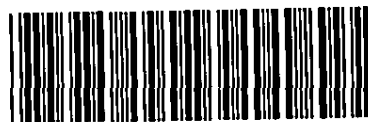


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Phoenix & London Assurance Limited

Report and Financial Statements for the year ended 31 December 2009

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Phoenix & London Assurance Limited

Report and financial statements for the year ended 31 December 2009

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Phoenix & London Assurance Limited

Directors

Mr A B Davidson

Mr J P Evans (Chairman)

Mr M J Merrick

Mr M D Ross

Mr J S B Smith

Mr W R Treen

Mr M N Urmston

Secretary

Pearl Group Secretariat Services Limited

Registered office

1 Wythall Green Way, Wythall, Birmingham, B47 6WG

Auditors

Ernst & Young LLP

1 More London Place, London, SE1 2AF

Phoenix & London Assurance Limited

Company registration number: 894616

Directors' report for the year ended 31 December 2009

Business Review

Principal activities

The principal activity of the Company is the transaction of United Kingdom based books of life assurance and pension business which are in run off

Corporate developments

On 2 September 2009, the shareholders of Pearl Group Limited, subsequently renamed Pearl Group Holdings (No 2) Limited ("PGH2"), which at the time was the Company's ultimate parent undertaking, exchanged their interests in the Group for the issue of shares in Liberty Acquisitions Holdings (International) Company. Following this, Liberty Acquisitions Holdings (International) Company became the Company's ultimate parent undertaking and subsequently changed its name to Pearl Group. On 15 March 2010, Pearl Group was renamed Phoenix Group Holdings.

Also on 2 September 2009, the Financial Services Authority lifted the Own Initiative Variation of Permission ("OIVoP") which it had placed on the PGH2 group in 2008.

Business transacted

The Company maintains a Long Term with profit fund ("WPF") operated on a 90/10 with profits basis and a shareholder fund. It has written a wide variety of life and pensions business, predominantly on individual risks, including conventional with profits and unitised with profits ("UWP") pensions business, with profits endowment and whole life contracts, term assurance, permanent health insurance and unit linked business. In terms of policyholder liabilities, with profits pensions business is the most significant followed by with profits endowments and whole life and non profit annuities.

Virtually all the term assurance, permanent health insurance, UWP pensions and unit linked business is reinsured with a fellow subsidiary company, Phoenix Life Limited ("PLL").

Policy administration is outsourced to Pearl Group Management Services Limited ("PGMS") which in turn has an agreement to sub-contract administration to Capita Life and Pensions Regulated Services Limited ("Capita") and Unisys Insurance Services Limited ("Unisys"). Under the agreement with PGMS, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk. Asset management is outsourced to Ignis Asset Management Limited.

Following a period of consultation with the relevant policyholders, on 11 December 2009 the High Court approved the Company's proposal to remove the guaranteed pension rate ("GPR") from with-profit pension policies with a GPR and more than ten years to retirement. In return, policyholders have received an immediate increase to the value of their policy and will benefit prospectively from a change to the investment strategy through increased exposure to equities and commercial property. All costs of implementing this scheme, amounting to £21.4m, have been charged to the WPF and are reflected within administrative expenses in the technical account. Of this, £9.6m has been recharged from the shareholder fund and is reflected as a credit in the non-technical account.

Under the scheme, the increases to policy values are to be finalised during 2010. The increases to policy values, offset by the reduced cost of guarantees and increase in the shareholders share of future cost of bonus, have been valued in these accounts, on a best estimate basis, at £70.6m. To the extent that the final values differ from the current estimates, there will be further financial impacts in 2010. The overall financial impact of implementing this scheme is reflected through the movement in the Fund for Future Appropriations ("FFA"), further details of which are given in the notes to these accounts.

The total value of assets held at 31 December 2009 was £7,490.3m compared with £8,012.0m a year earlier.

The gross premium income of the Company for the year was £213.5m (2008: £264.7m). A segmental analysis of premium income is provided in the notes to the financial statements.

The gross liabilities under insurance and investment contracts at 31 December 2009 were £6,279.6m (2008: £6,598.9m).

