PHOENIX & LONDON ASSURANCE LIMITED

Company Registration Number: 894616

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2011

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Directors' report

The Directors present their Report and Financial Statements of Phoenix & London Assurance Limited ("the Company") for the year ended 31 December 2011

The Company is incorporated in the United Kingdom Its registration number is 894616 and its registered office is 1, Wythall Green Way, Wythall, Birmingham B47 6WG

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as they apply to the financial statements of the Company for the year ended 31 December 2011, and applied in accordance with the Companies Act 2006

Business review

Principal activities
Prior to the transfer of the long term business and the shareholder funds to Phoenix Life Limited ("PLL") detailed in the corporate activity section below, the principal activity of the Company was the transaction of United Kingdom based life assurance and pension business which was largely in run off

Strategy
The strategy of the Phoenix Group, of which the Company is a member, is to be recognised as the best and most innovative manager of closed life assurance funds, to improve returns for policyholders and deliver value for owners

Corporate activity
With effect from 1 January 2011, the long term business and the shareholder funds of the Company transferred to PLL, a fellow Group Company, for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ("The Scheme") approved by the High Court on 11 February 2011

At 31 December 2011, the outstanding balance on the loans from Pearl Life Holdings Limited ("PLH"), the Company's immediate parent was £nil (2010 £195m) As part of the scheme referred to above £195m was transferred to PLL

Following the restructuring of the Company's operations, an application was successfully submitted to the Financial Services Authority (FSA) to cancel the Company's authorisation to undertake long term business

Business transacted
Following the Part VII scheme the Company maintains only a shareholder fund ("SHF")

The gross premium income of the Company for the year was £nil (2010 £197 1m)

The total value of assets was £nil compared with £9,380 0m a year earlier

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 12 The loss before tax was £340 3m (2010 £8 0m)

No dividends were paid during the year (2010 £31m)

Principal risks and uncertainties
The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit

Following the implementation of the Part VII scheme, the Company is no longer exposed to any material risks Should any liabilities arise in the future, the terms of the Scheme are such that these will transfer to PLL

Key Performance Indicators ("KPIs")
Given the straightforward nature of the business following the Part VII Transfer, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Corporate governance
The Company, as part of a group wide framework, has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business that includes

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities,
- a Board Audit Committee, the members of which are non-executive Directors, which oversees internal control and financial reporting matters,
- a risk management function providing a second line of defence, independent of operations and with responsibility for monitoring and reporting of risk, and
- an internal audit function which provides independent, objective assurance over the complete control framework reporting to the Chairman of the Board Audit Committee and with direct access to all executive members, in particular the Chief Executive Officer

The Board has 2 executive members

Future developments
The Company will explore future business opportunities within the context of the strategy of the Phoenix Group

Going concern
The Directors' report summarises the Company's activities, its financial performance and financial position together with any factors likely to affect its future development In addition, it discusses the principal risks and uncertainties it faces Note 29 to the financial statements summarise the Company's risk and capital management objectives and policies together with its financial risks

The Board has followed the UK Financial Reporting Council's "*Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009*" when performing their going concern assessment The Board has reviewed solvency and cash flow projections under normal and stressed conditions

As a result of this review and taking account of the Part VII scheme, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Directors
The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows

A B Davidson	Resigned on 5 July 2011
J P Evans	Resigned on 5 July 2011
M J Merrick	
A Moss	
J C Park	Resigned on 5 July 2011
M D Ross	Resigned on 5 July 2011
W R Treen	Resigned on 5 July 2011
M N Urmston	Resigned on 5 July 2011
J J Yates	Resigned on 5 July 2011

Secretary
Pearl Group Secretariat Services Limited acted as Secretary throughout the year

Disclosure of indemnity
Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report

Disclosure of information to auditors
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006

Re-appointment of auditors
In accordance with section 487 of the Companies Act 2006, the Company's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate

On behalf of the Board

L Nuttall
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

18 April 2012

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the Company financial statements ("the financial statements") in accordance with applicable United Kingdom law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under the law the Directors have elected to prepare those statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and cash flows of the Company for the accounting period A fair presentation of the financial statements in accordance with IFRS requires the Directors to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,

- make judgements and accounting estimates that are reasonable and prudent,

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance,

- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report to the members of Phoenix & London Assurance Limited

We have audited the financial statements of Phoenix & London Assurance Limited for the year ended 31 December 2011 which comprise the accounting policies, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to 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 financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst + Young LLP

Ben Gregory (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
19 April 2012

Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis except for investment property and for those financial assets and financial liabilities that have been measured at fair value

The financial statements are separate financial statements and the exemption in section 401 of the Companies Act, 2006 has been used not to present consolidated financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2011, and applied in accordance with the Companies Act 2006

