NAME OF INSURER: AXA SUN LIFE PLC

IPRU(INS) RULE 9.31(b) - APPENDIX 9.4A

ABSTRACT OF VALUATION REPORT FOR REALISTIC VALUATION

1. Introduction

(1) The actuarial investigation relates to a valuation date of 31 December 2008.

(2) The valuation date of the previous valuation was 31 December 2007.

(3) An interim valuation was carried out on 30 June 2008.

2. Assets

(1) The economic assumptions used in calculating the future profits on non-profit business are as follows:

This financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve plus 10 basis points.
Expense inflation	Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate + 150 basis points p.a. For release of long-term insurance capital component: risk-free rate

Preceding financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve plus 10 basis points.
Expense inflation	Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate + 150 basis points p.a. For release of long-term insurance capital component: risk-free rate

Note: 1 basis point = 0.01%

(2) No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).

(3) No business is written outside the with profits fund.

(4) A single set of economic assumptions has been used in valuing the non-profit contracts.

(5) Not applicable.

3. With Profits Benefits Reserve Liabilities

(1) The table below shows the With Profits Benefits Reserve and the future policy related liabilities for each group of contracts with materially different guarantees and options.

	NWPF		OWPF	
	With Profits Benefit Reserve (£m)	**Future policy related liabilities (£m)**	**With Profits Benefit Reserve (£m)**	**Future policy related liabilities (£m)**
Retrospective method (asset share)				
UWP Bonds (no MVR-free date)	1,006	213	154	32
UWP Regular Premium Life	507	181	86	32
UWP Pensions (no minimum bonuses or GARs)	584	159	135	34
UWP Pensions with minimum bonuses but no GARs	378	166	110	51
UWP Pensions with minimum bonuses and GARs	229	217	51	47
Conventional Life	485	229	135	56
Conventional Pensions	74	138	17	40
ISA	8	0	1	0
Other	0	0	0	0
Prospective method (regulatory reserve)				
Retirement Savings Scheme	326	0	19	0
Other	6	0	0	0
Total	**3,605**	**1,303**	**709**	**292**

(2) The total amounts of the With Profits Benefits Reserve in the table above correspond to the amounts shown in Form 19, Line 31. The future policy related liabilities in the table above reconcile to Form 19, Line 49 as shown below. For details of the reconciling items, refer to Sections 8 and 11 of this Report.

£m	NWPF	OWPF
Future Policy Related Liabilities, from above table	1,303	292
Reorganisation Bonus	124	14
Tax and expense liability on assets in excess of asset share	33	7
Future Policy Related Liabilities, Form 19, Line 49	1,460	313

4. With Profits Benefits Reserve – Retrospective method

(1) In all cases where a retrospective method (i.e. asset share) is used, this is calculated on a policy by policy basis.

(2) No significant changes have been made to the valuation method since the previous valuation.

(3) The basis of allocating expenses to the with profits funds in the valuation is given below.

Fees are paid to AXA Sun Life Services plc (ASLS) for management, administration, marketing and sales services, as defined in the Service Agreements between ASL and ASLS. These fees are charged to asset shares and are adjusted annually as at 1 January, again as defined in the Service Agreements. The amounts of such fees, split between initial and maintenance expenses, for the full year 2008 are shown below.

Fees paid to the investment managers for the same period are also shown below. Those in respect of with profits policies are charged to asset shares, as a percentage of the asset share representing the average fee level including an allowance for performance fees.

Some expenses met directly by the fund, such as regulatory fees, are charged to asset shares. These are apportioned between individual policies using a method that is believed to be equitable.

Also shown below are the expenses that have been charged to the with profits fund during 2008, but which are not charged to asset shares. These are mainly initial and renewal fees in respect of non-profit business, investment management fees in respect of non-profit business and other assets in excess of asset shares, plus certain exceptional costs.

Further details of the basis of allocating expenses to the with profits fund are given in the Principles and Practices of Financial Management (PPFM).