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2009 (continued)

Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 15 and 16. The profit on ordinary activities before taxation was **£44.9m** (2008: loss £47.1m), of which a profit of **£1.3m** (2008: £4.3m) derived from the Long Term fund and a profit of **£43.6m** (2008: loss £51.4m) from shareholder investment activity.

No dividend was paid in the year (2008: £nil).

Valuation result and capital position

A valuation of the long term insurance business of the Company in accordance with the Prudential Sourcebook for Insurers issued by the Financial Services Authority was made as at 31 December 2009. The rules require the Company to determine its liabilities on two different bases, which are known as the "regulatory basis" and the "realistic basis" and effectively take the higher of the two.

The valuation on the regulatory basis showed a surplus of **£10.0m** (2008: £32.4m), out of which **£9.1m** (2008: £29.3m) has been allocated to policyholders and **£0.9m** (2008: £3.1m) to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as £1.3m (2008: £4.3m).

Under the realistic basis the liability is equal to the value of the liabilities to policyholders and the expected transfer to shareholders in respect of the currently in-force business. The long term fund takes credit for **£139.1m** (2008: £165.5m) of the contingent loan from the shareholders' fund resulting in a realistic basis surplus of **£nil** (2008: £nil).

Principal risks

The Long Term fund is relatively weak and, as a result, the shareholder is exposed to significant insurance risk and to market and credit risk associated with its investments because the realistic value of policyholder liabilities exceeds the value of the assets held in the WPF. Principal risks derive from improving annuitant longevity which will increase pensions liabilities, from guaranteed sums assured under contracts which require relatively high investment returns to be achieved and from guaranteed annuity rates granted on pensions contracts. However, this risk has been reduced through the scheme to remove GPR's on certain with profit pension policies referred to above.

In addition, the Company faces operational risks, including the performance of its outsourced policy administration arrangements which, as noted above have been outsourced to PGMS and sub-contracted to Capita and Unisys.

The Company is exposed to a number of financial risks arising from its underlying assets and liabilities, in particular from falls in financial markets, the change in interest rates, the widening of credit spreads and the risk of corporate defaults.

The Company has mitigated these risks by maintaining a relatively low risk investment and bonus strategy with the bulk of the funds being invested in relatively less volatile fixed interest securities. In addition, substantial cashflow matching has been achieved and interest rate swaptions and spreadlocks have been purchased.

Further information on financial risks is provided in the notes to the financial statements.

Key Performance Indicators ("KPIs")

The Company's performance is measured and monitored by the Board with particular regard paid to the following KPIs:

Customers

The Directors review various metrics relating to Customer Servicing standards on a monthly basis.

There is also a with profits committee comprising independent and executive members to opine on issues of fairness to policyholders including ensuring policyholder monies are managed in accordance with the Company's Principles and Practices of Financial Management ("PPFM").

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2009 (continued)

Regulatory Capital

The aim of the Company is to maintain an appropriate margin of regulatory capital over capital resources requirements, both on a Pillar 1 and a Pillar 2 basis. As at 31 December 2009, the Company's free assets on a Pillar 1 basis were **£496.6m** (2008: £366.2m).

Profits after taxation and distributable reserves

For the year ended 31 December 2009, the Company reported a profit after taxation of **£39.4m** (2008: loss £53.1m). As at 31 December 2009, the Company had an amount available for distribution of **£303.3m** (2008: £263.9m).

Cash flows

Policyholder and shareholder fund cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due.

Investment performance

The performance of the Company's invested assets is reviewed against pre-defined benchmarks by the Board, the Investment Committee and the Asset-Liability Management Committee ("ALCO").

Future developments

The Company's life assurance business is in gradual run off. It is not expected that there will be significant business developments in the near future.

The Company will continue to explore future business opportunities which may help to secure future benefits for both policyholders and shareholders.

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 24 and 25 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. As part of its comprehensive assessment of whether the Company is a going concern, the Board has undertaken a review of the valuation and liquidity of its investments as at the balance sheet date. The Board has also reviewed solvency and cash flow projections under normal and stressed conditions.