The financial statements are presented in sterling (£) rounded to the nearest £0 1m except where otherwise stated

The Company presents its statement of financial position broadly in order of liquidity An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments The areas of the Company's business that typically require such estimates are insurance contract liabilities, determination of the fair value of financial assets and liabilities and income taxes

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policy (e)

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (l) and (g) respectively Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs These are categorised as Level 1 financial instruments and do not involve estimates If prices are not readily determinable, fair values are determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments Level 2 and Level 3 financial instruments therefore involve the use of estimates and note 24 provides further disclosures on fair value hierarchy and assumptions used to determine fair values

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved The UK taxation regime applies separate rules to trading and capital profits and losses The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (j)

(c) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate at the period end Income and expenses denominated in foreign currencies are translated at the prevailing rate at the date of the transaction Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised within fair value gains and losses as income or expense in the statement of comprehensive income

(d) Classification of contracts

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts

Some insurance and investment contracts contain a Discretionary Participation Feature ("DPF") This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits Investment contracts with a DPF are recognised, measured and presented as insurance contracts

(e) Insurance contracts and investment contracts with DPF

Under current IFRS requirements, insurance contracts and investment contracts with DPF are measured using accounting policies consistent with those previously adopted under United Kingdom Generally Accepted Accounting Principles ("UKGAAP") Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy

Insurance liabilities

Insurance contract liabilities for non-participating business other than unit linked insurance contracts are calculated on the basis of current data and assumptions using either a net premium or gross premium method Where a gross premium method is used, the liability includes allowance for prudent lapses Negative policy values are allowed for on individual policies

- where there are no guaranteed surrender values, or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time

For participating business, the Company follows the provisions of the UK Accounting Standard Board's FRS 27 *Life Assurance*. The key aspects of the FRS27 are as follows

- liabilities to policyholders arising from the with-profits business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses,
- acquisition costs are not deferred, and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities

The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method

The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period Non market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally calculated using a stochastic model

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management (PPFM)

Present value of future profits on non-participating business in the with-profits funds

For UK with-profits funds falling within the scope of FRS 27, an amount may be recognised for the present value of future profits ("PVFP") on non-participating business written in a with-profits fund where the determination of the realistic value of liabilities in that with-profits fund takes account, directly or indirectly, of this value

Where the value of future profits can be shown to be due to policyholders this amount is recognised as a reduction in the liability rather than as an intangible asset, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus

The value of PVFP is determined in a manner consistent with realistic measurement of liabilities In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate Current best estimates of future cash flows are compared to the carrying value of the liabilities Any deficiency is charged to the statement of comprehensive income

The Company's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised as income or an expense in the statement of comprehensive income

Unallocated surplus
The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profits business For the Company's with-profits funds, the amount included in the statement of financial position line item 'Unallocated surplus' represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts The with-profits funds are closed to new business and as permitted by IFRS 4 – *Insurance Contracts*, the whole of the unallocated surplus has been classified as a liability (either within insurance contract liabilities or unallocated surplus)

(f) Investment contracts without DPF
Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the statement of financial position as an adjustment to the liability to the policyholder

The valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges

Investment income and the movements in the fair value of investment contracts without DPF are included in the 'change in investment contract liabilities' as income or expense in the statement of comprehensive income

(g) Financial liabilities
On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed) Subsequent to initial recognition, financial liabilities (except for liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel

(h) Borrowings
Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs The difference between initial costs and the redemption value is amortised as income or expense in the statement of comprehensive income over the period of the borrowing using the effective interest method

(i) Obligations for repayment of collateral received
It is the Company's practice to obtain collateral in stock lending and derivative transactions, usually in the form of cash or marketable securities Where cash collateral is available to the Company for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'obligations for repayment of collateral received' in the statement of financial position The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to cost

(j) Income tax
Income tax comprises current and deferred tax Income tax is recognised as income or expense in the statement of comprehensive income except to the extent that it relates to items recognised as other comprehensive income in the statement of comprehensive income, in which case it is recognised as other comprehensive income in that statement

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year

(k) Investment in subsidiaries
Investments in shares in subsidiaries held for strategic purposes are carried in the statement of financial position at cost less impairment

At each reporting date, the Company assesses whether there are any indications of impairment When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the investment in the subsidiary with the estimate of the recoverable amount of the subsidiary Impairments are recognised as income or an expense in the statement of comprehensive income in the period in which they occur

(l) Financial assets
Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment All transaction costs directly attributable to the acquisition are also included in the cost of the investment Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method