The table below shows the expenses incurred by the fund in 2008:

£m	**NWPF**	**OWPF**
Initial fees chargeable to asset shares	1.6	0.2
Maintenance fees chargeable to asset shares	10.4	2.0
Investment fees chargeable to asset shares	14.1	2.7
Other expenses chargeable to asset shares	1.2	0.2
Expenses on non-profit contracts	7.0	0.6
Other expenses not chargeable to asset shares	6.4	2.0

(4) During 2008, no significant charges for guarantees or cost of capital have been made to asset shares. As indicated in the PPFM, this practice is reviewed periodically and is subject to change.

(5) No charges have been deducted from the funds for non-insurance risk.

(6) The ratio of claims paid to underlying asset shares for with profits insurance contracts over the three year period are:

Year	**Average Payout ratio**
2008	116%
2007	103%
2006	102%

(7) For the full year 2008, the investment return before tax and expenses for both New and Old With Profits Funds was -18.1%.

For most UWP policies, the gross return applied to asset shares was -20.3%. For such policies approaching the end of their policy term, a different rate was applied. This varied from -5.3% to -20.3% depending on product type and unexpired term. The return applied to conventional with profits business was -16.2%.

Further details of how returns are applied to asset shares are given in the PPFM.

5. With Profits Benefits Reserve – Prospective method

For Retirement Savings Scheme a prospective method is used rather than asset share, with the with profits benefit reserve calculated deterministically using realistic assumptions including an allowance for future bonuses. The approach assumes a risk-free investment return and discount rate consistent with table 6 (4) (a) (iii), annual bonuses and additional interest totalling 1.50% p.a. in addition to the guaranteed return, expense inflation at the regulatory assumption of 3.25% p.a., an expense of £116 p.a. per person, per policy charges of £28 p.a. per person (£38 if premiums ceased) and no future lapses. It is assumed that the with profits benefits reserve determined in this way is sufficient to cover any cost of guarantees and smoothing on this contract.

For other classes where a prospective method is used rather than asset shares, the with profits benefit reserve is set equal to the regulatory reserve.

6. Costs of guarantees, options and smoothing

(1) Not applicable.

(2) For all products where the valuation of guarantees, options and smoothing is carried out using a full stochastic model, grouped data is used. Contracts are grouped according to their major product features, term gone and term to go, policyholder age and the extent to which guarantees are in or out of the money.

	Policies	**Experience Model Points**
NWPF	476,219	1,692
OWPF	118,546	742

The results from the stochastic model using grouped data are validated against the results from a closed-form model using individual data. An approximate upward adjustment has been made to the cost of guarantees and smoothing to allow for the estimated grouping error.

(3) A revised version of the liability projection model has been used. It contains an improvement to the terminal bonus smoothing algorithm. The amended model exhibits a quicker reversion towards the long term target payout ratio following volatile market movements and therefore better reflects the Company’s smoothing policy. Manual adjustments which were held in the December 2007 Realistic Balance Sheet in anticipation of this model change have now been removed.

(4) (a) (i) The liabilities being valued using a full stochastic approach are:

- The guarantee that no market value reduction will be applied on maturity or on death. The extent to which these options are in the money at the valuation date depends on the ratio of guaranteed benefits to asset share for each policy at that date, and varies both across and within lines of business. On average, the ratio of the present value of guaranteed benefits to asset share varies from around 111% for policies close to maturity to 113% for policies with more than 20 years to go.

- The guarantee that no market value reduction will be applied on regular income withdrawals that are within the limits defined in the contract terms.

- Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal and early retirement. These options are currently in the money.

- The cost of smoothing. This reflects a combination of short-term and long-term effects: in the short term the difference between payouts and the sustainable level (glidepath); and in the long term the under or overpayment of asset share.

Within the stochastic model the liabilities are valued in the following order: asset share; costs of contractual guarantees; planned enhancements; costs of smoothing. So, for instance, if guarantees bite on a claim, the excess of the claim over the asset share is attributed to costs of contractual guarantees. As smoothing is calculated last there is a partial offset between the cost of guarantees and cost of smoothing.

(ii) The nominal interest rate model used (Libor Market Model) is calibrated exactly to the current risk-free yield curve. The volatilities have been selected to provide a close fit to a range of swaption-implied volatilities. Equity and property returns are based on short term rates from the interest rate model with an additional log-normal component with a mean of zero. Equity volatilities are calibrated to a term structure of FTSE option-implied volatilities. The model is arbitrage-free.

