) Not applicable.

Financial year ended 31 December 2012

(9)

Product		Average lapse rate for policy years			
		1-5	6-10	11-15	16-20
Level Term	Lapse	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%
Decreasing term	Lapse	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%
Accelerated critical illness	Lapse	4.5%/15.5%	4.5%/15.5%	4.5%/15.5%	4.5%/15.5%
Whole Life GAP	Lapse	0%	0%	0%	0%
Income protection	Lapse	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%	1.5%/12.5%

Where two rates are shown above the lower rate is assumed when projected cashflows are negative and the higher rate when positive. The lapse assumption remains unchanged from previous valuation.

- (10) No credit has been taken for negative reserves.
- (11) Not applicable.
- (12) No changes have been made in the year to the valuation methodology.
- 5 (1) Not applicable.
 - (2) Not applicable.
 - (3) No specific provision was considered necessary in respect of options to increase cover without further evidence of health.
 - (4) Some policies have a waiver of premium benefit option (which must be selected at outset). The reserve held in respect of this business is one annual premium. The amount of annual premium and hence the additional gross reserve at the valuation date was £0.81k.
- The aggregate gross amount arising during the 12 months after the valuation date from explicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is approximately £2.27 million from the release of the expense reserves described in paragraph 4(6) and £0.30 million from the release of premium margins expected to arise during the 12 months after the valuation date during the nil reinsurance premium period.
 - (2) There is no implicit allowance for expenses.

- (3) Not applicable.
- (4) Not applicable, the company is closed to new business.
- (5) The company is closed to new business and the per policy expense allowances and the assumed expense inflation rate were set by reference to the total expenses of the company projected to be incurred in fulfilling the existing contracts following closure to new business.
- (6) Not applicable.
- 7 (1) All liabilities are payable in sterling and are matched by assets in the same currency. There are no liabilities in respect of deposits received from reinsurers.
 - (2) All liabilities are payable in sterling.
 - (3) Not applicable.
 - (4) No assets are held in equities or real estate. The most onerous scenario tested for the purposes of the resilience capital requirement required by INSPRU 3.1.16R, was a rise in yields of all fixed interest securities by 20% of the long term gilt yield.
 - (5) Not applicable.
 - (6) a. No resilience capital requirement was required.
 - b. The aggregated amount of the long-term insurance liabilities decreased by £354k.
 - c. The aggregate amount of assets allocated to match the liabilities decreased by £312k under the scenario described in point (4) above.
 - (7) No further reserves are required to be set up as a result of the tests on assets in INSPRU 1.1.34R(2).
- 8 There are no other special reserves.
- 9 (1) Not applicable.
 - (2)(i) d. The Company has a reinsurance treaty with Munchener Ruckversicherungs-Gesellschaft AG in Munchen.
 - e. The treaty covers decreasing term assurance (mortgage protection and family income benefit ("FIB")), fixed term assurance and whole of life policies written before 1 October 1999. For business written before 3 July 1997, 50% of the mortality and critical illness benefit is reinsured subject to a maximum retention of £100,000 on any one life for policies with level benefit and £80,000 for policies with increasing benefits (for FIB the retention level is based on a commuted value of

Financial year ended 31 December 2012

income payments). For business written after this date, reinsurance is on a surplus basis, with 100% of the benefit in excess of £200,000 being reinsured. The business ceded is reinsured on a level reinsurance premium rate basis.

- f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012, net of reinsurance premium rebate receivable, were £165,768.
- g. No amount was deposited by the reinsurer with the Company at the valuation date.
- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £0.28 million.
- k. The treaty is closed to new business.
- 1. The reinsurer is authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(ii) d. The Company has a second treaty with Munchener Ruckversicherungs-Gesellschaft AG in Munchen.
 - e. The treaty covers income protection policies and waiver of premium benefit under decreasing term assurance (mortgage protection and FIB), fixed term assurance and whole of life policies. 50% of the benefit is reassured subject to a maximum retention of £12,500 per annum per life for policies with level benefits and £10,000 per annum for policies with increasing benefits. The business ceded is reinsured on a level reinsurance premium rate basis.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012, net of reinsurance commission receivable, were £24,379.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.

- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £0.26 million.
- k. The treaty is closed to new business.
- I. The reinsurer is authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(iii) d. The Company has a third treaty with Munchener Ruckversicherungs-Gesellschaft AG in Munchen.
 - e. The treaty covers fixed term assurance and decreasing term assurance (only mortgage protection) policies issued after 1 October 1999. 20% of the benefit is reassured subject to a maximum retention (after taking account of the reinsurance in (v) and (vi) below) of £200,000. The business ceded is reinsured on a guaranteed level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £598,607.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is closed to new business.
 - i. The Company has no undischarged obligation.
 - j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £1.94 million.
 - k. The treaty is closed to new business.
 - I. The reinsurer is authorised to carry on insurance business in the United Kingdom.

- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(iv) d. The Company has a fourth treaty with Munchener Ruckversicherungs-Gesellschaft AG in Munchen.
 - e. The treaty covers fixed term assurance and decreasing term assurance (mortgage protection only) policies issued on a rafter 1 February 2008. 90% of the benefit is reassured subject to a maximum retention of £200,000. The business ceded is reinsured on a level guaranteed reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £3,542,266.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is closed to new business.
 - i. The Company has no undischarged obligation.
 - j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £10.60 million.
 - k. The treaty is closed to new business.
 - 1. The reinsurer is authorised to carry on insurance business in the United Kingdom.
 - m. The Company and the reinsurer are not connected.
 - n. Not applicable.
 - o. Not applicable.
 - p. The Company has no undischarged obligation under any financing arrangement.
 - (2)(v)d. The Company has a treaty with GE Frankona Reassurance Limited. In 2005, GE Frankona Reassurance Limited was acquired by Swiss Re.

- e. The treaty covers fixed term assurance and decreasing term assurance (only mortgage protection) policies issued after 1 October 1999. 10% of the benefit is reassured subject to a maximum retention (after taking account of the reinsurance in (iii) above and (vi) below) of £200,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a guaranteed level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
- f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £299,303.
- g. No amount was deposited by the reinsurer with the Company at the valuation date.
- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £0.97 million.
- k. The treaty is closed to new business.
- I. The reinsurer is not authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(vi) d. The Company has a treaty with RGA Reinsurance Company (Barbados) Limited.
 - e. The treaty covers fixed term assurance and decreasing term assurance (only mortgage protection) policies issued after 1 October 1999. 60% of the benefit is reassured subject to a maximum retention (after taking account of the reinsurance in (iii) and (v) above) of £200,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a guaranteed level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £1,795,820.

- g. No amount was deposited by the reinsurer with the Company at the valuation date.
- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £5.83 million.
- k. The treaty is closed to new business.
- 1. The reinsurer is not authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(vii) d. The Company has a treaty with Swiss Re Europe S.A.
 - e. The treaty covers fixed term assurance and decreasing term assurance (only mortgage protection) policies issued after 1 November 2001 and before 31 March 2003. 90% of the benefit is reassured subject to a maximum retention of £200,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a guaranteed level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £2,646,562.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - **h.** The treaty is closed to new business.
 - i. The Company has no undischarged obligation.
 - j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £16.63 million.
 - k. The treaty is closed to new business.

- I. The reinsurer is authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(viii) d. The Company has a second treaty with Swiss Re Europe S.A.
 - e. The treaty covers accelerated critical illness policies issued after 13 May 2002. 90% of the benefit is reassured subject to a maximum retention of £200,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a guaranteed level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £212,717.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is closed to new business.
 - i. The Company has no undischarged obligation.
 - j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £2.94 million.
 - k. The treaty is closed to new business.
 - The reinsurer is authorised to carry on insurance business in the United Kingdom.
 - m. The Company and the reinsurer are not connected.
 - n. Not applicable.
 - o. Not applicable.
 - p. The Company has no undischarged obligation under any financing arrangement.
- (2)(ix) d. The Company has a third treaty with Swiss Re Europe S.A.