Derivative financial instruments are classified as held for trading They are recognised initially at fair value and subsequently are re-measured to fair value Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models The gain or loss on re-measurement to fair value is recognised as income or an expense in the statement of comprehensive income

Equities, fixed and variable rate income securities and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies

Impairment of financial assets
The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired The Company first assesses whether objective evidence of impairment exists for financial assets If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment

Fair value estimation
The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end The quoted market price used for financial assets is the current bid price on the trade date The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques Where pricing models are used, inputs are based on market related data at the period end Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques

Stock lending
Financial assets that are lent under the Company's stock lending programme do not qualify for derecognition from the statement of financial position as the Company retains substantially all the risks and rewards of the transferred assets

Collateral
The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions The amount and type of collateral required where the Company receives collateral depends on an assessment of the credit risk of the counterparty
Collateral received in the form of cash, where the Company has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of financial position with a corresponding liability for its repayment Non-cash collateral received is not recognised in the statement of financial position, unless the counterparty defaults on its obligations under the relevant agreement

Cash and non-cash collateral pledged where the Company retains the contractual rights to receive the cash flows generated is not derecognised from the statement of financial position, unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification

(m) Reinsurance
The Company cedes insurance risk in the normal course of business Reinsurance assets represent balances due from reinsurance companies Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer The impairment charge is recorded as an expense in the statement of comprehensive income The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies

Gains or losses on purchasing reinsurance are recognised as an income or an expense in the statement of comprehensive income at the date of purchase and are not amortised They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities

(n) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows

(o) Leases
Where a significant element of the risks and rewards of title to the asset is retained by the lessor, such leases are classified as operating leases Rental income from such leases is recognised as income in the statement of comprehensive income on a straight line basis over the period of the lease Payments made by the lessee are charged to the statement of comprehensive income on a straight line basis over the period of the lease

(p) Provisions and contingent liabilities
A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where the Company has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability

(q) Dividends
Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners Interim dividends are deducted from equity when they are paid

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period

(r) Income recognition
Gross premiums
In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums Funds at retirement under individual pension contracts converted to annuities with the Company are, for accounting purposes, included in both claims incurred and premiums within gross premiums written

Reinsurance premiums
Outward reinsurance premiums are accounted for on a payable basis

Fee and commission income
Fee and commission income includes fund management based fees and other fees, which are recognised as the services are provided

Net investment income
Net investment income comprises interest, dividends, rents receivable, fair value gains and losses on financial assets and investment property and impairment reversals and losses on loans and receivables and investments in subsidiaries

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method Dividend income is recognised in the statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date

Rental income from investment property is recognised as income in the statement of comprehensive income on a straight-line basis over the term of the lease Lease incentives granted are recognised as an integral part of the total rental income

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised as income or expense in the statement of comprehensive income Realised gains and losses are the difference between the net sale proceeds and the original cost Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year

(s) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment Claims payable include the costs of settlement

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract

Finance costs

Interest payable is recognised as an expense in the statement of comprehensive income as it accrues and is calculated by using the effective interest method

Transfers of business

Where the Company participates in a transfer of insurance business scheme under Part VII of the Financial Services Act 2000 and the ultimate shareholders remain the same, the transaction constitutes business combinations involving entities or businesses under common control IFRS does not prescribe the treatment of such transfers Accordingly, on initial recognition, the transferred assets and liabilities are measured at the carrying value in the transferring company and the resulting gain or loss is recognised as income or an expense in the statement of comprehensive income

(t) Share capital and capital contributions

Ordinary share capital

The Company has issued ordinary shares which are classified as equity

Capital contributions

Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve

(u) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed

Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Gross premiums written		-	197 1
Less premiums ceded to reinsurers		-	(39 2)
Net premiums written		-	157 9
Fees and commissions	3	-	1 9
Net investment income	4	-	477 9
Total revenue, net of reinsurance payable			637 7
Loss on transfer of business	2	(340 3)	-
Net income		(340 3)	637 7
Policyholder claims		-	(516 6)
Less reinsurance recoveries		-	61 4
Change in insurance contract liabilities		-	(86 8)
Change in reinsurers' share of insurance contract liabilities		-	(45 6)
Net policyholder claims and benefits incurred		-	(587 6)
Change in investment contract liabilities		-	0 1
Administrative expenses	5	-	(47 2)
Total operating expenses		-	(634 7)
(Loss)/profit before finance costs and tax		(340 3)	3 0
Finance costs	8	-	(11 0)
Loss for the year before tax		(340 3)	(8 0)
Tax attributable to policyholders' returns	9	-	(1 6)
(Loss) before tax attributable to owners		(340 3)	(9 6)
Tax (charge)/credit	9	-	(5 0)
Less tax attributable to policyholders' returns		-	1 6
Tax attributable to owners		-	(3 4)
(Loss) for the year attributable to owners		(340 3)	(13 0)
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners		(340 3)	(13 0)

