

Direct Line Life Insurance Company Limited

Annual FSA Insurance Returns for the year ended

31 December 2010

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

Direct Line Life Insurance Company Limited

Year Ended 31st December 2010

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Form 2

Statement of solvency - long-term insurance business

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
R2	2199286	GL	31	12	2010	£000
			As at end of this financial year			As at end of the previous year
			1			2

Capital resources

Capital resources arising within the long-term insurance fund	11	89970	80950
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	9374	9047
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	99344	89997

Guarantee fund

Guarantee fund requirement	21	10866	11922
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	88478	78076

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	32599	35765
Resilience capital requirement	32		
Base capital resources requirement	33	3040	3128
Individual minimum capital requirement	34	32599	35765
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	32599	35765
Excess (deficiency) of available capital resources to cover 50% of MCR	37	79545	68615
Excess (deficiency) of available capital resources to cover 75% of MCR	38	74895	63174

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	32599	35765

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	32599	35765
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	66745	54232

Contingent liabilities

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

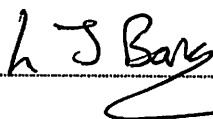
Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**



P R Geddes



L J Bartlett



S K Howard

22 March 2011

Form 3
(Sheet 1)

Components of capital resources

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2010

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2199286	GL	31	12	2010	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Core tier one capital

Permanent share capital	11		44000	44000	44000
Profit and loss account and other reserves	12		52477	52477	43135
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		96477	96477	87135

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		96477	96477	87135
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		633	633	638
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		633	633	638
Total tier one capital after deductions (31-37)	39		95844	95844	86497

Form 3
(Sheet 2)
Components of capital resources

Name of insurer

Direct Line Life Insurance Company Limited

Global business

Financial year ended

31 December 2010

	Company registration number	GL/ UK/ CM	day month year			Units
R3	2199286	GL	31	12	2010	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year
		1	2	3		4

Tier two capital

Implicit items, (tier two waivers and amounts excluded from line 22)	41				
Perpetual non-cumulative preference shares excluded from line 25	42				
Innovative tier one capital excluded from line 27	43				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44				
Perpetual cumulative preference shares	45				
Perpetual subordinated debt and securities	46		3500	3500	3500
Upper tier two capital in related undertakings	47				
Upper tier two capital (44 to 47)	49		3500	3500	3500

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

Total tier two capital before restrictions (49+59)	61		3500	3500	3500
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69		3500	3500	3500

Form 3
(Sheet 3)
Components of capital resources

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	2199286	GL	31	12	2010	£000
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3		Total as at the end of the previous year 4

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		99344	99344	89997
Inadmissible assets other than intangibles and own shares	73				
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		99344	99344	89997

Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81		99344	99344	89997
Available capital resources for 50% MCR requirement	82		95844	95844	86497
Available capital resources for 75% MCR requirement	83		99344	99344	89997

Financial engineering adjustments

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

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 2010**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R11	2199286	GL	31	12	2010	£000
				This financial year 1			Previous year 2	
Gross premiums written			11	3992			4266	
Premiums taxes and levies (included in line 11)			12					
Premiums written net of taxes and levies (11-12)			13	3992			4266	
Premiums for classes 11, 12 or 13 (included in line 13)			14					
Premiums for "actuarial health insurance" (included in line 13)			15	3394			3626	
Sub-total A (13 + 1/2 14 - 2/3 15)			16	1730			1849	
Gross premiums earned			21	3992			4266	
Premium taxes and levies (included in line 21)			22					
Premiums earned net of taxes and levies (21-22)			23	3992			4266	
Premiums for classes 11, 12 or 13 (included in line 23)			24					
Premiums for "actuarial health insurance" (included in line 23)			25	3394			3626	
Sub-total H (23 + 1/2 24 - 2/3 25)			26	1730			1849	
Sub-total I (higher of sub-total A and sub-total H)			30	1730			1849	
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure			31					
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	311			333		
	Excess (if any) over 57.5M EURO x 0.02	33						
Sub-total J (32-33)			34	311			333	
Claims paid in period of 3 financial years			41	12464			10234	
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42	555			515		
	For insurance business accounted for on an accident year basis	43						
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44						
	For insurance business accounted for on an accident year basis	45						
Sub-total C (41+42+43-44-45)			46	13019			10749	
Amounts recoverable from reinsurers in respect of claims included in Sub-total C			47	11332			9243	
Sub-total D (46-47)			48	1687			1506	
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 reinsurance ratio)			50	156			166	
Provision for claims outstanding (before discounting and net of reinsurance)			51	278			258	
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero			52					
Brought forward amount (See instruction 4)			53	466			411	
Greater of lines 50 and 53			54	466			411	