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2008 plus 10 basis points. Sample rates are shown in the table in (iii) below.

Sample volatilities are shown below for the main asset classes. These are derived from the asset model output. The volatility for fixed interest investments is the overall figure for the assumed portfolio mix of government and corporate bonds.

Volatility over period (years)	Equity	Property	Fixed interest
5	37%	16%	8%
10	38%	16%	10%
20	40%	20%	18%

The correlations assumed between the main asset classes are:

Correlation between:	
Equities and medium term fixed interest assets	47%
Equities and property	43%
Medium term fixed interest assets and property	67%

(iii) The table below shows the annualised compound equivalent of the risk-free rate assumed for each duration (n) and values derived from the asset model of specified assets/options.

Row 1 shows the value of cash payments of £1,000,000 due n years after the valuation date.

Rows 2 to 15 inclusive show, for the appropriate asset classes, the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date, with strike price of K*£1,000,000*(1+r*p)^n.

Row 16 shows the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years, expressed as a percentage of nominal.

	K	**0.75**			
N	***Duration (n)***	**5**	**15**	**25**	**35**
R	Annualised compound equivalent of the risk-free rate assumed for the period (r)	2.83%	4.13%	4.07%	3.82%
1	*Risk-Free Zero Coupon Bond*	£869,936	£545,234	£369,243	£269,687
2	*FTSE All Share Index (p=1)*	£142,621	£314,608	£428,259	£504,572
3	*FTSE All Share Index (p=0.8)*	£132,666	£260,008	£327,806	£366,204
4	*Property (p=1)*	£30,265	£116,682	£187,236	£259,767
5	*Property (p=0.8)*	£25,622	£81,575	£117,975	£154,480
6	*15yr Risk-Free ZCBs (p=1)*	£19,813	£30,377	£18,165	£29,936
7	*15yr Risk-Free ZCBs (p=0.8)*	£17,065	£20,111	£8,819	£11,546
8	*15yr Corporate Bonds (p=1)*	£26,300	£43,688	£38,249	£58,431
9	*15yr Corporate Bonds (p=0.8)*	£22,779	£28,276	£16,422	£20,764
10	*Portfolio 1 (p=1)*	£72,772	£202,318	£296,876	£369,459
11	*Portfolio 1 (p=0.8)*	£65,385	£156,535	£212,316	£250,995
12	*Portfolio 2 (p=1)*	£70,205	£185,877	£270,241	£338,838
13	*Portfolio 2 (p=0.8)*	£62,922	£142,523	£189,020	£224,667
14	*Portfolio 3 (p=1)*	£31,809	£99,932	£158,396	£216,235
15	*Portfolio 3 (p=0.8)*	£26,978	£67,684	£95,392	£124,027
		L =15			
16	*Sterling Receiver Swaptions*	8.67%	11.36%	10.16%	7.57%

	K	1			
n	***Duration (n)***	**5**	**15**	**25**	**35**
r	*Annualised compound equivalent of the risk-free rate assumed for the period (r)*	x	x	x	x
1	*Risk-Free Zero Coupon Bond*	x	x	x	x
2	*FTSE All Share Index (p=1)*	£286,639	£489,683	£626,720	£714,366
3	*FTSE All Share Index (p=0.8)*	£269,028	£408,862	£484,112	£523,026
4	*Property (p=1)*	£131,844	£254,840	£347,207	£436,616
5	*Property (p=0.8)*	£116,726	£186,886	£229,830	£274,660
6	*15yr Risk-Free ZCBs (p=1)*	£91,738	£93,818	£82,161	£136,369
7	*15yr Risk-Free ZCBs (p=0.8)*	£79,947	£57,390	£26,802	£34,683
8	*15yr Corporate Bonds (p=1)*	£106,602	£127,931	£126,798	£169,091
9	*15yr Corporate Bonds (p=0.8)*	£93,927	£82,482	£57,259	£65,254
10	*Portfolio 1 (p=1)*	£197,975	£358,281	£474,512	£559,725
11	*Portfolio 1 (p=0.8)*	£181,616	£285,059	£345,718	£385,753
12	*Portfolio 2 (p=1)*	£194,049	£336,880	£441,611	£524,105
13	*Portfolio 2 (p=0.8)*	£177,818	£265,080	£317,384	£354,746
14	*Portfolio 3 (p=1)*	£134,963	£230,746	£309,229	£378,581
15	*Portfolio 3 (p=0.8)*	£120,019	£165,428	£198,044	£229,470
		L = 20			
16	*Sterling Receiver Swaptions*	12.16%	14.21%	12.45%	9.07%