Statement of financial position – equity and liabilities
as at 31 December 2011

	Notes	2011 £m	2010 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	10	81 0	81 0
Capital contribution reserve	11	47 7	47 7
Retained earnings		(128 7)	211 6
Total equity		-	340 3
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	12	-	5,580 2
Financial liabilities			
Investment contracts		-	840 0
Borrowings	13	-	195 0
Derivatives	14	-	282 8
Obligations for repayment of collateral received	15	-	2,041 4
	16	-	3,359 2
Provisions	17	-	0 5
Payables related to direct insurance contracts	18	-	59 3
Accruals	20	-	11 1
Other payables	21	-	29 4
Total liabilities		-	9,039 7
Total equity and liabilities		-	9,380 0

Statement of financial position - assets
as at 31 December 2011

ASSETS	Notes	2011 £m	2010 £m
Investment in subsidiaries	22	-	-
Financial assets			
Loans	23	-	417 7
Derivatives	14	-	251 8
Equities		-	289 0
Fixed and variable rate income securities		-	3,320 0
Collective investment schemes		-	3,883 0
Reinsurers' share of investment contract liabilities		-	840 0
	24	-	9,001 5
Deferred tax assets	19	-	7 0
Insurance assets			
Reinsurers' share of insurance contract liabilities	12	-	285 5
Insurance contract receivables		-	2 8
		-	288 3
Current tax	19	-	0 5
Prepayments and accrued income		-	57 2
Other receivables	26	-	22 0
Cash and cash equivalents	27	-	3 5
Total assets		-	9,380 0

On behalf of the Board

A Moss
Director

18 April 2012

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated by operations	28	-	86 0
Taxation paid		-	(0 1)
Net cash flows from operating activities		-	85 9
Cash flows from investing activities			
Part VII transfer	2	(3 5)	-
Net cash flows from investing activities		(3 5)	-
Cash flows from financing activities			
Interest paid on borrowings		-	(8 3)
Ordinary share dividend paid		-	(31 0)
Repayment of borrowings		-	(75 0)
Net cash flows from financing activities		-	(114 3)
Net decrease in cash and cash equivalents		(3 5)	(28 4)
Cash and cash equivalents at the beginning of the year		3 5	31 9
Cash and cash equivalents at the end of the year	27	-	3 5

Supplementary disclosures on cash flow from operating activities

Interest received		-	181 3
Dividends received		-	22 3

Statement of changes in equity
for the year ended 31 December 2011

	Share capital (note 10) £m	Capital contribution reserve (note 11) £m	Retained earnings £m	Total £m
At 1 January 2011	81 0	47 7	211 6	340 3
Loss for the year	-	-	(340 3)	(340 3)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(340 3)	(340 3)
Dividends paid on ordinary shares	-	-	-	-
At 31 December 2011	81 0	47 7	(128 7)	-

At 31 December 2011 the Company had no distributable reserves At 31 December 2010 the capital contribution reserve of £47 7m and £45 6m of retained earnings were considered distributable

	Share capital (note 10) £m	Capital contribution reserve (note 11) £m	Retained earnings £m	Total £m
At 1 January 2010	81 0	47 7	255 6	384 3
Loss for the year	-	-	(13 0)	(13 0)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(13 0)	(13 0)
Dividends paid on ordinary shares	-	-	(31 0)	(31 0)
At 31 December 2010	81 0	47 7	211 6	340 3

Notes to the financial statements

1. Financial information

The financial statements for the year ended 31 December 2011, set out on pages 6 to 28 were authorised by the Board of Directors for issue on 18 April 2012

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU None of these have a material effect on the results of the Company

- IAS 32 *Financial Instruments: Presentation* (Amendment) The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments
- Annual improvements 2010 This makes a number of minor improvements to existing standards and interpretations

The IASB has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, apply from the dates shown The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted The impact on the Company of adopting them is subject to evaluation

- IFRS 9 *Financial Instruments* (2013) These are the first two parts of a replacement standard for IAS 39 *Financial Instruments Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities, including some hybrid contracts
- Deferred tax Recovery of Underlying Assets (Amendments to IAS 12) (2012) This provides a practical approach to the measurement of deferred tax liabilities and assets when investment property is measured at fair value, according to whether the entity expects to recover an asset by using or selling it
- Disclosure – Transfer of Financial Assets (Amendments to IFRS 7) (2012) This revises the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position
- IFRS 13 *Fair Value Measurement* (2013) defines fair value and sets out in a single IFRS a framework for measuring fair value
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (2013) The amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the statement of comprehensive income
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (2013) The new disclosure requirements are intended to help users of financial statements better assess the effect or potential effect of offsetting arrangements on an entity's financial position
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014) The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Company