- e. The treaty covers stand-alone critical illness policies issued after 29 October 2002. 90% of the benefit is reassured subject to a maximum retention of £50,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy. Premiums are reviewable after five years.
- f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £34,017.
- g. No amount was deposited by the reinsurer with the Company at the valuation date.
- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £0.30 million.
- k. The treaty is closed to new business.
- I. The reinsurer is authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(x) d. The Company has a fourth treaty with Swiss Re Europe S.A.
 - e. The treaty covers accelerated critical illness (with reviewable premiums) issued on or after 1 January 2003. 90% of the benefit is reassured subject to a maximum retention of £50,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a level reinsurance, premium rate basis, subject to a nil payment period, which depends on the term of the policy. Premiums are reviewable.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £4,437,651.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.

- h. The treaty is closed to new business.
- i. The Company has no undischarged obligation.
- j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £15.64 million.
- **k.** The treaty is closed to new business.
- 1. The reinsurer is authorised to carry on insurance business in the United Kingdom.
- m. The Company and the reinsurer are not connected.
- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- (2)(xi) d. The Company has a fifth treaty with Swiss Re Europe S.A.
 - e. The treaty covers fixed term assurance and decreasing term assurance (mortgage protection only) policies issued after 1 April 2003. 90% of the benefit is reassured subject to a maximum retention of £200,000. Higher risk policies will be 100% reinsured in line with the terms of the treaty. The business ceded is reinsured on a level reinsurance premium rate basis, subject to a nil payment period, which depends on the term of the policy. Premiums are guaranteed.
 - f. The total premiums payable by the Company under the treaty between 1 January 2012 and 31 December 2012 were £10,969,941.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is closed to new business.
 - i. The Company has no undischarged obligation.
 - j. The amount of mathematical reserves ceded under the treaty, for policies in force at the valuation date, is £35.73 million.
 - k. The treaty is closed to new business.
 - 1. The reinsurer is authorised to carry on insurance business in the United Kingdom.
 - m. The Company and the reinsurer are not connected.

Financial year ended 31 December 2012

- n. Not applicable.
- o. Not applicable.
- p. The Company has no undischarged obligation under any financing arrangement.
- 9. (3) Not applicable.
- 10.(1) Not applicable.
 - (2) Not applicable.
 - (3) Not applicable.
 - (4) Not applicable.

Director

A J Reizenstein

T Woolgrove

P R Geddes

28 March 2013

..... Director

Financial year ended 31 December 2012

NOTES TO THE RETURN

0301	Reconciliation of net admissible assets	
	Net admissible assets	53,346
	Total capital resources after deductions	53,346
0310	Negative valuation differences	
	Deferred tax on capital allowances	19
	Total negative valuation difference	19
0313	Reconciliation of profit and loss and other reserves	
	Profit and loss account and other reserves at the end of the previous financial year	9,475
	Profit retained for the financial year	12,362
	Foreseeable dividend	(7,000)
	Loss arising in the long-term insurance funds that has not been transferred to the shareholder fund	- (5,472)
	Profit and loss account and other reserves at the end of the current financial year	9,365

1305 Counterparty Limit - other than long term business

The Company manage the investment portfolio to ensure that the market risk and counterparty limits within INSPRU 2.1.22R are complied with. The investment portfolio of the Company are in assets exempt from counterparty rules by INSPRU 2.1.33R and INSPRU 2.1.34R. Management monitor the component parts of the portfolio on a regular basis to ensure conformity with these rules.

Financial year ended 31 December 2012

NOTES TO THE RETURN (continued)

1306 & 1312 Exposures to large counterparties

At 31 December 2012 exposure to the following counterparties (including accrued interest) was greater than 5% of the sum of the insurer's base capital resources requirement and its long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded:

Approved Credit

Institution <u>Total</u> <u>LTB</u> <u>OLTB</u>

DEUTSCHE BANK GROUP £35,046,031 £4,849,188 £30,196,843

1310 Offsetting - long term business

Debtors and creditors have only been offset to the extent that they are due from/to the same counterparty and in accordance with generally accepted accounting principles.