	K	1.5			
n	***Duration (n)***	**5**	**15**	**25**	**35**
r	*Annualised compound equivalent of the risk-free rate assumed for the period (r)*	x	x	x	x
1	*Risk-Free Zero Coupon Bond*	x	x	x	x
2	*FTSE All Share Index (p=1)*	£664,630	£883,489	£1,046,381	£1,151,422
3	*FTSE All Share Index (p=0.8)*	£631,192	£745,039	£819,101	£850,700
4	*Property (p=1)*	£523,843	£630,873	£741,332	£839,221
5	*Property (p=0.8)*	£486,708	£493,399	£522,588	£558,517
6	*15yr Risk-Free ZCBs (p=1)*	£497,700	£498,916	£504,509	£545,257
7	*15yr Risk-Free ZCBs (p=0.8)*	£457,053	£332,701	£254,031	£248,178
8	*15yr Corporate Bonds (p=1)*	£497,542	£495,529	£506,835	£551,783
9	*15yr Corporate Bonds (p=0.8)*	£458,399	£344,640	£276,094	£273,142
10	*Portfolio 1 (p=1)*	£577,335	£734,767	£870,088	£970,544
11	*Portfolio 1 (p=0.8)*	£542,513	£600,227	£653,873	£686,841
12	*Portfolio 2 (p=1)*	£574,729	£710,018	£833,070	£928,927
13	*Portfolio 2 (p=0.8)*	£539,800	£575,863	£618,139	£648,233
14	*Portfolio 3 (p=1)*	£525,566	£600,237	£685,465	£764,460
15	*Portfolio 3 (p=0.8)*	£488,735	£464,059	£474,546	£494,813

	K	**1.5**			
n	***Duration (n)***	**5**	**15**	**25**	**35**
		L=25			
16	*Sterling Receiver Swaptions*	15.24%	16.77%	14.25%	10.20%

Portfolio 1: Portfolio of 65% FTSE All Share and 35% property
Portfolio 2: Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds
Portfolio 3: Portfolio of 40% equity, 15% property, 22.15% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds.

(iv) Initial UK equity yield assumed 4.3%
Initial UK property yield assumed 4.3%

(v) No asset classes outside the UK are modelled separately.

(vi) The average outstanding term of with profits liabilities in the New With Profits Fund is approximately 8 years. The average outstanding term of with profits liabilities in the Old With Profits Fund is approximately 9 years. A breakdown for selected product types is shown in the table below.

Outstanding term (yrs)	**NWPF**	**OWPF**
Bonds	6	6
Conventional Pensions	4	3
UWP Life	7	7
UWP Pensions	12	11

Term is the risk exposure duration, which is the effective number of years of exposure to risk weighted by the regulatory reserve.

The outstanding duration of with profits guarantees is fairly evenly spread over the term of the liabilities, though the cost of guarantees is greater at shorter durations. The outstanding duration of GAR guarantees is also shorter but still evenly spread.

The model was calibrated to a moneyness of between 115% for short durations to 80% for longer terms. The table below shows the extent of the fit of the modelled equity volatilities to market implied volatility.

Term (years)	**Strike**	**Market Equity Volatility**	**Modelled Equity Volatility**
1	115%	31.0%	31.0%
2	110%	32.0%	31.9%
3	110%	32.5%	32.7%
5	105%	33.9%	33.6%
10	100%	35.6%	34.7%

(vii) The asset model is validated by accumulating and discounting asset values and comparing with the starting asset value. Results of this comparison are shown under (viii) below.