- IFRS 10 *Consolidated Financial Statements* (2013) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) (2012)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (2013)
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment) The amendment permits a prepayment of future service costs in accordance with a minimum funding requirement to be recognised as a pension asset
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* Addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in its equity instruments being issued to extinguish all or part of the financial liability
- IFRS 11 *Joint Arrangements* (2013) establishes principles for financial reporting by parties to a joint arrangement
- IFRS 12 *Disclosure of Interests in Other Entities* (2013) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities
- IAS 19 *Employee Benefits* (Amendment) (2013) The IASB has issued numerous amendments to IAS 19 These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording
- IAS 28 *Investments in Associates and Joint Ventures* (Revised) This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures
- IAS 27 *Separate Financial Statements* (Revised) IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements

2. Long term insurance and shareholders' funds transfer

With effect from 1 January 2011, all of the long term business and the shareholders' funds of the Company transferred to Phoenix Life Limited ("PLL") for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ("The Scheme") approved by the High Court on 11 February 2011

The assets and liabilities transferred and the gain arising are set out below (following the transfer inter-company balances have been eliminated)

	£m
Liabilities	
Insurance contract liabilities	
Liabilities under insurance contracts	5,580 2
Financial liabilities	
Investment contracts	840 0
Borrowings	195 0
Derivatives	282 8
Obligation for repayment of capital received	2,041 4
Provisions	0 5
Payables related to direct insurance contracts	59 3
Accruals and deferred income	11 1
Other payables	29 4
	9,039 7
Assets	
Financial assets	
Loans and deposits	417 7
Derivatives	251 8
Equities	289 0
Fixed and variable rate income securities	3,320 0
Collective investment schemes	3,883 0
Reinsurers' share of investment contracts liabilities	840 0
Deferred tax assets	7 0
Insurance assets	
Reinsurers share of insurance contract liabilities	285 5
Insurance contract receivables	2 8
Current tax	0 5
Prepayments and accrued income	57 2
Other receivables	22 0
Cash and cash equivalents	3 5
	9,380 0
Net assets transferred	340 3
Consideration	-
Loss on transfer of net assets	340 3

3. Fees and commissions

	2011 £m	2010 £m
Reinsurance commissions	-	1 9

4. Net investment income

	2011 £m	2010 £m
Investment income		
Interest income on loans and receivables	-	0 6
Interest income on financial assets designated at fair value through profit or loss on initial recognition	-	185 5
Dividend income	-	25 5
	-	211 6
Fair value gains/(losses)		
Financial assets and liabilities at fair value through profit or loss		
Held for trading – derivatives	-	(9 3)
Designated upon initial recognition	-	275 6
	-	266 3
Net investment income	-	477 9

5 Administrative expenses

	2011 £m	2010 £m
Outsourcing expenses	-	8 6
Non-recurring management expenses	-	7 2
Investment management expenses and transaction costs	-	27 6
Other	-	3 8
	-	47 2

The Company has no employees Services are provided by Pearl Group Management Services Limited

6. Directors' remuneration

	2011 £000	2010 £000
Salaries and other short term benefits	159 0	235 9
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	159 0	235 9
Post-employment benefits	-	2 3
Other long-term benefits	104 3	131 4
	104 3	133 7
Contributions to money purchase pension schemes	6 8	1 9
Number of Directors accruing retirement benefits under		
- a defined benefit pension scheme	-	2
- a money purchase pension scheme	4	1
Highest paid Directors' remuneration	79 1	84 5

The Directors are employed by Pearl Group Management Services Limited and Pearl Group Services Limited For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group, and which are borne by another group company, has been made based on an estimate of the services rendered to the Company

7. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates, was £10,000 (2010 £461,400) which was borne by another group company No services were provided to associated pension schemes

	2011 £000	2010 £000
Audit of the financial statements	10 0	357 6
Other services		
Review of regulatory returns	-	103 8
	10 0	461 4

8 Finance costs

	2011 £m	2010 £m
Interest expense		
On borrowings at amortised cost	-	8 3
On borrowings at fair value through profit or loss	-	2 7
	-	11 0
Attributable to		
- policyholders	-	2 7
- owners	-	8 3
	-	11 0

Interest expense on borrowings includes interest of £nil (£8 3m) on loans to Group companies

