

Registered number: 71805

Phoenix Assurance plc

Report and Financial Statements for the year ended 31 December 2001



Report and financial statements 2001

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at New Hall Place, Old Hall Street, Liverpool L3 9UE, on 21 March 2002 at 11.00 a.m. to transact the ordinary business of the Company.

By order of the directors

21 February 2002

Secretary

A member entitled to attend and vote at this Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.

Directors

Mr W J Bradburn

Mr P S Egan

Mr R E K Greenfield

Mr J J Keane

Mr A Kerr

Mr G S Pater

Mr M L Warr

Secretary

Mrs V Jones

Registered office

New Hall Place, Old Hall Street, Liverpool L3 9UE.

Phoenix Assurance plc

Directors' report for the year ended 31 December 2001

Principal activities and review of business

The principal activity of the Company and its subsidiaries is the transaction of general and long term insurance business in the United Kingdom and overseas.

Business transacted

Net premium income of the Company for the year was **£271.2m** (2000 **£243.2m**) in respect of long term business and **£Nil** (2000 **£Nil**) in respect of general insurance business and at 31 December 2001 the total long term business funds on a statutory solvency valuation basis amounted to **£1,337m** (2000 **£1,614m**).

Valuation

A valuation of the long term insurance business of the Company in accordance with the Interim Prudential Sourcebook (insurance companies) issued by the Financial Services Authority was made as at 31 December 2001 in respect of the year then ended. The result of the valuation showed a surplus of **£65.1m** (2000 **£57.3m**), out of which **£14.0m** (2000 **£14.9m**) has been allocated to policyholders and **£50.1m** (2000 **£41.4m**) to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as **£71.6m** (2000 **£59.1m**).

After making these allocations there is a surplus of **£1.0m** carried forward compared with **£1.0m** brought forward from the last valuation.

Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 8 to 10.

No dividend is recommended for the year (2000 **£63.6m**) resulting in a transfer to retained profits of **£55.2m** (2000 **£18.2m** transfer from retained profits).

Euro currency

The impact the introduction of the Euro has had on the Company is minimal. However system and product changes required to achieve Euro capability by 1 January 1999 were successfully implemented and work to change over to the Euro by 2002 remains on target. The incremental costs of the current Euro projects, including future costs, will be borne by the parent company. Plans are also being developed to address the possible extended scope of the Euro, including the UK's potential entry.

Directors

Mrs J Carnie resigned as a director of the Company with effect from 30 June 2001.

The directors whose names appear on page 2 served throughout the year.

None of the directors had any interests in the shares of the Company

The interests of the directors in the ordinary shares of Royal & Sun Alliance Insurance Group plc are disclosed in the financial statements of Royal & Sun Alliance Life Holdings Limited.

By order of the directors

Vanessa Jones

V Jones
Secretary
21 February 2002

Phoenix Assurance plc

Directors' responsibilities for financial statements

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2001. The directors also confirm that applicable accounting standards have been followed and that it is appropriate for the financial statements to have been prepared on the going concern basis.

The directors have responsibility for ensuring that the Company keeps proper accounting records. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Phoenix Assurance plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the director's report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We have planned and performed our audit 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Liverpool, 21 February 2002

Accounting Policies

Accounting and disclosure requirements

The principal accounting policies of the Company as set out below comply with Section 255A of and Schedule 9A to the Companies Act 1985 and applicable UK accounting standards and with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers in December 1998.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain assets as permitted by the Companies Act 1985.

Translation of foreign currencies

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year end. For assets and liabilities within the long term funds, the resulting exchange adjustments are included within the technical account - long term business. For assets and liabilities held outside the long term funds, the resulting exchange adjustments are taken to the profit and loss account.

Group accounts

The Company is a wholly owned subsidiary of a UK holding company and, in accordance with Section 228 of the Companies Act 1985, consolidated accounts have not been prepared. Investments in subsidiaries and associated undertakings are included in the balance sheet at net asset value.