As a result of this review, 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

Mr J P Evans was appointed as Chairman and Director of the Company on 2 November 2009. Messrs W R Treen and M N Urmston were appointed as Directors of the Company on 25 November 2009 and 18 January 2010 respectively. Mr L G Tamberlin (alternate to Mr M Dale) resigned as a Director of the Company on 4 June 2009. Mr J S Moss and Dr I B Owen resigned as Directors of the Company on 31 August 2009. Messrs M Dale, E J C Hawkes (alternate to Mr H E M Osmond) and H E M Osmond resigned as Directors of the Company on 2 September 2009. Mr D G R Ferguson resigned as a Director of the Company on 25 September 2009. Mr K Luscombe resigned as a Director of the Company on 9 February 2010.

The other Directors, whose names appear on page 2, served throughout the year.

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2009 (continued)

Disclosure of indemnity arrangements

Pearl Group Holdings (No 2) Limited ("PGH2") has agreed to provide an Indemnity to certain persons associated with that company and its subsidiaries. These persons include nominated directors and secretaries of PGH2, directors and secretaries of subsidiary companies such as the Company together with alternate directors and approved persons, being persons in relation to whom the Financial Services Authority has given its approval under section 59 of the Financial Services and Markets Act 2000 ("FSMA") for the performance of a controlled function. This indemnity will cover all losses, costs and expenses incurred by an indemnified person incurred in the exercise, execution and discharge of his duties, or connected to the same, to the fullest extent permitted, consistent with the Companies Act 2006 and the FSA Rules. In addition, with effect and on from 1 March 2010, Impala Holdings Limited has also agreed to provide an Indemnity to certain persons associated with the Company. These persons include the Company's directors, Secretary and approved persons. This indemnity will cover all losses, costs and expenses incurred by an indemnified person in the exercise, execution and discharge of his duties, or connected to the same, to the fullest extent permitted, consistent with the Companies Act 2006 and the FSA Rules. Both indemnities state that they do not apply to any loss suffered or incurred by an indemnified person to the extent that he is indemnified by any third party (including under any Directors & Officers liability insurance). Directors, alternate directors and company secretaries of Pearl Group Holdings (No 1) Limited and subsidiaries of that company (including members of the Scottish Provident Fund Supervisory Committee) may still benefit from the provisions of an earlier Deed of Indemnity entered into by that company.

Secretary

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

Disclosure of information to auditors

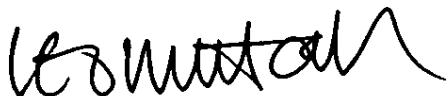
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit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

Reappointment 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 reappointed at the end of the period of 28 days following circulation of copies of these accounts 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 accounts relate.

By order of the Directors



L Nuttall

For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary
25 March 2010

Phoenix & London Assurance Limited

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 proper accounting records that 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Phoenix & London Assurance Limited

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 2009 which comprise the Profit and Loss Account, the Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 25. The Financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 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 and Practices Board's (APB'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.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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 are consistent with the financial statements.

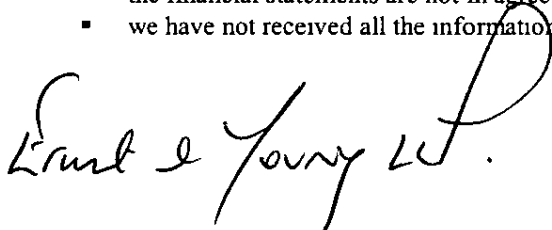
Phoenix & London Assurance Limited

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

Matter 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
- we have not received all the information and explanations we require for our audit



J Lenton (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

29 March 2010

Phoenix & London Assurance Limited

Accounting Policies

Accounting and disclosure requirements

These financial statements have been prepared in accordance with the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies

The principal accounting policies of the Company as set out below comply with the Companies Act 2006, applicable UK accounting standards and with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers in December 2005 (amended in December 2006). All accounting policies have been applied on a consistent basis

Basis of Preparation

The financial statements of the Company have been prepared on the going concern basis. In adopting the going concern basis the following significant matters have been taken into consideration:

- A comprehensive review of the valuation and liquidity of investments at the balance sheet date,
- Solvency, profitability and cash flow projections under normal and stressed conditions, and
- Impact of failures of material reinsurers, service providers and investment managers

Group accounts

The Company is a wholly owned subsidiary of a non-EEA holding company and, in accordance with Section 401 of the Companies Act 2006, consolidated accounts have not been prepared

Cash flow

The Company has taken advantage of the exemption given by FRS1 (revised 1996) to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, by not preparing a cash flow statement. Details of the ultimate holding company are given in note 23

Classification of contracts

Contracts under which the Company accepts significant insurance risk and those which have discretionary participation features (DPF) are classified as insurance contracts

Contracts where the transfer of insurance risk to the Company from the policyholder is not significant or where there are no DPF are classified as investment contracts and are accounted for as financial liabilities

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. Outward reinsurance premiums are accounted for on a payable basis. Single premiums are those relating to insurance contracts and investment contracts with DPF where there is a contractual obligation for the payment of only one premium. Annual premiums are those relating to insurance contracts and investment contracts with DPF where there is a contractual obligation for the payment of premiums on a regular basis. New business premiums are recognised when the policy liability is set up. New single premiums include recurrent single premium contracts including Department of Work and Pensions rebates and increments under group pension schemes

Claims

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

Phoenix & London Assurance Limited

Accounting Policies (continued)

Long term business provision

The liabilities under insurance contracts have been computed having due regard to the principles laid down in the Consolidated Life Directive

It represents the net present value of expected cash flows and has been compiled based upon mortality and interest rate assumptions. It is determined by the Board, having taken advice from the Actuarial Function Holder, with the with profits element being calculated in terms of the requirements of FRS 27 Life Assurance. Accordingly, liabilities to policyholders arising from with-profits life assurance business are stated at the amount of the realistic value of liabilities adjusted to exclude the shareholders' share of projected future bonuses. The realistic value of liabilities is calculated by reference to the Financial Services Authority's Prudential Sourcebook for insurers. Details of the main assumptions made and the methods used are given in the notes to the financial statements.

Provision for linked liabilities

Unit linked contracts may be classified as insurance contracts or investment contracts depending on the extent to which insurance risk is transferred to the Company. The linked element of the liability is disclosed in the technical provisions for linked liabilities. Regardless of classification, 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. Where the surrender value of an investment contract exceeds the financial liability the liability is increased to reflect the surrender value.

Provision for outstanding claims

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Reinsurance

The Company seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with other insurance companies or reinsurers. An asset or liability is recorded in the balance sheet representing payments due from or premiums due to reinsurers, and the share of losses recoverable from reinsurers.

Reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

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 balance sheet as an adjustment to the liability to the policyholder.

Revenue from investment contracts

Revenues from investment contracts comprise amounts assessed against policyholders' account balances for policy administration and surrender charges and are recognised as the related services are provided.

Liabilities under investment contracts

Unit linked contracts may be classified as insurance contracts or investment contracts depending on the extent to which insurance risk is transferred to the Company. The linked element of the liability is disclosed in the technical provisions for linked liabilities. Regardless of classification, 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. Where the surrender value of an investment contract exceeds the financial liability the liability is increased to reflect the surrender value.

Financial liabilities other than unit-linked contracts are valued initially at fair value and subsequently at amortised cost.

Acquisition costs

Acquisition costs relating to insurance contracts and investment contracts with DPF comprise direct and indirect costs of obtaining and processing new business.

Phoenix & London Assurance Limited

Accounting Policies (continued)

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 ("FFA")

Surpluses arising as a result of actuarial valuations of the long term business assets and liabilities of the with profit fund (WPF) may be appropriated by the Directors to participating policyholders by way of bonuses and to shareholders by way of transfers to the non-technical account. Any unappropriated surplus and funds, the allocation of which has not been determined at the year end, are carried forward in the FFA.

Any balances unattributed to policyholders under the FSA's realistic basis of valuing liabilities must, in the case of funds closed to new business, be recorded as a liability for future enhancements. Under FRS 27 the long term business provision must be set to equal the realistic value of liabilities. The only amount that can therefore be reported within the fund for future appropriations is in relation to expected future shareholder transfers.