1319 Counterparty Limit - long term business

The Company manage the investment portfolio to ensure that the market risk and counterparty limits within INSPRU 2.1.22R are complied with. The investment portfolio of the Company are in assets exempt from counterparty rules by INSPRU 2.1.33R and INSPRU 2.1.34R. Management monitor the component parts of the portfolio on a regular basis to ensure conformity with these rules.

1401 Provision for reasonably foreseeable variations

The Company has not entered into any contracts or agreements which would require a provision for reasonably foreseeable variations.

Financial year ended 31 December 2012

NOTES TO THE RETURN (Continued)

1402 <u>Other</u>

- a) There were no charges on any of the assets of the company to secure the liabilities of any other person.
- b) There were no capital gains tax liabilities.
- c) There were no contingent liabilities.
- d) There were no guarantees, indemnities and other contractual commitments with related parties at 31 December 2012.
- e) There were no fundamental uncertainties at 31 December 2012.

1405 Other adjustments to liabilities

At 31 December 2012 the Company has no other adjustments.

1501 Provision for reasonably foreseeable variations

The Company has not entered into any contracts or agreements which would require a provision for reasonably foreseeable variations.

1502 Other

- a) There were no charges on any of the assets of the company to secure the liabilities of any other person.
- b) There were no capital gains tax liabilities.
- c) There were no contingent liabilities.
- d) There were no guarantees, indemnities and other contractual commitments with related parties at 31 December 2012.
- e) There were no fundamental uncertainties at 31 December 2012.

Financial year ended 31 December 2012

NOTES TO THE RETURN (Continued)

1700 Analysis of derivative contracts

As the Company's investment guidelines do not permit the use of derivative contracts Form 17 has been omitted.

4008 Provision of management services

An agreement is in force under which Direct Line Insurance Services Limited provides management services to Direct Line Life Insurance Company Limited.

4009 Material Connected Party transactions

During the year there was income of £80,000 from The Royal Bank of Scotland Group plc in the form of bank interest. The Royal Bank of Scotland Group plc is the ultimate parent company of Direct Line Life Insurance Company Limited.

There was also a statutory recharge of £684,000 payable to DL Insurance Services Ltd for management services during the year. DL Insurance Services Limited is a fellow subsidiary of The Royal Bank of Scotland Group plc.

As at 31 December 2012 there were material balances owed from connected parties. The Royal Bank of Scotland Group plc owed £80,000 in the form of bank deposits.

The net balance owed by UK Insurance Limited in relation to creditor business was £3,592,000, comprising £3,378,000 profit share receivable and £214,000 net premiums receivable. During the year total profit share payable in relation to creditor business was £5,739,000, and total net premium income was £4,701,000 (comprising £8,526,000 gross written premiums and £3,825,000 commission). UK Insurance Limited is a fellow subsidiary of The Royal Bank of Scotland Group plc.

There was also a net balance owed to DL Insurance Services Limited of £2,421,000 as at 31 December 2012.

4900 Fixed and variable interest assets

The Company's non-linked fixed interest securities for the long-term insurance fund does not exceed £100m

Financial year ended 31 December 2012

Statement of Derivatives required by Rule 9.29 of the Interim Prudential Sourcebook for Insurers

It is not company policy to invest in financial derivatives or quasi-derivatives and no such investments have been made during the year ended 31 December 2012. There are no other matters to disclose in relation to Rule 9.29 (Chapter 9 'Financial Reporting – Accounts and Statements') of the Interim Prudential Sourcebook for Insurers.