Investment income

Interest, rents and dividends on investments, other than ordinary shares, are included on an accruals basis. Account is taken of dividend income on ordinary shares when the related investment is quoted 'ex-dividend'.

Taxation

Taxation in the non-technical account and long term business technical account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. Deferred taxation is provided on timing differences, other than those likely to continue in the foreseeable future.

The balance on the technical account - long term business is transferred to the non-technical account. Profits are shown in the non-technical account grossed up for tax at the effective rate of corporation tax applicable in the period. The amount of grossing up is included within the taxation on the profit or loss on ordinary activities in the non-technical account.

Provision for deferred taxation on unrealised appreciation of investments of the long term business fund is included in technical provisions, see note 20.

Investments

Investments and assets held to cover linked liabilities are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used. Properties are valued annually at open market value.

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual by a qualified valuation surveyor.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 "Accounting for investment properties", no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Company's practice to maintain properties occupied by the Company in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

Accounting Policies

Investments (*continued*)

The treatment of realised and unrealised investment gains and losses is as follows:

(i) Realised gains and losses

Net realised gains, being net sale proceeds less costs of acquisition, are included within the profit and loss account within investment income. Net realised losses are included within investment expenses and charges.

(ii) Unrealised gains and losses

Net unrealised gains or losses are shown separately in the profit and loss account.

Long term insurance business

Earned premiums

Earned premiums comprise written premiums and are recognised when payment is due, except for linked premiums which are accounted for when the liability for the units is included in the technical provision for linked liabilities. Single premiums are those relating to products issued by the Company where there is a contractual obligation for the payment of only one premium. Annual premiums are those where there is a contractual obligation for the payment of premiums on a regular basis.

New business premiums

New business premiums are recognised when the policy liability is set up. New single premiums include recurrent single premium contracts including DSS rebates and increments under group pension schemes.

Claims incurred

Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or the date at which the policy ceases to be included in the long term business provision or the technical provisions for linked liabilities. Reinsurance recoveries are credited to match relevant gross amounts. Claims paid include related internal and external claims handling costs.

Acquisition costs

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax relief and amortised over the period in which they are expected to be recovered out of margins in matching revenues from related policies. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Long term business provision

The long term business provision has been computed by a Fellow of the Institute of Actuaries on the basis of recognised actuarial methods. Details of the main assumptions made and the methods used are given in note 11.

Technical provision for linked liabilities

The technical provision for linked liabilities represents the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description, or to indices of the value of investments.

Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. These assets are included, predominantly, at mid-market value.

Outstanding claims

The provision for outstanding claims comprises the estimated cost of claims reported and not settled at the balance sheet date.

Basis of profit recognition

The profits on long term business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities together with the investment return attributable to the long term fund from investments held outside the long term fund. Profits are shown in the non-technical account grossed up for taxation at the effective rate of corporation tax applicable in the period.

Accounting Policies

Bonuses

Reversionary bonuses are recognised in the technical account - long term business when declared and are included in the movement in the long term business provision. Terminal bonuses are recognised in the technical account - long term business when payable and are included in claims paid.

Fund for future appropriations

The long term fund comprises both participating and non-participating long term insurance policies, where both of these types of policies have a contingent interest in the excess of assets over liabilities in the long term business fund. The assets of the long term fund are not formally segregated between those attributable to the participating and non-participating funds. Accordingly, this excess is not allocated between policyholders and shareholders and is taken to the fund for future appropriations.

Operating Leases

Payments made under operating leases are charged on a straight line basis over the term of the lease.

General insurance business

Underwriting results

The underwriting result is accounted for on an annual basis. Premiums written are accounted for in the year in which the contract is entered into and include estimates where the amounts are not determined at the balance sheet date. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

Claims paid represent all payments made during the period whether arising from events during that or earlier periods.

The balance on the general business technical account is arrived at after taking into account changes in the equalisation provision.

Technical provisions

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated on a time apportionment basis.

The provision for claims outstanding, whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation trends and after recognition of the potential time elapsed in the notification, development and settlement of claims.