Should the realistic value of liabilities to policyholders exceed the value of the assets in the WPF, the FFA will be valued at nil. This will be achieved by reducing the value of the internal capital support provided to the WPF as detailed in note 10.

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. Long term profits are shown in the non-technical account grossed up for taxation at the effective rate of corporation tax applicable in the period.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the year end. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction. For monetary 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 non-technical account.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved for payment by the Directors.

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.

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 standard 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.

Deferred tax is provided in full and consists of the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws which have been substantively enacted by the balance sheet date. Credit is taken for relief for trading and other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in future periods.

Phoenix & London Assurance Limited

Accounting Policies (continued)

Investments in group undertakings and participating interests

Investments in group undertakings and participating interests, which are managed as part of a portfolio of investments, are included in the balance sheet at current value. The difference between cost and current value is included within unrealised gains / (losses) in the technical accounts, where beneficial ownership is held in the WPF, or in the non-technical account where the investment is held in the shareholder fund (SHF).

Financial assets

Financial assets including those designated as 'assets held to cover linked liabilities' are accounted for at trade date, being the date the Company commits to purchase or sell the assets, and transaction costs on initial recognition and subsequent derecognition are recognised as an expense.

Equities, debt securities and collective investment schemes are designated at fair value through profit and loss. The fair value of listed equities, debt securities and collective investment schemes is their quoted bid price. Unlisted securities are valued at bid prices received from relevant brokers. Unlisted investments where the fair value cannot be reliably measured are stated at cost less impairment losses.

Derivative financial instruments are classified as held for trading, and are designated as at fair value through profit and loss account. Derivative financial instruments are recognised initially and subsequently at fair value. Transaction costs relating to derivative financial instruments are accounted for as an expense. Exchange-traded derivative financial instruments are valued at the published bid price. Unlisted derivative financial instruments are valued on the basis of prices supplied by suitably qualified counterparties which are normally calculated on a bid basis with the exception of certain contracts which are valued on a mid basis where these closely match liabilities with offsetting market risks.

Gains and losses on financial assets designated as fair value through profit and loss and which are held in the long term business fund are recognised in the technical account. Gains and losses on financial assets designated as fair through profit and loss and which are held in the shareholders' fund are recognised in the non-technical account.

Loans and deposits are valued initially at fair value, including transaction costs, and subsequently at amortised cost less impairment losses.

Gains and losses on loans are recognised in profit and loss when the asset is derecognised or impaired. For loans held in the with profit fund gains and losses are recognised in the technical account and for those held in shareholders' funds, in the non-technical account.

Borrowings

Interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the technical or non-technical account over the period of the borrowing using the effective interest rate method.

Phoenix & London Assurance Limited

Estimation techniques and uncertainties

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company. For companies which undertake long term insurance business these provisions are held within the long term business provision.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

Long term business technical provisions are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each long term contract. The computations are made by suitably qualified personnel, employed by the Phoenix Group, on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in European law and by actuarial best practice in the United Kingdom. The methodology takes into account the risks and uncertainties of the particular classes of long term business written.

Uncertainties

The degree of uncertainty arising under insurance contracts will vary by product type according to the relevant characteristics and features of the particular contract. In determining the appropriate level of provision, assumptions will have to be made on a number of factors such as discount rate, future investment returns, inflation, asset mix, taxation, mortality, morbidity and expenses.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement could vary substantially over time. The Company seeks to provide appropriate levels of provision taking the known facts and experience into account. However, by their nature the quantification of the provisions will always contain a degree of uncertainty.