9. Tax charge

Current year tax charge

	2011 £m	2010 £m
Current tax		
UK Corporation tax	-	1 2
	-	1 2
Adjustment in respect of prior years	-	1 4
	-	2 6
Deferred tax		
Excess expenses and deferred acquisition costs	-	2 4
	-	2 4
Total tax charge	-	5 0
Attributable to		
- policyholders	-	1 6
- owners	-	3 4
	-	5 0

The Company, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year Accordingly, the tax expense attributable to UK life assurance policyholder earnings is included in income tax expense The tax charge attributable to policyholder earnings was £nil (2010 £1 6m)

Reconciliation of tax charge/(credit)

	2011 £m	2010 £m
Loss before tax	340 3	8 0
Policyholder tax charge	-	1 6
Loss before tax attributable to owners	340 3	9 6
Tax (credit)/charge at standard UK rate of 26 5% (2010 28%)	(90 2)	(2 7)
Adjustment to tax charge in respect of prior years	-	1 4
Non taxable loss/(gains) on revaluation of capital support loan	-	4 8
Non taxable loss/(gain) on Part VII transfer	90 2	-
Other	-	(0 1)
Owners' tax charge	-	3 4
Policyholder tax charge/(credit)	-	1 6
Total tax charge/(credit) for the year	-	5 0

10. Share capital

	2011 £m	2010 £m
Issued and fully paid 81,000,000 (2010 81,000,000) ordinary shares of £1 each	81 0	81 0

The Company's Articles of Association contain a restriction on the number of shares that may be allotted

The holders of the ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits

11. Capital contribution reserve

	2011 £m	2010 £m
At 1 January and 31 December	47 7	47 7

12. Liabilities under insurance contracts

	Gross liabilities 2011 £m	Reinsurers' share 2011 £m	Gross liabilities 2010 £m	Reinsurers' share 2010 £m
Life assurance business				
Insurance contracts	-	-	5,580 2	285 5
Amounts due for settlement after 12 months	-	-	5,140 3	284 5

	Gross Liabilities 2011 £m	Reinsurers' share 2011 £m	Gross liabilities 2010 £m	Reinsurers' share 2010 £m
At 1 January	5,580 2	285 5	5,493 4	331 1
Premiums	-	-	197 1	(39 2)
Claims	-	-	(516 6)	61 4
Part VII transfer (note 2)	(5,580 2)	(285 5)	406 3	(67 8)
At 31 December	-	-	5,580 2	285 5

As permitted by IFRS 7, the Company has not disclosed fair values for Investment contracts with a DPF as fair value ranges for the DPF cannot be reliably estimated There is no active market for these instruments which will be settled with policyholders in the normal course of business

13. Borrowings

	2011 £m	2010 £m
Carrying value		
Subordinated loan	-	195 0
Amount due for settlement after 12 months	-	195 0

	2011 £m	2010 £m
Fair value		
Subordinated loan	-	195 0
Amount due for settlement after 12 months	-	195 0

The Company entered into an arrangement with Pearl Life Holdings Limited ("PLH"), a fellow group subsidiary, in order to support its ongoing solvency position Of the £280 0m facility, £195 0m had been drawn down Following the implementation of the Part VII scheme this has now been transferred to PLL

14 Derivatives

The Company purchased derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management

The fair values of derivative financial instruments are as follows

	2011 Assets £m	2011 Liabilities £m	2010 Assets £m	2010 Liabilities £m
Forward currency	-	-	44 2	44 2
Interest rate swaps	-	-	192 7	238 2
Swaptions	-	-	14 4	-
Stock index futures	-	-	0 5	0 4
	-	-	251 8	282 8

The amount recoverable after one year is £nil (2010 £197 2m) The amount payable after one year is £nil (2010 £231 5m)

The Company pledged and received collateral in respect of its derivative positions Further information is provided in note 25

15. Obligations for repayment of collateral received

	2011 £m	2010 £m
Carrying value		
- Stock lending collateral	-	1,947 1
- Derivative collateral	-	94 3
At 31 December	-	2,041 4
Amount due for settlement after 12 months	-	73 7
Fair value		
At 31 December	-	2,041 4

Further information on the Company's collateral arrangements is provided in note 25

16. Financial liabilities

	2011 £m	2010 £m
Carrying value		
Financial liabilities at fair value through profit or loss		
Designated upon initial recognition – investment contract liabilities	-	840 0
Held for trading – derivatives	-	282 8
Financial liabilities measured at amortised cost	-	2,236 4
	-	3,359 2
Amount due for settlement after 12 months	-	1,145 2

The carrying value of the financial liabilities measured at amortised cost approximates to fair value

17. Provisions

	Projects £m	Total £m
At 1 January 2011	0 5	0 5
Part VII transfer (note 2)	(0 5)	(0 5)
At 31 December 2011	-	-