(viii) The valuation is based on 1,996 simulations of the asset model. The convergence of these simulations is shown in the table below. The figures are the ratio of the average, across the 1,996 scenarios, of the accumulated and discounted asset values to the starting asset value.

Projection term (years)	Ratio
5	101.43%
10	102.37%
15	99.50%
20	99.07%
25	103.83%
30	97.95%

The same principle of accumulating, discounting and comparing with the start value is applied to the asset shares in the liability valuation. The convergence of these results is at the level expected given the validation results of the asset model.

(b) None of the costs of guarantees, options and smoothing has been valued using the market costs of hedging.

(c) None of the cost of guarantees, options and smoothing has been valued using a series of deterministic projections with attributed probabilities.

(5) (a) The management actions assumed in the projection of assets and liabilities are derived from the PPFM, as set out below. The actions modelled below are consistent with the PPFM, although the PPFM does allow for larger movements in regular bonus rates and payouts when solvency is at risk.

Regular bonuses

Sustainable regular bonuses in the valuation for each modelled bonus series have been derived from the gross redemption yield on long dated gilts, with deductions for guaranteed interest rates, tax, expenses, shareholder transfers, and a contingency margin to reflect the extent of existing guarantees. The bonus rate in a given year is targeted at this sustainable level, but is constrained to move by no more than 1% upwards or downwards from the previous year's rate. Additionally, the bonus rate is constrained not to increase if the guaranteed benefits exceed the asset share at that point in the projection.

Terminal bonuses

The model determines a scale of terminal bonus rates for maturing policies (surrendering policies for bonds). These are also used to derive rates for death and surrender. Terminal bonus rates are set for a cohort of similar policies in the same bonus series. For a given group of policies, the payout on an identical maturing policy is restricted to move by a maximum of 15% in either direction from year to year. The implied payout ratios are assumed to start from forecast values and move to sustainable levels over time.

For all policies with a maturity date, and those without a maturity date but which have been in force a specified length of time, the sustainable payouts assumed in the valuation allow for a level of uplift to asset share, consistent with the PPFM.

Market value reduction (MVR)
For unitised with profits business, where a policy is assumed to surrender, and where the asset share is below the face value of the units an MVR is applied so that the payout is equal to the asset share plus a defined percentage (10% for bonds and trustee plans, and 15% for other pensions) of the face value; subject to an overall maximum of the face value of units. No MVRs are assumed to be applied for regular premium life business.

In light of legislation changes (COBS 20.2.17) a reduction to modelled shareholder payouts has been made in scenarios where MVRs apply.

Asset allocation
The asset mix of the with profits fund is assumed to remain constant throughout the projection.

(b) Best estimates of the future proportions of assets backing the with profits benefit reserves and future bonus rates under specified scenarios are:

Return	**Risk-Free Rate unadjusted**			**Risk-Free Rate reduced by 0.66% p.a**			**Risk-Free Rate increased by 0.66% p.a.**		
Years into projection	Current	5	10	Current	5	10	Current	5	10
Equity backing ratio	70 %	70 %	70 %	70 %	70 %	70 %	70 %	70 %	70 %
Annual bonus rate Investment Bond	2.75 %	0.75 %	0.75 %	2.92 %	0.25 %	0.25 %	2.92 %	1.25 %	1.25 %
Annual Bonus rate UWP Pension (effected 1999)	2.00 %	1.00 %	1.75 %	2.17 %	0.00 %	1.00 %	2.17 %	1.75 %	2.25 %

Note: Equity backing ratio includes equities and property.