Phoenix & London Assurance Limited

Profit and loss account for the year ended 31 December 2009

Technical account - long term business	Notes	2009 £m	2008 £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	213.5	264.7
Outward reinsurance premiums	1a	(41.6)	(38.1)
Net earned premiums		171.9	226.6
Investment income	5	204.2	428.8
Other technical income	10	-	69.3
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(561.6)	(796.0)
Reinsurers' share		77.3	210.0
		(484.3)	(586.0)
Change in the provision for claims			
Gross amount		5.6	13.2
Reinsurers' share		-	(2.0)
		5.6	11.2
Net claims incurred		(478.7)	(574.8)
Change in long term business provision			
Gross amount		409.7	189.8
Reinsurers' share		(19.7)	(223.3)
Net change in long term business provision		390.0	(33.5)
Change in technical provisions for linked liabilities			
Gross amount		(90.4)	245.3
Reinsurers' share		90.3	(244.3)
Net change in technical provisions for linked liabilities		(0.1)	1.0
Net operating expenses	2	(35.5)	(22.5)
Investment expenses and charges	5	(24.8)	(26.6)
Unrealised losses on investments	5	(209.7)	(72.8)
Other technical charges	10	(25.4)	-
Taxation attributable to long term business	3	9.0	(34.1)
Transfers from the fund for future appropriations	10	-	41.7
Balance on technical account – long term business		0.9	3.1

All figures relate to continuing operations

The notes on pages 19 to 41 form part of these financial statements

Phoenix & London Assurance Limited

Profit and loss account (continued) for the year ended 31 December 2009

Non-technical account	Notes	2009 £m	2008 £m
Balance on the long term business technical account		0.9	3.1
Tax credit attributable to balance on the long term business technical account	3	0.4	1.2
		1.3	4.3
Investment income	5	23.8	40.2
Unrealised gains / (losses) on investments	5	24.0	(69.1)
Investment expenses and charges	5	(13.7)	(17.1)
Net operating expenses		9.5	(5.4)
Profit / (loss) on ordinary activities before taxation		44.9	(47.1)
Taxation on (profit) / loss on ordinary activities	3	(5.5)	(6.0)
Profit / (loss) on ordinary activities after taxation		39.4	(53.1)

All figures relate to continuing operations

There have been no recognised gains or losses in either reporting year other than those reported in the profit and loss account, and accordingly a Statement of Total Recognised Gains and Losses has not been presented

Movements in shareholders' funds for the year ended 31 December 2009	Share capital £m	Capital contribution £m	Profit & loss account £m	Total 2009 £m	2008 £m
Shareholders' funds at 1 January	81.0	47.7	216.2	344.9	398.0
Shareholders' recognised gains / (losses)	-	-	39.4	39.4	(53.1)
Shareholders' funds at 31 December	81.0	47.7	255.6	384.3	344.9

The profit and loss account includes **£255.6m** (2008 £216.2m) which is distributable

The notes on pages 19 to 41 form part of these financial statements

Phoenix & London Assurance Limited

Balance sheet at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Investments			
Investments in group undertakings and participating interests	14	201.9	188.3
Other financial investments	6	5,851.7	6,582.7
		6,053.6	6,771.0
Assets held to cover linked liabilities	7	1.9	1.8
Reinsurers' share of technical provisions			
Long term business provision	11	331.1	350.8
Technical provisions for linked liabilities	12	786.2	695.9
		1,117.3	1,046.7
Debtors			
Debtors arising out of direct insurance operations		3.2	5.2
Debtors arising out of reinsurance operations		-	1.0
Other debtors	8	204.9	47.5
		208.1	53.7
Other assets			
Cash at bank and in hand		31.9	59.9
Prepayments and accrued income		77.5	78.9
Total assets		7,490.3	8,012.0

The balance sheet includes assets (net of reinsurance) totalling **£5,713.2m** (2008 £6,327.9m) representing the long term insurance funds

The notes on pages 19 to 41 form part of these financial statements

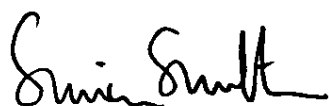
Phoenix & London Assurance Limited

Balance sheet at 31 December 2009

	Notes	2009	2008
		£m	£m
Liabilities			
Capital and reserves			
Share capital	9	81.0	81 0
Capital contribution		47.7	47 7
Profit and loss account		255.6	216 2
Shareholders' funds – equity interests		384.3	344 9
Subordinated debt	21	270.0	270 0
Total capital, reserves and subordinated debt		654.3	614 9
Fund for future appropriations	10	-	-
Technical provisions			
Long term business provision	11	5,491.5	5,901 2
Claims outstanding		44.7	50 3
		5,536.2	5,951 5
Technical provision for linked liabilities	12	788.1	697 7
Provisions for other risks	17	4.5	2 9
Financial Liabilities			
Derivative financial instruments	6	357.6	654 5
Creditors: Amounts due within one year			
Creditors arising out of direct insurance operations		2.2	8 4
Other creditors including taxation and social security	13	147.4	65 4
		149.6	73 8
Accruals and deferred income		-	16 7
Total liabilities		7,490.3	8,012 0