The Company held provisions for ongoing projects which included business improvements

18 Payables related to direct insurance contracts

	2011 £m	2010 £m
Payables related to direct insurance contracts	-	59 3
Amount due for settlement after 12 months	-	-

19. Tax assets and liabilities

	2011 £m	2010 £m
Current tax receivables	-	0 5
Net deferred tax assets	-	7 0
Total tax assets	-	7 5

Deferred tax assets comprise

	2011 £m	2010 £m
Expenses and deferred acquisition costs carried forward	-	7 0

Movements in deferred tax assets comprise:

	2011 £m	2010 £m
At 1 January	7 0	9 4
Amounts (debited)/credited to the statement of comprehensive income	-	(2 4)
Part VII transfer	(7 0)	-
At 31 December	-	7 0

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable

	2011 £m	2010 £m
Deferred tax assets have not been recognised in respect of		
Capital losses	-	1 8
	-	1 8

The capital losses can only be offset against future capital gains and have no expiry date

20. Accruals

	2011 £m	2010 £m
Accruals	-	11 1
Amount due for settlement after 12 months	-	-

21 Other payables

	2011 £m	2010 £m
Investment broker balances	-	10 4
Other payables	-	19 0
	-	29 4
Amount due for settlement after 12 months	-	-

22. Investment in subsidiaries

	2011 £m	2010 £m
Cost		
At 1 January	-	-
Disposals	-	-
At 31 December	-	-
Impairment		
At 1 January	-	(0 2)
Impairment reversal	-	0 2
At 31 December	-	-
Carrying amount		
At 31 December	-	-
Amount recoverable after 12 months	-	-

The subsidiaries of the Company were as follows

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Imbercourt Limited	UK	100 Ordinary shares of £1

This company was not transferred to PLL following the Part VII scheme and is in liquidation

23. Loans

	2011 £m	2010 £m
Mortgages	-	3 4
Policy loans	-	0 2
Other loans	-	414 1
At 31 December	-	417 7

24. Financial assets and financial instrument fair value hierarchy

	2011 £m	2010 £m
Loans at amortised cost	-	417 7
Financial assets at fair value through profit or loss		
Held for trading – derivatives	-	251 8
Designated upon initial recognition		
Equities	-	289 0
Fixed and variable rate income securities	-	3,320 0
Collective investment schemes	-	3,883 0
Reinsurers' share of investment contract liabilities	-	840 0
	-	9,001 5
Amount recoverable after 12 months	-	4,082 8

The fair value of loans at amortised cost amounted to £nil (2010 £417 7m)

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end The quoted market price used for financial assets is the current bid price on the trade date If the bid price is unavailable a 'last traded' approach is adopted For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values

Level 2 financial instruments The fair values of investments that are not traded in an active market are determined using valuation techniques with observable market inputs The fair value of shares and other variable yield securities and of derivative financial instruments are estimated using pricing models, discounted cash flow techniques or broker quotes Where pricing models are used, inputs are based on market related data at the period end Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument

Level 3 financial instruments The Company's financial assets determined by valuation techniques using non observable inputs are based on a combination of independent third party evidence and internally developed models Third party evidence in the form of net asset valuation statements, are used in the valuation of the majority of indirect property, private equity and hedge funds Broker quotes are received for certain bonds where the market is considered to be inactive Internally developed models have been used in the valuation of a small number of investment vehicles which due to their nature and complexity have no external market Inputs into the internally developed models are based on market observable data where available

Fair value hierarchy of financial instruments measured at fair value

At 31 December 2011 all of the Company's assets and liabilities had been transferred to PLL following the implementation of the Part VII scheme

At 31 December 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets at fair value				
Derivatives	-	251 8	-	251 8
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	289 0	-	-	289 0
Fixed and variable rate income securities	3,309 6	-	10 4	3,320 0
Collective investment schemes	3,826 5	56 5	-	3,883 0
Reinsurers' share of investment contract liabilities	-	840 0	-	840 0
	7,425.1	896 5	10 4	8,332 0
Total financial assets at fair value	7,425 1	1,148 3	10 4	8,583 8

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities at fair value				
Derivatives	-	282 8	-	282 8
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	-	840 0	-	840 0
	-	840 0	-	840 0
Total financial liabilities at fair value	-	1,122 8	-	1,122 8

Significant transfers of financial instruments between level 1 and level 2

At 31 December 2010	From level 1 to level 2 £m	From level 2 to level 1 £m
Financial assets at fair value		
Financial assets designated at fair value through profit or loss upon initial recognition		
Fixed and variable rate income securities	-	44 8
	-	44 8