Calculation of general insurance capital requirement - claims amount and resultName of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	2199286	GL	31	12	2010	£000
					This financial year 1			Previous year 2
Reference period (No. of months) See INSPRU 1.1.63R				11	36			36
Claims paid in reference period				21	12464			10234
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis			22	555			515
	For insurance business accounted for on an accident year basis			23				
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis			24				
	For insurance business accounted for on an accident year basis			25				
Claims incurred in reference period (21+22+23-24-25)				26	13019			10749
Claims incurred for classes 11, 12 or 13 (included in 26)				27				
Claims incurred for "actuarial health insurance" (included in 26)				28				
Sub-total E (26 +1/2 27 - 2/3 28)				29	13019			10749
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)				31	4340			3583
Division of sub-total F (gross adjusted claims amount)	x 0.26			32	1128			932
	Excess (if any) over 40.3M EURO x 0.03			33				
Sub-total G (32-33)				39	1128			932
Claims amount Sub-total G x reinsurance ratio (11.49)				41	564			466
Higher of premiums amount and brought forward amount (11.54)				42	466			411
General insurance capital requirement (higher of lines 41 and 42)				43	564			466

Form 13
(Sheet 1)

Analysis of admissible assets

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
	R13	2199286	GL	31	12	2010	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11				

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41		
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44		
Fixed interest securities	Approved	45		
	Other	46		
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	5496	5354
	More than one month withdrawal	55	3999	3856
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

Analysis of admissible assetsName of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total other than long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	2199286	GL	31	12	2010	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78		
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	5	5
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	9500	9215
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Form 13
(Sheet 3)
Analysis of admissible assets

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2199286	GL	31	12	2010	£000	1
						As at end of this financial year	As at end of the previous year
						1	2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	9500	9215
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	9500	9215
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Form 13
(Sheet 1)

Analysis of admissible assets

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2199286	GL	31	12	2010	£000	10
						As at end of this financial year	As at end of the previous year
						1	2
Land and buildings			11				

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41		
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44		
Fixed interest securities	Approved	45	50275	54807
	Other	46		
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	30926	28666
	More than one month withdrawal	55	22502	20644
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

Form 13
(Sheet 2)

Analysis of admissible assets

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	2199286	GL	31	12	2010	£000	10
					As at end of this financial year		As at end of the previous year
					1		2

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	1296	275
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75	1936	3460
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	2723	463
	due in more than 12 months	79		

Other assets

Tangible assets	80	7	20
Deposits not subject to time restriction on withdrawal with approved institutions	81	202	377
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	1070	872
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	10018	8649

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	120955	118233
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Analysis of admissible assetsName of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2199286	GL	31	12	2010	£000	10
						As at end of this financial year	As at end of the previous year
						1	2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	120955	118233
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	33	38
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	58314	62167
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	179302	180438
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Form 14

Long term insurance business liabilities and margins

Name of insurer **Direct Line Life Insurance Company Limited**

Global business

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

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

Mathematical reserves, after distribution of surplus		11	15659	24487
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	89970	80950
Long term insurance business fund carried forward (11 to 13)		14	105629	105437
Claims outstanding	Gross	15	5814	4471
	Reinsurers' share	16	5021	3854
	Net (15-16)	17	793	617
Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	1063	
	Reinsurance accepted	32		
	Reinsurance ceded	33	39	22
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	4271	4430
	Other	38	9160	7729
Accruals and deferred income		39		
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	15326	12798
Excess of the value of net admissible assets		51		
Total liabilities and margins		59	120955	118235