Differences between the estimated cost and subsequent settlement are dealt with in the technical account for the year in which the claims are settled or re-estimated.

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks, after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which in the opinion of the directors are managed together.

Equalisation provisions are established in accordance with the requirements of legislation and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

Short term business (Accident, Sickness and Unemployment)

The above business, which is written in the name of the Company and is 100% reassured to another Group company, has been disclosed this year, for first time, in the Company's financial statements. This has not impacted the Company's profit and loss account or balance sheet, however it has resulted in a restatement of prior years figures.

Phoenix Assurance plc

Profit and loss account

for the year ended 31 December 2001

Technical account - general business

	Notes	2001 £m	2000 (restated) £m
Earned premiums, net of reinsurance			
Gross premiums written	1c.	12.8	15.4
Outward reinsurance premiums		(12.8)	(15.4)
		-	-
Change in the gross provision for unearned premiums		0.6	(0.7)
Change in the provision for unearned premiums, reinsurers' share		(0.6)	0.7
		-	-
Net earned premium		-	-
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(10.5)	(13.9)
reinsurers' share		10.2	13.7
		(0.3)	(0.2)
Change in the provision for claims			
gross amount		6.5	13.2
reinsurers' share		(6.3)	(13.0)
		0.2	0.2
Net claims incurred		(0.1)	-
Net operating expenses			
Administrative expenses		-	(0.1)
Balance on the technical account - general business		(0.1)	(0.1)

All figures relate to continuing operations.

The notes on pages 13 to 22 form part of these financial statements.

Phoenix Assurance plc

Profit and loss account

for the year ended 31 December 2001

Technical account - long term business

	Notes	2001 £m	2000 £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	297.1	266.2
Outward reinsurance premiums	1a	(25.9)	(23.0)
Net earned premiums		271.2	243.2
Investment income	7	363.9	180.5
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(336.8)	(247.3)
reinsurers' share		20.7	22.0
		(316.1)	(225.3)
Change in the provision for claims			
gross amount		-	4.9
reinsurers' share		-	-
		-	4.9
Net claims incurred		(316.1)	(220.4)
Changes in other technical provisions, net of reinsurance			
Long term business provision	11		
gross amount		119.5	(130.3)
reinsurers' share		19.7	24.0
		139.2	(106.3)
Technical provision for linked liabilities			
gross amount		93.9	8.8
reinsurers' share		(10.0)	(8.0)
		83.9	0.8
Net change in other technical provisions		223.1	(105.5)
Net operating expenses	3		
Acquisition expenses		(43.8)	(42.3)
Change in deferred acquisition costs		(39.5)	(2.0)
Administrative expenses		(11.2)	(16.6)
Net operating expenses		(94.5)	(60.9)
Investment expenses and charges	7	(4.8)	(6.5)
Unrealised losses on investments	7	(468.6)	(123.3)
Taxation attributable to long term business	4	(18.2)	(7.4)
Transfers from fund for future appropriations		96.6	145.8
Balance on technical account - long term business	2	52.6	45.5

All figures relate to continuing operations.

The notes on pages 13 to 22 form part of these financial statements.

Phoenix Assurance plc

Profit and loss account

for the year ended 31 December 2001

Non-technical account

	Notes	2001 £m	2000 £m
Balance on the general business technical account		(0.1)	(0.1)
Balance on the long term business technical account		52.6	45.5
Tax credit attributable to balance on the long term business technical account		22.3	20.1
		74.9	65.6
Gain on sale of subsidiary undertakings	14	2.7	-
Profit on ordinary activities before taxation		77.5	65.5
Taxation on profit on ordinary activities	4	(22.3)	(20.1)
Profit on ordinary activities after taxation		55.2	45.4
Dividends	5	-	(63.6)
Transfer to/(from) retained profits		55.2	(18.2)

All figures relate to continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit for the financial year	55.2	45.4
Unrealised gains/(losses) on investment in group undertakings	0.1	(1.1)
Shareholders' recognised gains	55.3	44.3

Movements in shareholders' funds

for the year ended 31 December 2001

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	2001 £m	2000 £m
Shareholders' funds at 1 January	62.4	(8.8)	27.7	81.3	100.6
Shareholders' recognised (losses)/gains		0.1	55.2	55.3	44.3
Realised loss on sale of subsidiary undertakings		8.9	(8.9)	-	-
Dividends			-	-	(63.6)
Shareholders' funds at 31 December	62.4	0.2	74.0	136.6	81.3

The profit and loss account includes £74.0m (2000 £27.7m) which is distributable.