Movement in level 3 financial instruments measured at fair value

	At 1 Jan 2011 £m	Part VII transfer to Phoenix Life Limited	At 31 Dec 2011 £m	Unrealised gains/ (losses) on assets held at end of year £m
Financial assets designated at fair value through profit or loss upon initial recognition				
Fixed and variable rate income securities	10 4	(10 4)	-	-
	10 4	(10 4)	-	-

	At 1 Jan 2010 £m	Total gains/ (losses) in statement of comprehensive income £m	Purchases and sales £m	Transfers from level 1 and level 2 £m	At 31 Dec 2010 £m	Unrealised gains/ (losses) on assets held at end of year £m
Financial assets designated at fair value through profit or loss upon initial recognition						
Fixed and variable rate income securities	12 3	(0 1)	(1 8)	-	10 4	(0 1)
	12 3	(0 1)	(1 8)	-	10 4	(0 1)

Gains and losses on Level 3 financial instruments are included in net investment income in the statement of comprehensive income There were no gains or losses recognised in other comprehensive income

25. Stock lending and collateral

The Company lent listed financial assets held in its investment portfolio to other institutions

It was the Company's practice to obtain collateral in stocklending transactions, usually in the form of cash or marketable securities

Following the implementation of the Part VII scheme, the Company no longer participates in stocklending transactions

26. Other receivables

	2011 £m	2010 £m
Other receivables	-	22 0
Amount recoverable after 12 months	-	-

The carrying amounts of other receivables approximate to their fair values

27. Cash and cash equivalents

	2011 £m	2010 £m
Bank and cash balances	-	3 5

The carrying amounts approximate to fair value at the period end

28. Cash flows

Cash flows from operating activities

	2011 £m	2010 £m
Loss for the year before tax	(340 3)	(8 0)
Non-cash movements in profit for the year before tax		
Fair value (gains)/losses on		
Financial assets	-	(266 3)
Loss on business transfer	340 3	-
Interest expense on borrowings	-	8 0
Changes in operating assets and liabilities		
(Increase)/decrease in investment assets	-	(1,856 4)
(Increase)/decrease in net derivative assets/(liabilities)	-	(58 8)
Decrease/(increase) in reinsurance assets	-	2 1
Decrease/(increase) in other assets	-	205 4
Increase/(decrease) in insurance contract and investment contract liabilities	-	143 3
Increase/(decrease) in other liabilities	-	1,916 7
Cash generated by operations	-	86 0

29. Risk and capital management

Following the Part VII transfer of assets and liabilities to PLL, the Company is no longer exposed to financial risk Should any liabilities arise in future, the terms of the Scheme are such that these will transfer to PLL The subsequent deauthorisation of the Company to carry out long term business led to the release of the requirement to hold levels of capital prescribed by the FSA

30. Related party transactions

With effect from 1 January 2011, all of the long term business and the shareholders' funds of the Company transferred to PLL for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000, approved by the High Court on 11 February 2011 Assets of £9,380 0m and liabilities of £9,039 7m were transferred

The Company enters into transactions with related parties in its normal course of business These are at arm's length on normal commercial terms

Pearl Group Management Services Limited provides management services to the Company, in the form of staff and other services, under a management services agreement The charge made to the Company for the year ended 31 December 2011 amounted to £nil (2010 £23 0m) and at the end of the year £nil (2010 £1 6m) remained outstanding

Ignis Investment Services Limited, a fellow subsidiary, and its subsidiaries provide investment management services to the Company in accordance with a number of investment management agreements The charge made to the Company for the year ended 31 December 2011 amounted to £nil (2010 £8 1m) and at the end of the year £nil (2010 £5 8m) remained outstanding

In the year ended 31 December 2011 the Company paid dividends to its parent company of £nil (2010 £31 0m) In addition, the Company paid or accrued interest on loans from its parent of £nil (2010 £8 3m)

Reinsurance transactions

	2011 £m	2010 £m
Reinsurance ceded to fellow subsidiaries		
Premiums	-	45 4
Claims	-	91 7
Commission	-	1 9
Share of insurance contract liabilities	-	193 1
Share of investment contract liabilities	-	840 0

Amounts due to related parties

	2011 £m	2010 £m
Loans due to parent	-	195 0
Other amounts due to parent	-	8 3
Other amounts due to fellow subsidiaries	-	3 1

Amounts due from related parties

	2011 £m	2010 £m
Other amounts due from fellow subsidiaries	-	16 1

Key management compensation
The total compensation allocated to the Company and payable to employees classified as key management, which comprises the Directors, is disclosed in note 6

During the year to 31 December 2011, key management and other family members had no other transactions with the Company

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 31

31 Other information

The Company's principal place of business is the United Kingdom The Company's immediate parent is Pearl Life Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU