

ANNUAL REPORT

SKANDIA LIFE GUARANTEED PENSION FUND

Annual Report to With-Profits Policyholders from the Directors

Period: 1 January 2010 to 31 December 2010

1. Introduction

1.1 Our with-profits fund is called the Guaranteed Pension Fund. We manage this Fund by following the Principles and Practices set out in the document Principles and Practices of Financial Management (PPFM) <http://www.skandia.co.uk/funds/gpf.asp>. We do not expect to change the Principles often whereas Practices can change more frequently.

1.2 The leaflet "A guide to how we manage our with-profits fund" (Guide) <http://www.skandia.co.uk/funds/gpf.asp> sets out the key points of the PPFM.

1.3 All providers of with-profits funds are required to produce an Annual Report that explains the extent to which, throughout the year covered by the report, their fund has met its obligations as set out in the PPFM.

2. How we manage the Guaranteed Pension Fund

2.1 The governance arrangements for the Fund involve four parties:

- The Board of Directors of Skandia Life
- The With-Profits Committee
- The With-Profits Actuary
- The Investment Committee

The PPFM sets out the duties and responsibilities of each of these parties.

2.2 Throughout 2010 the With-Profits Committee comprised:

- A number of employees of Skandia Life
- The With-Profits Actuary who is independent

At the start of 2010 the Committee was a sub-committee of the Board of Directors and one Director chaired the Committee. Following the reduction in size of the Fund to under £25 million a change was made towards the end of the year so a Director is no longer required to be a member of the Committee. The Committee now reports directly to the Directors and continues its responsibility for the day to day management of the Fund. In addition the Committee is required to provide a full Annual Report to the Directors for the first Board Meeting of each calendar year and a brief written Report for each quarterly meeting thereafter. The required quorum for meetings of the With-Profits Committee is now that three members of the Committee be present including one of the Chairman, the Actuarial Function Holder or the With-Profits Actuary.

2.3 The With-Profits Committee met seven times during 2010 and discussed various issues by conference call and e-mail throughout the year.

2.4 The With-Profits Actuary also has a statutory obligation to ensure that the Directors exercise any discretion in respect of the Fund fairly in respect of investors and his Report is appended to this Annual Report.

3. Annual Report

3.1 As explained in the regular six-monthly Updates which we have sent to you, and in previous Annual Reports, following the severe and prolonged setbacks in investment markets that started at the beginning of 2000, the Guaranteed Pension Fund closed to further investments in October 2002. Since that date the Directors have deemed that abnormal or extreme conditions have applied to the Fund other than in the period from November 2006 to April 2008.

3.2 Throughout periods where abnormal or extreme conditions apply, the Directors exercise the discretion they have, as set out in the PPFM, to determine the bonus rates each month. In doing so the Directors adopt a prudent approach to bonus additions to protect the solvency of the Fund, while maintaining a balance between the interests of short term and long term investors and continuing to meet all guaranteed payments as they become due at their Selected Guarantee Date or earlier death.

3.3 During the second six months of 2010 there was strong growth in equity markets which enabled the Fund to return to the point where the value of the assets in the Fund is equal to the number of units in issue, so all units are valued at £1 each, and to allow bonuses to be allocated for the first time since October 2008.

3.4 The Directors are pleased to have been able to allocate bonuses once again despite the continuing difficult economic times but remain cautious as to how long such payments can be maintained.

3.5 The attached Report from the With-Profits Actuary examines the economic climate in more detail. The Report also explains the main areas where discretion exists in the management of the Fund and the way in which the Directors have considered the different rights and interests of relevant parties in exercising that discretion.

3.6 The Fund is designed to ensure that Skandia Life is only able to take explicit charges (as specified in the literature) from the Fund and hence there are no conflicting interests between policyholders and shareholders of Skandia Life as may be the case for a more traditional form of with-profits fund.

3.7 The only change in the operation of the Fund during 2010 was to the structure and quorum of the With-Profits Committee referred to above.

3.8 The PPFM and Guide were amended during the year to clarify the descriptions of how we manage the Fund although there were no actual changes in practice. Revised versions were issued in August 2010 and, as mentioned earlier, are available on the website:
<http://www.skandia.co.uk/funds/gpf.asp>.

3.9 In preparing this Annual Report for the Guaranteed Pension Fund the Directors arranged for the independent With-Profits Actuary to review the operation of the Fund. He carried out similar reviews last year and the year before. The Directors are pleased to report that this Review identified no material concerns and the With-Profits Actuary confirmed to the Directors that the Fund had operated in accordance with the PPFM.

3.10 The FSA published a review of the with-profits regime in June 2010 covering seven areas – governance, post-sale customer communications, payouts (surrenders and maturities), charges, new business, strategic investments and closed fund specific issues. The With-Profits Committee carried out a full audit of the Fund's operation in the light of this review and concluded that the Fund continues to operate with due regard to the interests of policyholders.

3.11 In the light of the above, the Directors believe that the Guaranteed Pension Fund has operated in accordance with the PPFM during the year.

4. How to find out more

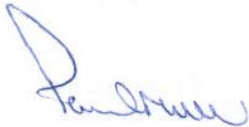
4.1 Please read the Update letter and accompanying questions and answers document that is normally sent to you around January and July each year.

4.2 Full information on the Fund and its progress is available on the website: <http://www.skandia.co.uk/funds/gpf.asp>. This information includes the PPFM, the Guide, bonus rates, the discounted value of units on leaving the Fund before your Selected Guarantee Date and the proportion of the Fund invested in equities.

4.3 If you have any other enquiries, please telephone 0844 556 0822.



Phil Hine
Director



Paul Miller
Director

31 January 2011