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	7856	5492
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	30985	37285
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	58314	62167
Other adjustments to liabilities (may be negative)	74	(600)	(600)
Capital and reserves and fund for future appropriations	75	96477	87134
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	185176	185986

Form 15

Liabilities (other than long term insurance business)Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R15	2199286	GL	31	12	2010	£000
			As at end of this financial year 1			As at end of the previous year 2

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debtenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47	126	167
	Foreseeable dividend	48		
	Other	49		
Accruals and deferred income		51		
Total (19 to 51)		59	126	167
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63	3500	3500
Total (59 to 63)		69	3626	3667

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	3626	3667

Profit and loss account (non-technical account)Name of insurer **Direct Line Life Insurance Company Limited**

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	2199286	GL	31	12	2010	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13					
Investment income	Income		14	452			596	
	Value re-adjustments on investments		15					
	Gains on the realisation of investments		16					
Investment charges	Investment management charges, including interest		17					
	Value re-adjustments on investments		18					
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	452			596	
Tax on profit or loss on ordinary activities			31	126			167	
Profit or loss on ordinary activities after tax (29-31)			39	326			429	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49	326			429	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59	326			429	

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 2010**
 Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

Income

Earned premiums	11	25979	29452
Investment income receivable before deduction of tax	12	2145	2369
Increase (decrease) in the value of non-linked assets brought into account	13	517	(117)
Increase (decrease) in the value of linked assets	14		
Other income	15	2	
Total income	19	28643	31704

Expenditure

Claims incurred	21	7528	8766
Expenses payable	22	15701	16932
Interest payable before the deduction of tax	23		
Taxation	24	5222	4439
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	28451	30137

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	192	1567
Fund brought forward	49	105437	103870
Fund carried forward (39+49)	59	105629	105437

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 2010**
 Units **£000**

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

Gross

Regular premiums	11	43572			43572	44814
Single premiums	12	8689			8689	9541

Reinsurance - external

Regular premiums	13	26282			26282	24903
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	17290			17290	19911
Single premiums	18	8689			8689	9541

Total

Gross	19	52261			52261	54355
Reinsurance	20	26282			26282	24903
Net	21	25979			25979	29452

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 2010**
 Units **£000**

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

Gross

Death or disability lump sums	11	24459			24459	22009
Disability periodic payments	12					
Surrender or partial surrender	13					
Annuity payments	14					
Lump sums on maturity	15					
Total	16	24459			24459	22009

Reinsurance - external

Death or disability lump sums	21	16931			16931	13243
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26	16931			16931	13243

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	7528			7528	8766
Disability periodic payments	42					
Surrender or partial surrender	43					
Annuity payments	44					
Lump sums on maturity	45					
Total	46	7528			7528	8766

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 2010**
 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	3690			3690	7983
Management - acquisition	13	3423			3423	5556
Management - maintenance	14	1475			1475	1132
Management - other	15	7113			7113	2261
Total	16	15701			15701	16932

Reinsurance - external

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

Reinsurance - intra-group

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

Net of reinsurance

Commission - acquisition	41					
Commission - other	42	3690			3690	7983
Management - acquisition	43	3423			3423	5556
Management - maintenance	44	1475			1475	1132
Management - other	45	7113			7113	2261
Total	46	15701			15701	16932

Long-term insurance business : Summary of new business

Name of insurer **Direct Line Life Insurance Company Limited**

Total business

Financial year ended **31 December 2010**

Units **£000**

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

**Number of new policyholders/
scheme members for direct
insurance business**

Regular premium business	11	5058			5058	20622
Single premium business	12	12			12	12
Total	13	5070			5070	20634

**Amount of new regular
premiums**

Direct insurance business	21	1457			1457	4717
External reinsurance	22					
Intra-group reinsurance	23					
Total	24	1457			1457	4717