(6) The persistency assumptions used for the main classes of business are:

Product		**Average lapse / surrender / paid-up rate for the policy years**			
		1 – 5	**6 – 10**	**11 – 15**	**16 – 20**
		% p.a.	**% p.a.**	**% p.a.**	**% p.a.**
UWP Bond	surrender	1.3	10	10	10
UWP Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	5.2	5	5	5
CWP pension regular premium	surrender	2	2	2	2
CWP pension single premium	surrender	2	2	2	2
UWP individual pension regular premium	PUP	6.5	6.5	4.8	4.5

Product		Average lapse / surrender / paid-up rate for the policy years			
		1 – 5	6 – 10	11 – 15	16 – 20
		% p.a.	% p.a.	% p.a.	% p.a.
UWP individual pension regular premium	surrender	2.5	2.5	2.5	3.2
UWP individual pension single premium	surrender	2.5	2.5	2.5	3.2
CWP savings endowment	surrender	11	7.7	3.7	2.5
CWP target cash endowment	surrender	1	1	1	1
UWP savings endowment	surrender	7.6	8	9	8
UWP target cash endowment	surrender	12.4	12.8	8.8	6

The take-up rates on GARs are assumed to vary with scenario. When the option is in the money, the take-up rate varies between 75% and 80%, depending on the relative values of the tax free cash alternative and the value of the annuity net of tax.

The mortality assumption in possession of any GAR is assumed to be 97.5% of PCMA00 medium cohort (1992 onwards) & 1.7% floor (2004 onwards) for males and 90% of PCFA00 medium cohort (1992-2004) & 75% medium cohort with 1.5% floor (2004 onwards) for females. For practical reasons, an equivalent one-dimensional table is used.

(7) Policyholder lapse and paid-up rates are not assumed to vary with scenario in the calculations. The policyholder take-up rates on GARs are described in (6) above.

7. Financing costs

There are no financing arrangements in place in connection with any with profits funds.

8. Other long-term insurance liabilities

Form 19 Line 47 includes the value of the future tax and investment expenses on the assets backing the Future Policy Related Liabilities in excess of asset share. It also includes the value of the future Reorganisation Bonus payable in accordance with the reorganisation scheme governing the company. Section **3.(2)** details the amounts of each.

9. Realistic current liabilities

In the OWPF, the realistic current liabilities are equal to the regulatory current liabilities plus an amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus.

In the NWPF the realistic current liabilities are equal to the regulatory current liabilities. An amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus is subtracted from the support asset shown on Form 19 Line 27 and is also included in Form 18 Line 65.

10. Risk Capital Margin

(a) The Risk Capital Margin for the NWPF is £268m and for the OWPF is £61m.

For both funds the most adverse scenario is the combination of events described below.

(i) Equity values are assumed to fall by 20%. Property values are assumed to fall by 12.5%. No separate assumption is made for non UK assets.

(ii) Fixed interest yields are assumed to fall by the amounts shown in the table below. The percentage change in yields is 17.5%. No overseas fixed interest assets are treated as being invested in significant territories.

Currency	Long term yield (annualised)	Nominal rise in yields
Sterling	3.74%	0.66%

(iii) The average (weighted by value) change in spread for bonds, and the percentage changes in asset value arising from the credit risk scenario are given below. These are the percentage changes applying to the corporate bond investments of the funds in the most adverse scenario. No other asset values are adjusted in the credit risk scenario.

	Average change in spread (basis points)	Percentage change in asset values
With profits portfolio	109	-6.5%
Non-profit portfolio	57	-3.6%

(iv) The overall percentage change in the realistic value of liabilities that results from applying the persistency risk scenario, assuming the market and credit risk stress scenarios have occurred is given in the table below.

	Percentage change in liabilities
NWPF	1.08%
OWPF	1.23%

(v) Not applicable.

(b)

(i) In the stress scenario that defines the Risk Capital Margin calculation, it is assumed that the Long Term Target Payout Ratio is reduced from 125% to 120%.

No other changes to management actions are assumed from the base calculation. There are no further changes to assumptions, other than those that result directly from the events of the stress scenario itself.

(ii) The impact of the change in management actions on the Risk Capital Margin is £85m for NWPF and £18m for OWPF.

(iii) No changes would apply to the table in **6.(5)(b)** if the management actions assumed within the Risk Capital Margin were also assumed within the base scenario.

(iv) Not relevant since it is not assumed that such charges are taken.

(c) All the assets required by the OWPF to cover the Risk Capital Margin are held within the fund. For NWPF some Support Arrangement Assets (as shown in Form 19 Line 27) are required to cover the Risk Capital Margin.

11. Tax

(i) Tax on assets backing the With Profits Benefit Reserve (asset share) is charged to the asset share.

(ii) The liability for future tax on assets backing the future policy related liabilities is calculated separately and included on the balance sheet in Form 19, Line 47. The calculation assumes that these assets are locked in for the mean term of the policy liabilities, and incur tax on the investment return over that term. Tax is only incurred on the BLAGAB proportion of the assets.

(iii) There is no liability assumed for tax on the assets backing realistic current liabilities.

12. Derivatives

Derivatives held as at 31 December 2008 are as follows:

Sterling interest rate receiver swaps are held for the purposes of hedging interest rate risk. The swaps held have maturity dates in 2037, a total notional of £196m, and a total market value of £39.0m.

Sterling and Euro-quanto receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2009 to 2032, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £380m and a total market value of £66.8m.

Equity put options are held for the purpose of hedging equity risk. These are total return options on a basket of indices weighted as follows:

Index	Economy	Weighting
FTSE 100 Total Return	UK	71%
S&P 500 Total Return	US	13%
Dow Jones EUROSTOXX 50 Total Return	Europe	8%
TOPIX Total Return	Japan	8%

They have maturity dates ranging from 2012 to 2025, a total original notional of £423m and a market value of £96.3m.

Credit default swaps are held to adjust credit exposure for the purpose of portfolio management, rather than as a strategic hedge against credit risk. There is £5.0m notional of sold protection and £31.5m notional of bought protection. Maturity dates range from 2010 to 2015.

Futures are held as set out in the table below:

Future	Bought / Sold	Purpose	Maturity Date	Exposure
FTSE 100	Sold	Managing equity risk	19 Mar 2009	£65.4m
S&P 500	Bought	Managing equity risk	19 Mar 2009	£7.7m
DJ EURO STOXX 50	Bought	Managing equity risk	19 Mar 2009	£6.1m
HANG SENG INDEX	Bought	Managing equity risk	19 Jan 2009	£6.8m
TOPIX	Sold	Managing equity risk	19 Mar 2009	-£2.5m
Long (10y) Gilt	Bought	Duration management	31 Mar 2009	£154.3m
EURO Bond	Sold	Hedging interest rate risk	31 Mar 2009	£18.1m

Currency forwards are held for the purpose of portfolio management to hedge overseas currency exposure back to Sterling. There is £9.8m notional to hedge exposure to Euro back to Sterling.

13. Analysis of change in working capital

£m	NWPF	OWPF
Realistic working capital 31 December 2007	**1,899**	**297**
Opening Adjustments to valuation of WP liabilities	-20	-5
Opening Adjustments to Support Arrangement Assets	-154	0
Model & Methodology Changes on valuation of WP liabilities	13	2
Return on Working Capital	-72	-54
Investment returns on assets backing Asset Shares	-358	-62
Mismatch profits on assets backing the future policyholder related liabilities	-153	-22
Changes to realistic persistency & mortality assumptions on modelled WP business	7	2
Changes to economic assumptions	-23	-5
Changes to non-economic assumptions	217	36
Actual vs Expected experience	-67	-12
New Business	-2	0
Impact of Non-profit business	-62	-9
Changes in other liabilities of lines 47 and 51 of Form 19	140	26
Change in Support Arrangement Assets	-331	0
Other	46	32
Realistic working capital 31 December 2008	**1,080**	**226**

Changes to economic assumptions include changes to the asset mix.

The main component of the changes to non-economic assumptions item is the introduction of MVRs on some tranches of unitised WP business.

The impact of non-profit business is mostly brought about by the widening of credit spreads and hence fall in market value of assets backing the non-profit business in the fund.

Changes in other liabilities of lines 47 and 51 of Form 19 include a decrease in current liabilities and a decrease in the reserve for future payouts of Reorganisation Bonus, under the Reorganisation Scheme, which is driven by the reduction in asset values over the period.

The change in Support Arrangement Assets is essentially the change in the Non-Profit Funds surplus which is lendable to NWPF under the rules of the Reorganisation Scheme. The main reasons for the reduction in this amount are the investment returns on the assets backing the surplus and new business strain incurred by the Non-Profit Funds.

’Other’ includes changes to manual adjustments and movements in current assets.