Name of company

DIRECT LINE LIFE INSURANCE COMPANY LIMITED

Financial year ended

31 December 2012

Statement of Controllers required by Rule 9.30 of the Interim Prudential Sourcebook for Insurers

The following persons have been shareholder controllers of the Company during the year ended 31 December 2012:

1) Direct Line Insurance Group Limited (DLIG)

Percentage of shares in DLG held:

100%

Percentage of votes in DLG held:

100%

2) The Royal Bank of Scotland Group plc

Percentage of shares in RBSIG held:

65.27%

Percentage of votes in RBSIG held:

65.27%

The Solicitor for the Affairs of Her Majesty's Treasury as Nominees for Her Majesty's Treasury (UK Financial Investments Limited manages the shareholding)

held: Percentage of shares in The Royal Bank of Scotland Group plc

80.84%

held: Percentage of votes in The Royal Bank of Scotland Group plc

64.85%

Financial year ended 31 December 2012

Certificate required by rule 9.34 of the Interim Prudential Sourcebook of Insurers

We certify that:

- the return comprising Forms 2, 3, 11 to 16, 40 to 43, 46 to 48, 50, 51, 57, 58 and 60 (including 1. the supplementary notes) and the statements required by rules 9.29 and 9.30, and the statements, analyses and reports required by rule 9.31 have been properly prepared in accordance with the Accounts and Statements Rules set out in part I and part IV of chapter 9 of IPRU(INS), the Interim Prudential Sourcebook for Insurers, GENPRU, the General Prudential Sourcebook and INSPRU, the Prudential Sourcebook for Insurers;
- the directors are satisfied that: 2.
 - throughout the financial year, the company has complied in all material (i) respects with the requirements in SYSC, Senior Management Arrangements, Systems and Controls, and PRIN, Principles for Business, sections of the FSA Handbook as well as the provisions of IPRU(INS), GENPRU and INSPRU as applicable; and
 - it is reasonable to believe that the company has continued so to comply (ii) subsequently, and will continue so to comply in future;
- in our opinion, premiums for contracts entered into during the financial year and the 3. resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the company that are available for the purpose, to enable the company to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- the sum of the mathematical reserves and the deposits received from reinsurers as shown 4. on Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance business liabilities (including all other liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of the actuarial investigation as at the date into the financial condition of the long-term insurance business; and
- in preparation of the return we have taken and paid due regard to actuarial advice from 5. the actuary appointed to perform the actuarial function in accordance with SUP 4.3.13R.

..... Director

P R Geddes

...... Director

T Woolgrove

..... Director

A J Reizenstein

March 2013

Name of company Financial year ended

31 December 2012

Independent auditor's report to the directors pursuant to Rule 9.35 of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")

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

- Forms 2, 3, 11 to 16, 40 to 43, 48, 58 and 60 (including the supplementary notes) on pages 1 to 29 and pages 46 to 49 ("the Forms");
- the statement required by IPRU(INS) rule 9.29 on page 50 ("the Statement"); and
- the valuation report required by IPRU(INS) rule 9.31 (a) on pages 30 to 45 ("the valuation report").

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

- Forms 46, 47, 50, 51 and 57 on pages 21 to 22 and pages 24 to 27;
- the statement required by IPRU(INS) rule 9.30 on page 51; and
- the certificate required by IPRU(INS) rule 9.34(1) on page 52.

Our report is provided to the directors of Direct Line Life Insurance Company Limited in accordance with rule 9.35 of the Interim Prudential Sourcebook for Insurers. We acknowledge that our report will be provided to the FSA for the use of the FSA solely for the purposes set down by statute and the FSA's rules. Our work has been undertaken so that we might state to the insurer's directors those matters we are required to state to them in an auditor's report on an annual FSA return for an insurer and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the FSA, and the insurer, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the insurer and its auditor

The insurer is responsible for the preparation of an annual return (including the Forms, the Statement and the valuation report) under the provision of the Rules. Under IPRU(INS) rule 9.11 the Forms, the Statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

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

It is our responsibility to form an independent opinion as to whether the Forms, the Statement and the valuation report meet these requirements, and to report our opinions to you.

ar ended 31 December 2012

Independent auditor's report to the directors pursuant to Rule 9.35 of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)") (continued)

We also report to you if, in our opinion:

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

Basis of opinion

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

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

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

Opinion

In our opinion:

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

Deloitte LLP

Chartered Accountants and Statutory Auditor

Glasgow, United Kingdom

elotte LLP

28 March 2013