**Amount of new single
premiums**

Direct insurance business	25	8690			8690	9541
External reinsurance	26					
Intra-group reinsurance	27					
Total	28	8690			8690	9541

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 2010

£000

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
300	Regular premium non-profit WL/EA OB	469	102		
325	Level term assurance	2601	723		
330	Decreasing term assurance	1448	371		
345	Accelerated critical illness (reviewable premiums)	540	261		
415	Collective life			12	8690

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 2010**
Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

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

Land and buildings	11					
Approved fixed interest securities	12	51307	51307	2148	0.02	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	69648	69648	353	0.01	
Total	19	120955	120955	2501	0.01	

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

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

Overall return on with-profits assets

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

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Direct Line Life Insurance Company Limited**
Total business / subfund **Ordinary Long Term**
Financial year ended **31 December 2010**
Units **£000**

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

Gross

Form 51 - with-profits	11					
Form 51 - non-profit	12	68951		68951	82800	
Form 52	13					
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
Total	18	68951		68951	82800	

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22	53292		53292	58313	
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	53292		53292	58313	

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	15659		15659	24487	
Form 52	43					
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
Total	48	15659		15659	24487	

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

Name of insurer Direct Line Life Insurance Company Limited
Total business / subfund Ordinary Long Term
Financial year ended 31 December 2010
Units £000
UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	4385	17019	903				733
325	Level term assurance	115320	11558108	24798				35933
330	Decreasing term assurance	43484	4120190	9282				4157
340	Accelerated critical illness (guaranteed premiums)	1177	85897	348				2944
345	Accelerated critical illness (reviewable premiums)	16131	1494859	7209				12963
355	Stand-alone critical illness (reviewable premiums)	281	13574	56				222
365	Income protection non-profit (reviewable premiums)	323	3536	59				29
380	Miscellaneous protection rider			1				1
385	Income protection claims in payment							555
415	Collective life		3293022					10814
440	Additional reserves non-profit OB							600

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

Name of insurer **Direct Line Life Insurance Company Limited**
 Total business / subfund **Ordinary Long Term**
 Financial year ended **31 December 2010**
 Units **£000**
 UK Life / Reinsurance ceded external

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		204	6				14
325	Level term assurance		10012554	21217				33660
330	Decreasing term assurance		3613576	7909				3578
340	Accelerated critical illness (guaranteed premiums)		77308	313				2735
345	Accelerated critical illness (reviewable premiums)		1345373	6488				12765
355	Stand-alone critical illness (reviewable premiums)		12216	50				222
365	Income protection non-profit (reviewable premiums)		1733	29				20
380	Miscellaneous protection rider			0				0
385	Income protection claims in payment							298

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 2010

Units £000

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Pens NP Form 51 assurances (excluding credit assurance)	4245		0.03	0.04
UK L&GA Form 51 Credit Assurance	10814			0.03
UK Other Additional Reserves	600			
Total	15659			

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 2010**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	105629	105437
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	105629	105437
Mathematical reserves	21	15659	24487
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	89970	80950

Composition of surplus

Balance brought forward	31	80950	66132
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	9020	14818
Total	39	89970	80950

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	89970	80950
Total (48+49)	59	89970	80950

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance capital requirementName of insurer **Direct Line Life Insurance Company Limited**

Global business

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

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

Insurance death risk capital component

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%	168854	168854	84	169
Classes I (other), II and IX	13	0.15%	1191053	1191053	893	1394
Classes I (other), II and IX	14	0.3%	19141642	4145380	28713	30921
Classes III, VII and VIII	15	0.3%				
Total	16		20501549	5505287	29690	32484

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21				564	466
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Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%				
Classes I (other), II and IX	32	1%	68145	15392	579	698
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%	806	267	7	6
Class V	37	1%				
Class VI	38	1%				
Total	39				586	704

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	68145	15392	1738	2092
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%	806	267	21	19
Class V	47	0%				
Class VI	48	3%				
Total	49		68951	15659	1759	2111

Long term insurance capital requirement	51				32599	35765
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Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

Appendix 9.4

Abstract of valuation report

1. (1) The valuation date is 31 December 2010.

(2) The previous valuation date was 31 December 2009.

(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 accidental death benefit product has been withdrawn.

3. (1) Not applicable

(2) The premiums on most reviewable premium critical illness and accelerated critical illness policies written prior to October 2008 are being increased by between 4.9% and 13.3%. Over half of those policies have had premiums increased in 2010, and the process is expected to be completed during 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

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

(net of commission) payable in the month ending on the 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 DLFS Loanguard scheme, reserves have been taken as 90% of a proportion of the single premium (net of commission where applicable), without adjusting for early redemptions after the scheme closed to new business. The proportion is calculated by dividing the outstanding term of the loan by the original term. The original term is between one and five years.
 - For the RBS Loanguard scheme, reserves have been taken as 90% 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 six and ten years.
 - 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 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 2.5% was assumed at the end of the financial year in question, which remains unchanged from 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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

- (4) The mortality bases used at the current and previous valuation date are listed below.

Product type	31 December 2010		31 December 2009	
	Male	Female	Male	Female
Credit insurance	n/a	n/a	n/a	n/a
Critical illness	Combined mortality/morbidity tables used - see (5) below	Combined mortality/morbidity tables used - see (5) below	Combined mortality/morbidity tables used - see (5) below	Combined mortality/morbidity tables used - see (5) below
Decreasing term assurance	80% of TMN00 Ultimate for non-smokers and 80% of TMS00 Ultimate for smokers	80% of TFN00 Ultimate for non-smokers and 80% of TFS00 Ultimate for smokers	85% of TMN00 Ultimate for non-smokers and 85% of TMS00 Ultimate for smokers	85% of TFN00 Ultimate for non-smokers and 85% of TFS00 Ultimate for smokers
Level term assurance	80% of TMN00 Ultimate for non-smokers and 80% of TMS00 Ultimate for smokers	80% of TFN00 Ultimate for non-smokers and 80% of TFS00 Ultimate for smokers	85% of TMN00 Ultimate for non-smokers and 85% of TMS00 Ultimate for smokers	85% of TFN00 Ultimate for non-smokers and 85% of TFS00 Ultimate for smokers
Whole life	80% of TMN00 Ultimate for non-smokers and 85% of TMS00 Ultimate for smokers	80% of TFN00 Ultimate for non-smokers and 85% of TFS00 Ultimate for smokers	85% of TMN00 Ultimate for non-smokers and 85% of TMS00 Ultimate for smokers	85% of TFN00 Ultimate for non-smokers and 85% of TFS00 Ultimate for smokers
Income protection	55% of TMN00 Ultimate for non-smokers and 55% of TMS00 Ultimate for smokers	55% of TFN00 Ultimate for non-smokers and 55% of TFS00 Ultimate for smokers	60% of TMN00 Ultimate for non-smokers and 60% of TMS00 Ultimate for smokers	60% of TFN00 Ultimate for non-smokers and 60% of TFS00 Ultimate for smokers
Whole life Guaranteed Acceptance Product	X% of Interim Life Tables; where X% = 207% reducing linearly to 103.5% over 15 years, after which it remains constant at 103.5%. The Interim Life Tables are those published by the Government Actuary Department website in March 2006.	X% of Interim Life Tables; where X% = 207% reducing linearly to 103.5% over 15 years, after which it remains constant at 103.5%. The Interim Life Tables are those published by the Government Actuary Department website in March 2006.	X% of Interim Life Tables; where X% = 207% reducing linearly to 103.5% over 15 years, after which it remains constant at 103.5%. The Interim Life Tables are those published by the Government Actuary Department website in March 2006.	X% of Interim Life Tables; where X% = 207% reducing linearly to 103.5% over 15 years, after which it remains constant at 103.5%. The Interim Life Tables are those published by the Government Actuary Department website in March 2006.

- (5) The morbidity bases assumed for the income protection business are given below.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

- 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 Rates for accelerated CI (guaranteed premiums)				
	Non smokers		Smokers	
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**

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	Inception Rates for accelerated CI (reviewable premiums)			
	Non smokers		Smokers	
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 Rates for stand alone CI (reviewable premiums)			
	Non smokers		Smokers	
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

- (6) No expense assumption is made for credit insurance. For all other product groups renewal expenses were assumed to be £9.50 per policy per annum, increasing at 4% per annum compound, same as previous valuation. In addition, for the whole life guaranteed acceptance product allowance is made for any third party administration fees. No tax relief was assumed to be available on expenses and no Zillmer adjustment has been made.
- (7) Not applicable
- (8) Not applicable
- (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%

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

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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 £1.0k.
- 6
- (1) 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 £1.72 million from the release of the expense reserves described in paragraph 4(6) and £2.13 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) On the basis of an assessment of the expected valuation strain from new business and expected surplus emerging from existing business over the 12 months following the valuation date, no additional reserve has been established in respect of new business overruns in the 12 months following the valuation date. The new business volumes and acquisition expense assumptions used in the calculation were based on the Company's business plan for the year ending 31 December 2011.
 - (5) On the basis of an assessment by the Company of the cost (predominantly redundancy costs) of closing to new business in the next 12 months, a reserve of £0.6 million was set up in respect of this contingency. Costs after closure were projected to be below the expense assumptions set out in paragraph 4(6).
 - (6) Not applicable.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

- 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 fall 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 increased by £329k.
- c.** The aggregate amount of assets allocated to match the liabilities increased by £370k 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 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 2010 and 31 December 2010, net of reinsurance premium rebate receivable, were £213,775.
- g.** No amount was deposited by the reinsurer with the Company at the valuation date.
- h.** The treaty is closed to new business.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

- 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 £0.22 million.
 - k.** The treaty is closed to new business.
 - l.** 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 2010 and 31 December 2010, net of reinsurance commission receivable, were £32,689.
 - 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 £0.32 million.
 - k.** The treaty is closed to new business.
 - l.** 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

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

- 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 2010 and 31 December 2010 were £699,540.
 - 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 £1.13 million.
 - k. The treaty is closed to new business.
 - l. 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 or after 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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

- f. The total premiums payable by the Company under the treaty between 1 January 2010 and 31 December 2010 were £1,579,847.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is open 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 £3.73 million.
 - k. 90% of the benefit is reassured subject to a maximum retention of £200,000.
 - l. 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.
- 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. 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 2010 and 31 December 2010 were £349,770.
 - 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 £0.57 million.
 - k. The treaty is closed to new business.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

- l.** 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 2010 and 31 December 2010 were £2,098,621.
 - 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 £3.39 million.
 - k.** The treaty is closed to new business.
 - l.** 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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

- 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 2010 and 31 December 2010 were £3,140,198.
 - 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 £10.85 million.
 - k. The treaty is closed to new business.
 - l. 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 2010 and 31 December 2010 were £275,824.
 - g. No amount was deposited by the reinsurer with the Company at the valuation date.
 - h. The treaty is closed to new business

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

- 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 £2.74 million.
 - k. The treaty is closed to new business.
 - l. 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 2010 and 31 December 2010 were £37,900.
 - 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 £0.22 million.
 - k. The treaty is closed to new business.
 - l. 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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

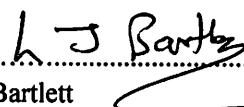
- p.** The Company has no undischarged obligation under any financing arrangement.
- (2)(x) d.** The Company has a fourth treaty with Swiss Re Europe S.A.
- e.** The treaty covers accelerated critical illness (with reviewable premiums) issued on or after 1 January 2003. 90% of the benefit is reassured 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 2010 and 31 December 2010 were £5,077,957.
- g.** No amount was deposited by the reinsurer with the Company at the valuation date.
- h.** The treaty is open 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 £12.80 million.
- k.** 90% of the benefit is reassured subject to a maximum retention of £50,000.
- l.** 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 2010 and 31 December 2010 were £12,776,022.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

- 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 £17.36 million.
 - k. The treaty is closed to new business.
 - l. 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.
9. (3) Not applicable.
10. (1) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) Not applicable.


..... Director
P R Geddes


..... Director
L J Bartlett


..... Director
S K Howard

22 Mar 2011

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

NOTES TO THE RETURN

0201 Modification to the return

This return has been prepared in accordance with the Accounts and Statements Rules as modified by the following written concession:

Rule INSPRU 2.1.22R is amended by the addition of the following new subparagraph (7): “(7) For the purpose of this rule, a group of persons is not closely related by reason of the relationship described in INSPRU 2.1.40R(1) if control is exercised by, or on behalf of, HM Treasury.”

This direction is given by the FSA under section 148 of the Financial Services and Markets Act 2000 (“the Act”). The direction takes effect from 16 June 2009 and ends on 31 March 2012.

0301 Reconciliation of net admissible assets

Net admissible assets	95,844
Perpetual subordinated debt	<u>3,500</u>
Total capital resources after deductions	<u>99,344</u>

0310 Negative valuation differences

Deferred tax on capital allowances	33
Valuation reserve in respect of costs relating to closure of new business	600
Total negative valuation difference	<u>633</u>

0313 Reconciliation of profit and loss and other reserves

Profit and loss account and other reserves at the end of the previous financial year	43,135
Profit retained for the financial year	326
Profit arising in the long-term insurance funds that has not been transferred to the shareholder fund	9,016
Profit and loss account and other reserves at the end of the current financial year	<u>52,477</u>

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

NOTES TO THE RETURN (continued)

1305 Counterparty Limit - other than long term business

The Royal Bank of Scotland Group Treasury sets counterparty limits. These limits were not breached during the financial year.

The permitted asset exposure limits excluding accrued interest are set out next to the name of the approved credit institution below:

<u>Approved Credit Institution</u>	<u>Limit</u>
Barclays Bank	£5,000,000
BNP Paribas	£5,000,000
Commerzbank	£10,000,000
Credit Agricole	£5,000,000
HBOS	£5,000,000
ING	£5,000,000
Lloyds TSB Group	£5,000,000
National Australia Bank	£5,000,000
Nationwide Building Society	£5,000,000
Santander	£4,000,000
Societe Generale	£5,000,000
UBS AG	£5,000,000

1306 & 1312 Exposures to large counterparties

At 31 December 2010 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:

<u>Approved Credit Institution</u>	<u>Total</u>	<u>LTB</u>	<u>OTLTB</u>
Barclays Bank	£5,002,123	£4,247,603	£754,520
Commerzbank	£5,001,418	£4,246,898	£754,520
Credit Agricole	£5,008,462	£4,253,942	£754,520
HBOS	£5,001,874	£4,247,354	£754,520
ING	£4,500,888	£3,821,820	£679,068
Lloyds TSB	£5,005,030	£4,250,510	£754,520,
Nationwide Building Society	£5,007,123	£4,252,603	£754,520
Santander	£4,007,315	£3,403,699	£603,616
UBS AG	£5,000,685	£4,246,165	£754,520
Royal Bank of Scotland	£19,513,853	£16,583,012	£2,930,841

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

NOTES TO THE RETURN (Continued)

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 Royal Bank of Scotland Group Treasury sets counterparty limits. These limits were not breached during the financial year.

The permitted asset exposure limits excluding accrued interest are set out next to the name of the approved credit institution below:

<u>Approved Credit Institution</u>	<u>Limit</u>
Barclays Bank	£5,000,000
BNP Paribas	£5,000,000
Commerzbank	£10,000,000
Credit Agricole	£5,000,000
HBOS	£5,000,000
ING	£5,000,000
Lloyds TSB Group	£5,000,000
National Australia Bank	£5,000,000
Nationwide Building Society	£5,000,000
Santander	£4,000,000
Societe Generale	£5,000,000
UBS AG	£5,000,000

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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

NOTES TO THE RETURN (Continued)

1402 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 2010.
- e) There were no fundamental uncertainties at 31 December 2010.

1405 Other adjustments to liabilities

At 31 December 2010 the Company had a valuation reserve of £600,000 in respect of costs relating to closure of new business.

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 2010.
- e) There were no fundamental uncertainties at 31 December 2010.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

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 RBS Insurance Services Ltd provides management services to Direct Line Life Insurance Company Limited.

4009 Material Connected Party transactions

During the year there was income of £105,000 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 £1,297,000 payable to RBS Insurance Services Ltd for management services during the year. RBS Insurance Services Ltd is a fellow subsidiary of The Royal Bank of Scotland Group plc.

As at 31 December 2010 there were material balances owed from connected parties. The Royal Bank of Scotland Group plc owed £19,507,000 in the form of bank deposits.

The net balance owed by UK Insurance Limited in relation to creditor business was £1,056,000, comprising £627,000 profit share receivable and £439,000 net premiums receivable. During the year total profit share payable in relation to creditor business was £7,114,000, and total net premium income was £6,118,000 (comprising £8,689,000 gross written premiums and £2,571,000 commission). UK Insurance Limited is a fellow subsidiary of The Royal Bank of Scotland Group plc.

There was also a balance owed to RBS Insurance Services Ltd of £6,161,000 as at 31 December 2010.

4900 Fixed and variable interest assets

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

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

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 2010. 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 2010

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 2010:

- | | | |
|----|--|------|
| 1) | Direct Line Group Limited (DLG) | |
| | Percentage of shares in the Company held: | 100% |
| | Percentage of votes in the Company held: | 100% |
| 2) | RBS Insurance Group Limited (RBSIG) | |
| | Percentage of shares in DLG held: | 100% |
| | Percentage of votes in DLG held: | 100% |
| 3) | The Royal Bank of Scotland Group plc | |
| | Percentage of shares in RBSIG held: | 100% |
| | Percentage of votes in RBSIG held: | 100% |
| 4) | The Solicitor for the Affairs of Her Majesty's Treasury as Nominees for Her Majesty's Treasury (UK Financial Investments Limited manages the shareholding) | |
| | Percentage of shares in The Royal Bank of Scotland Group plc held: | 70% |
| | Percentage of votes in The Royal Bank of Scotland Group plc held: | 70% |

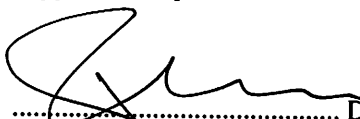
Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended **31 December 2010**

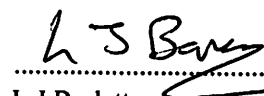
Certificate required by rule 9.34 of the Interim Prudential Sourcebook of Insurers

We certify that:

1. the return comprising Forms 2, 3, 11 to 16, 40 to 43, 46 to 48, 50, 51, 57, 58 and 60 (including 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;
2. the directors are satisfied that:
 - (i) throughout the financial year, the company has complied in all material 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
 - (ii) it is reasonable to believe that the company has continued so to comply subsequently, and will continue so to comply in future;
3. in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the 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;
4. the sum of the mathematical reserves and the deposits received from reinsurers as shown 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
5. in preparation of the return we have taken and paid due regard to actuarial advice from the actuary appointed to perform the actuarial function in accordance with SUP 4.3.13R.


..... Director
P R Geddes


..... Director
S K Howard


..... Director
L J Barlett

22 March 2011

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

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 45 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 44 ("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 25 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. The requirements of the Rules have been modified by a direction issued under section 148 of the Financial Services and Markets Act 2000 on 16 June 2009 as set out in supplementary note 0201. 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.

Name of company **DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

Financial year ended 31 December 2010

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, as modified and have been properly prepared in accordance with the provisions of those Rules; and
- (ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.



Deloitte LLP

Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom

22 March 2011