The notes on pages 13 to 22 form part of these financial statements.

Phoenix Assurance plc

Balance sheet at 31 December 2001

	Notes	2001 £m	2000 (restated) £m
Assets			
Investments	8		
Land and buildings		51.3	83.3
Investments in subsidiary and associated undertakings and participating interests		16.4	27.9
Other financial investments		1,910.4	2,058.0
Deposits with ceding undertakings		16.1	19.7
		1,994.2	2,188.9
Assets held to cover linked liabilities		31.6	115.4
Reinsurers' share of technical provisions			
Provision for unearned premium		6.3	7.0
Long term business provision		140.0	120.3
Claims outstanding		34.8	40.4
Technical provision for linked liabilities		53.8	63.8
		234.9	231.5
Debtors	9		
Debtors arising out of direct insurance operations		16.8	12.8
Debtors arising out of reinsurance operations		1.5	4.9
Other debtors		55.1	84.0
		73.4	101.7
Other assets			
Cash at bank and in hand		72.8	31.0
Prepayments and accrued income			
Accrued interest and rent		20.9	11.9
Deferred acquisition costs – long term business		40.2	79.7
Deposits with ceding undertakings	13	69.5	52.3
		130.6	143.9
Total assets		2,537.5	2,812.4

The balance sheet includes assets totalling **£1,968.0m** (2000 £2,287.7m) representing the long term insurance funds.

The notes on pages 13 to 22 form part of these financial statements.

Phoenix Assurance plc

Balance sheet
at 31 December 2001

	Notes	2001 £m	2000 (restated) £m
Liabilities			
Capital and reserves (see page 10)			
Called up share capital	10	15.9	15.9
Share premium account		46.5	46.5
Revaluation reserve		0.2	(8.8)
Profit and loss account		74.0	27.7
Shareholders' funds - equity interests		136.6	81.3
Fund for future appropriations		729.4	826.0
Technical provisions			
Provision for unearned premium		6.3	7.0
Long term business provision	11	1,347.1	1,466.6
Claims outstanding		42.2	48.0
		1,395.6	1,521.6
Technical provision for linked liabilities		85.3	179.2
Provision for other risks and charges	19	2.0	2.4
Creditors			
Creditors arising out of direct insurance operations	12	1.4	4.2
Creditors arising out of reinsurance operations	12	1.0	0.9
Other creditors including taxation and social security	12	115.2	79.0
Proposed dividend	5	-	63.6
		117.6	147.7
Accruals and deferred income			
Property rent		1.5	1.9
Deferred income under financial reinsurance	13	69.5	52.3
		71.0	54.2
Total liabilities		2,537.5	2,812.4

The notes on pages 13 to 22 form part of these financial statements.

The financial statements on pages 5 to 22 were approved by the directors on 21 February 2002 and were signed on their behalf by:



G S Pater
Director
21 February 2002



R E K Greenfield
Director

Notes on the financial statements

1. Segmental information

Long term business

No geographical segmental information, as required by Statement of Standard Accounting Practice number 25, is given as business is predominantly sourced in the United Kingdom.

1a Premiums written

	Gross £m	2001 Reinsurance ceded £m	Net £m	Gross £m	2000 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked with profits	1.5	-	1.5	1.7	-	1.7
Non linked without profits	71.0	(3.6)	67.4	77.5	(3.4)	74.1
Linked without profits	0.6	-	0.6	0.6	-	0.6
Group						
Non linked without profits	80.2	(20.4)	59.8	67.2	(17.0)	50.2
Pensions						
Individual						
Non linked without profits	11.1	(0.1)	11.0	9.5	(0.2)	9.3
Group						
Non linked with profits	11.5	-	11.5	5.7	-	5.7
Non linked without profits	119.0	(1.8)	117.2	101.3	(2.4)	98.9
Annuity	2.2	-	2.2	2.7	-	2.7
Total premiums written	297.1	(25.9)	271.2	266.2	(23.0)	243.2
Periodic premiums	97.5	(3.8)	93.7	97.5	(3.8)	93.7
Single premiums	199.6	(22.1)	177.5	168.7	(19.2)	149.5
Total premiums written	297.1	(25.9)	271.2	266.2	(23.0)	243.2

The gross figures above include the following inward reinsurance premiums:

	2001 £m	2000 £m
Life Individual		
Non linked with profits	1.1	1.3
Non linked without profits	59.7	68.1
Pensions Individual - non linked without profits	8.0	6.6
Pensions Group - non linked with profits	11.4	5.7
- non linked without profits	0.1	0.1
Total	80.3	81.8

Phoenix Assurance plc

Notes on the financial statements

1b New business premiums

	Gross £m	2001 Reinsurance ceded £m	Net £m	Gross £m	2000 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked without profits	7.0	-	7.0	9.1	-	9.1
Group						
Non linked without profits	77.7	(20.3)	57.4	63.9	(16.8)	47.1
Pensions						
Individual						
Non linked without profits	0.3	-	0.3	0.1	-	0.1
Group						
Non linked without profits	119.0	(1.8)	117.2	101.2	(2.4)	98.8
Non linked with profits	0.4	-	0.4	0.7	-	0.7
Annuity	2.2	-	2.2	2.7	-	2.7
Total new business annualised premiums	206.6	(22.1)	184.5	177.7	(19.2)	158.5
Periodic premiums	7.0	-	7.0	9.0	-	9.0
Single premiums	199.6	(22.1)	177.5	168.7	(19.2)	149.5
Total new business annualised premiums	206.6	(22.1)	184.5	177.7	(19.2)	158.5

The gross figures above include the following inward reinsurance premiums:

	2001 £m	2000 £m
Life individual		
Non linked without profits	1.9	8.2
Pensions group - non linked with profits	-	0.7
Total	1.9	8.9

Notes on the financial statements

1c. General Business

Segmental analysis of business by geographical area

No geographical segmental information, as required by Statement of Standard Accounting Practice number 25, is given as all business is sourced in Europe (excluding United Kingdom).

2001	Accident & health £m	Fire & other damage to property £m	Motor (other) £m	Marine aviation & transport £m	Misc & Pec loss £m	Total £m
Gross premiums written	-	-	-	(1.2)	14.0	12.8
Gross premiums earned	-	-	-	(1.2)	14.6	13.4
Gross claims incurred	-	-	(0.1)	(0.7)	(3.2)	(4.0)
Gross operating expenses	-	-	-	-	(6.3)	(6.3)
Gross technical result	-	-	(0.1)	(1.9)	5.1	3.1
Reinsurance balance	-	-	-	1.9	(5.1)	(3.2)
Net technical result	-	-	(0.1)	-	-	(0.1)

2000 (restated)	Accident & health £m	Fire & other damage to property £m	Motor (other) £m	Marine aviation & transport £m	Misc & Pec loss £m	Total £m
Gross premiums written	-	-	-	0.1	15.3	15.4
Gross premiums earned	-	-	-	0.2	14.5	14.7
Gross claims incurred	-	(0.1)	0.2	2.7	(3.5)	(0.7)
Gross operating expenses	-	-	(0.1)	-	(4.6)	(4.7)
Gross technical result	-	(0.1)	(0.1)	2.9	6.4	9.3
Reinsurance balance	-	(0.1)	-	(2.9)	(6.4)	(9.4)
Net technical result	-	(0.2)	0.1	-	-	(0.1)

2. Balance on technical account – long term business

During the year, the Company entered into a further reinsurance agreement with Royal & Sun Alliance Linked Insurances Limited, a fellow group subsidiary. Under the reinsurance agreement, the Company paid an amount in respect of certain policy related income streams. Royal & Sun Alliance Linked Insurances Limited will pass these income streams to the Company as and when they arise. The balance on the technical account – long term business includes an adverse impact of **£2.0m** (2000 **£1.6m**) after taxation, in respect of these agreements.

3. Net operating expenses

All operating expenses were recharged from a fellow group company, Royal & Sun Alliance Life Insurance Services Limited.

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to **£20.9m** (2000 **£15.8m**). Total reinsurance commissions and profit participation accounted for by the Company during the year amounted to net expenditure of **£2.8m** (2000 **£6.7m**).

Phoenix Assurance plc

Notes on the financial statements

4. Taxation

The charges for taxation in the technical account - long term business and the non-technical account comprise:

	Long term technical account		Non-technical account	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom taxation (charge)/credit:				
Corporation tax	(32.3)	(3.7)	-	-
Taxation attributable to the balance on the technical account - long term business	-	-	(22.3)	(20.1)
Over/(under) provision in respect of prior years	14.3	(3.1)	-	-
	(18.0)	(6.8)	(22.3)	(20.1)
Less double taxation relief	0.1	-	-	-
	(17.9)	(6.8)	(22.3)	(20.1)
Overseas taxation on profits	(0.3)	(0.6)	-	-
	(18.2)	(7.4)	(22.3)	(20.1)

The charge for UK corporation tax in the technical account - long term business is provided at effective rates between 20% and 30% (2000 between 20% and 30%) computed in accordance with the rules applicable to life insurance companies.

The charge for UK corporation tax in the non-technical account is based on a rate of 30% (2000 30%).

5. Dividends

	2001 £m	2000 £m
Proposed final dividend	-	63.6

6. Bonuses

The total amount of bonuses attributable to the year is £14.0m (2000 £14.9m).

7. Investment return

	2001 £m	2000 £m
Attributable to long term business		
Income from investments		
Income from land and buildings	8.3	7.3
Income from other investments	82.7	87.5
Gains on the realisation of investments	272.9	85.7
Total investment income	363.9	180.5
Investment expenses and charges		
Investment management charges	(4.8)	(6.5)
	359.1	174.0
Unrealised (losses)/gains on investments	(468.6)	(123.3)
Investment return attributable to long term business	(109.5)	50.7

Notes on the financial statements

8. Investments

	2001	2000
	£m	£m
Land and buildings		
Freehold	44.9	77.1
Long leasehold	6.4	6.2
	<u>51.3</u>	<u>83.3</u>
Of which group occupied	<u>9.3</u>	<u>19.3</u>
Investments in subsidiary and associated undertakings and participating interests		
Shares in subsidiary undertakings	<u>16.4</u>	<u>27.9</u>
Other financial investments		
Shares and other variable yield securities and units in unit trusts	598.6	1,332.6
Debt securities and other fixed income securities		
British government securities	616.0	503.3
Other government securities	156.7	15.9
Corporate bonds	506.2	202.2
Preference shares	-	1.0
Policy loans	0.8	0.6
Loans secured by mortgages	0.4	0.7
Fixed term deposits	31.7	1.7
Total other financial investments	<u>1,910.4</u>	<u>2,058.0</u>
Deposits with ceding undertakings		
Reinsurance deposits	<u>16.1</u>	<u>19.7</u>

The historical cost of investments (including **£12.1m** (2000 **£73.2m**) for assets held to cover linked liabilities) is **£1,861.6m** (2000 **£1,680.2m**).

Listed investments included in the total investments are
As follows:

	2001	2000
	£m	£m
Shares and other variable yield securities and units in unit trusts	598.6	1,332.3
Debt securities and other fixed income securities	1,278.9	710.9
	<u>1,877.5</u>	<u>2,043.2</u>

Notes on the financial statements

9. Debtors

	2001 £m	2000 £m
Arising out of direct insurance operations		
Amounts due from policyholders	16.8	11.8
Amounts due from intermediaries	-	1.0
	<u>16.8</u>	<u>12.8</u>
Arising out of reinsurance operations		
Amounts due from reinsurers	<u>1.5</u>	<u>4.9</u>
Other debtors		
Amounts due from group companies	51.3	68.8
Amounts due from others	3.8	15.2
	<u>55.1</u>	<u>84.0</u>
Total	<u>73.4</u>	<u>101.7</u>

10. Share Capital

	2001 £m	2000 £m
Authorised		
474,480,450 ordinary shares of 1p each	4.7	4.7
61,020,782 deferred shares of 25p each	<u>15.3</u>	<u>15.3</u>
	<u>20.0</u>	<u>20.0</u>
Issued and fully paid		
61,020,782 ordinary shares of 1p each	0.6	0.6
61,020,782 deferred shares of 25p each	<u>15.3</u>	<u>15.3</u>
	<u>15.9</u>	<u>15.9</u>

11. Long term business provision

The long term business provision for non-profit non-linked business has been calculated using the gross premium method. In certain instances appropriate approximations or modifications have been made.

For single premium policies the provision is calculated as the present value of the benefits and future expenses.

Group life and group permanent health insurance written on a recurring single premium basis have been valued using an unexpired risk approach together with, in the case of permanent health insurances, provision for claims in payment.

The long term business provision for with-profit non-linked life business has been calculated using the net premium method. No explicit provision is made for future reversionary or terminal bonuses, although some implicit provision for future reversionary bonuses is made from margins in the net premium method.

The long term business provision for non profit pension business is the aggregate value in scheme accounts together with provisions for death-in-service benefits and investment performance guarantees.

Notes on the financial statements

11. Long term business provision (*continued*)

The principal assumptions used are as follows:-

	Interest rate p.a.	Mortality table
Life with profit	1.00%	AM80/ AF80
Life non profit	3.40% (2000: 3.10%)	AM80/ AF80
Pension annuities in payment	5.0% (2000: 4.80%)	PMA92/PFA92 (c=2010)

The mortality assumptions incorporates amendments to the basic assumptions above where appropriate.

The assumptions in the above table are unchanged from 31 December 2000 except where indicated.

The long term business provision for linked business has been computed as the present value of non-unit liabilities and expenses where not covered by future margins.

12. Creditors

	2001 £m	2000 £m
Arising from direct insurance operations		
Other	1.4	4.2
Arising from reinsurance operations		
Other	1.0	0.9
Other creditors including taxation and social security		
Corporation tax	39.9	22.4
Amounts due to group companies	52.1	30.2
Loans from group companies	19.2	19.6
Other	4.0	6.8
	115.2	79.0

13. Deposits with ceding undertakings

Under financial reinsurance agreements entered into this year and in previous years, the Company paid deposits to a fellow group subsidiary. The present value of future margins which are expected to finance the repayment of these deposits is included in the balance sheet under "Accruals and deferred income".

14. Subsidiaries

The Company owns the whole of the issued share capital of Clearfol Investment Limited (a property management company) and Property Growth Assurance Company Limited.

In August 2001 the Company sold 100% of the ordinary share capital of Truscotts Estate Agency Limited (a dormant company) to Royal Insurance Holdings plc, for a cash consideration of £2. Prior to the transfer the existing loan of £489k owed by Truscotts to the Company was capitalised.

In September 2001 the Company also sold its 64.88% interest in Componia de Seguros le Fenix Peruana to Royal Sun Alliance Insurance plc, for a cash consideration of £15.4m (US \$22.7m).

The gain on sale of the subsidiary undertakings shown in the Non-Technical Account is made up as follows:-

	£m
Sale proceeds	15.4
Less: Carrying value of subsidiary undertakings	(12.7)
Gain on sale	<u>2.7</u>

15. Other participating interests

The Company has a 25% (2000 25%) holding in Swinchan Holdings Limited, which is registered in England and Wales. This is not accounted for as a subsidiary as the Company does not exert significant influence over it.

16. Directors' emoluments

All directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company. The directors' emoluments allocated to the Company in 2001 were **£251,847** (2000 £206,350).

The amount attributable to the highest paid director allocated to the Company, excluding pension fund contributions, was **£52,176** (2000 £39,350). The highest paid director did not exercise any share options during the year. At 31 December 2001 the highest paid director has an accrued pension allocated to the Company of **£21,121 pa.** (2000 £18,591 pa)

Four other directors exercised share options during the year.

Retirement benefits are accruing for six other directors under a defined benefit scheme.

	2001 £000	2000 £000
Aggregate pensions of former directors were		
Other pensions	<u>13.7</u>	<u>13.3</u>

17. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£28,000** (2000 £27,000). The auditors of the Company also received fees of **£89,700** (2000 £421,100) in respect of non-audit services.

Notes on the financial statements

18. Pension costs and other post-retirement benefits

All of the staff in the UK are employed by Royal & Sun Alliance Insurance plc and are members of a defined benefit pension scheme, details of which are disclosed in the accounts of that company. Contributions are based on pension costs across the UK group as a whole.

19. Movements in provision for other risks and charges

	Reorganisation costs		Deferred taxation	
	2001 £m	2000 £m	2001 £m	2000 £m
At 1 January	2.4	4.1	-	0.7
Utilised	(0.4)	(1.7)	-	-
Charges to/(release) from:				
Technical account – long term business	-	-	-	(0.7)
At 31 December	2.0	2.4	-	-

The reorganisation cost mainly relate to a provision for the cost of initiatives taken as part of an overall business improvement programme. The remaining expenditure to be incurred mainly relates to commitments on property leases.

20. Deferred taxation

	Provided		Unprovided	
	2001 £m	2000 £m	2001 £m	2000 £m
The amount of deferred taxation provided and the amount unprovided are as follows:-				
Long term fund				
Tax relating to unrealised appreciation of investments	-	-	5.6	15.6
Tax relating to other timing differences	-	-	-	-
	-	-	5.6	15.6

Deferred taxation is not provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiaries or associated undertakings.

In addition to the amounts stated above, deferred taxation in respect of unrealised gains is allowed for in the long term business provision amounting to **£15.6m** (2000 £36.5m) on a discounted basis with movements during the year being included in that provision.

Unprovided deferred taxation reflects amounts not expected to crystallise in the foreseeable future.

21. Capital commitments

The Company had no capital commitments at 31 December 2001 (2000 £Nil).

22. Financial commitments

The Company had no financial commitments under non-cancellable operating leases at 31 December 2001 (2000 £Nil).

Phoenix Assurance plc

Notes on the financial statements

23. Cash flow

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has thus taken advantage of the exemption permitted by FRS 1 (revised) and has elected not to prepare its own cash flow statement.

24. Contingent liabilities

Other than in the normal course of business the Company had no material contingent liabilities at 31 December 2001 (2000 £Nil).

25. Related party transactions

Included in the balance sheet are investments in unit trusts of **£6.5m** (2000 **£10.5m**) managed by Royal & Sun Alliance Insurance Group plc subsidiaries.

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

The Company has entered into mutual guarantees with Royal & Sun Alliance Insurance plc and certain of its UK subsidiaries for the payment of general insurance business liabilities.

26. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Life Holdings Limited, which is registered in England and Wales.

The parent of the smallest group for which consolidated accounts including Phoenix Assurance plc are drawn up is Royal & Sun Alliance Insurance plc, which is registered in England and Wales.

The Company's ultimate parent company and controlling party is Royal & Sun Alliance Insurance Group plc, which is registered in England and Wales, and is the parent undertaking of the largest group to consolidate these financial statements. A copy of that company's accounts can be obtained from 30 Berkeley Square, London W1J 6EW.