The notes on pages 19 to 41 form part of these financial statements

The financial statements were approved by the Directors on 25 March 2010 and were signed on their behalf by



J S B Smith
Director
25 March 2010

Phoenix & London Assurance Limited

Notes to the financial statements

1. Segmental analysis

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

1a. Premiums written

	Gross	2009 Reinsurance ceded	Net	Gross	2008 Reinsurance ceded	Net
	£m	£m	£m	£m	£m	£m
Life						
Individual						
Non linked with profits	26.1	(24.7)	1.4	41.2	(27.6)	13.6
Non linked non-profits	48.8	(3.3)	45.5	75.0	(4.2)	70.8
Pensions						
Individual						
Non linked with profits	0.6	(0.6)	-	0.6	(0.5)	0.1
Non linked non- profits	18.2	(5.2)	13.0	18.5	(2.5)	16.0
Group						
Non linked with profits	6.1	(4.7)	1.4	6.3	(2.4)	3.9
Annuity	113.7	(3.1)	110.6	123.1	(0.9)	122.2
Total premiums written	213.5	(41.6)	171.9	264.7	(38.1)	226.6
Periodic premiums	99.8	(39.6)	60.2	115.6	(39.9)	75.7
Single premiums	113.7	(2.0)	111.7	149.1	1.8	150.9
Total premiums written	213.5	(41.6)	171.9	264.7	(38.1)	226.6

Investment contracts are accounted for on a deposit basis. As a result, premiums reported above only relate to insurance contracts and investment contracts with DPF.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

1b. New business premiums

	Gross £m	2009 Reinsurance ceded £m	Net £m	Gross £m	2008 Reinsurance ceded £m	Net £m
Pensions						
Individual						
Unit linked	0.5	-	0.5	2.0	(2.0)	-
Annuity	113.7	(2.0)	111.7	123.1	-	123.1
Total new business annualised premiums	<u>114.2</u>	<u>(2.0)</u>	<u>112.2</u>	<u>125.1</u>	<u>(2.0)</u>	<u>123.1</u>
Single premiums	114.2	(2.0)	112.2	125.1	(2.0)	123.1
Total new business annualised premiums	<u>114.2</u>	<u>(2.0)</u>	<u>112.2</u>	<u>125.1</u>	<u>(2.0)</u>	<u>123.1</u>

Investment contracts are accounted for on a deposit basis. As a result, premiums reported above only relate to insurance contracts and investment contracts with DPF.

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

The gross figures above do not include any inward reinsurance premiums.

1c. Long term business result

The profit before tax attributable to long term business relates entirely to with profit contracts.

1d. Reinsurance balance

The reinsurance balance amounted to a debit to the technical account during the year of **£106.4m** (2008: credit £295.7m).

2. Net operating expenses

	2009 £m	2008 £m
Administrative expenses	37.5	24.7
Reinsurance commissions and profit participation	(2.0)	(2.2)
Net operating expenses	<u>35.5</u>	<u>22.5</u>

Substantially all operating expenses were recharged from a fellow group company, Pearl Group Management Services Limited ("PGMS").

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to **£2.1m** (2008: £2.1m). Total reinsurance commissions accounted for by the Company during the year amounted to net income of **£2.0m** (2008: £2.2m).

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

3. Taxation

3a. Current Tax

The credits / (charges) for taxation in the technical account - long term business and the non-technical account comprise

	Long term technical account		Non-technical Account	
	2009 £m	2008 £m	2009 £m	2008 £m
Current tax:				
UK corporation tax	-	-	-	-
Overseas taxation	-	(0.2)	-	-
Group Relief	1.3	(33.0)	(5.1)	(5.1)
Adjustments in respect of prior years	0.1	(0.6)	-	0.3
Total current tax	1.4	(33.8)	(5.1)	(4.8)
Tax attributable to balance on the long term technical account	-	-	(0.4)	(1.2)
	1.4	(33.8)	(5.5)	(6.0)
Deferred tax				
Deferred tax relief on expenses	7.6	(0.3)	-	-
Total tax credit / (charge)	9.0	(34.1)	(5.5)	(6.0)

The tax charge for UK corporation tax in the technical account – long term business is provided at rates between 20% and 30% (2008 between 20% and 30%) computed in accordance with the rules applicable to life insurance companies

UK Corporation tax for the current year in the non-technical account is the standard rate of 28.0% (2008 28.5%)

Reconciliation of tax charge

	2009 £m	2008 £m
Profit /(loss) on ordinary activities before tax	44.9	(47.1)
Tax at standard UK rate @ 28.0% (2008 28.5%)	(12.6)	13.4
Adjustments in respect of prior years	-	0.3
Untaxed income	0.4	-
Write down of investment in subsidiary	(0.4)	-
Non taxable book gains / (losses) on revaluation of capital support loan	7.1	(19.7)
Current tax charge for the year	(5.5)	(6.0)

Factors that may affect future tax charges.

The Company has further gross unrecognised deferred tax assets outlined below, which have not been recognised as they are considered unlikely to be utilised in the foreseeable future

	2009 £m	2008 £m
Capital losses	22.2	3.0
Excess management expenses	51.4	-
	73.6	3.0

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

3b. Deferred tax

	2009 £m	2008 £m
At 1 January	1.8	2.1
Utilised	(0.5)	-
Charges to/(release) from Technical account – long term business	8.1	(0.3)
At 31 December	<u>9.4</u>	<u>1.8</u>

The deferred tax asset of £9.4m (2008 £1.8m) is shown under other debtors in note 8

	2009 £m	2008 £m
The deferred tax asset comprises		
Other timing differences	<u>9.4</u>	<u>1.8</u>

The deferred tax asset has been recognised where it has been determined that taxable income of future periods will be sufficient to enable the asset to be realised

4. Bonuses

The total amount of bonuses attributable to policyholders for the year is £9.0m (2008 £29.3m)

5. Investment return

	Long term technical account		Non-technical account	
	2009 £m	2008 £m	2009 £m	2008 £m
Income from investments				
Interest on loans and deposits	5.8	3.2	-	-
Dividends	21.1	27.1	1.2	-
Income from other financial investments	273.8	251.5	22.4	27.1
Realised (losses)/gains on the realisation of investments held at fair value through profit and loss				
Held for trading - derivative financial instruments	(110.0)	102.2	-	-
Designated upon initial recognition	13.5	44.8	0.2	13.1
	<u>204.2</u>	<u>428.8</u>	<u>23.8</u>	<u>40.2</u>
Unrealised (losses) / gains on investments				
Held for trading - derivative financial instruments	(164.0)	33.0	-	-
Held at fair value - designated upon initial recognition	(45.7)	(105.8)	24.0	(69.1)
	<u>(209.7)</u>	<u>(72.8)</u>	<u>24.0</u>	<u>(69.1)</u>
Investment expenses and charges				
Investment management charges	(9.1)	(8.1)	(0.2)	(0.2)
Loan interest to group companies	(15.7)	(18.5)	(13.5)	(16.9)
	<u>(24.8)</u>	<u>(26.6)</u>	<u>(13.7)</u>	<u>(17.1)</u>
Net investment return	<u>(30.3)</u>	<u>329.4</u>	<u>34.1</u>	<u>(46.0)</u>

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

6. Investments

6a. Other financial investments	2009 £m	2008 £m
Financial Assets at fair value through profit and loss		
<i>Designated upon initial recognition</i>		
Shares and other variable yield securities and units in unit trusts	772.3	686.4
Debt securities and other fixed income securities	4,806.7	5,161.8
<i>Held for trading</i>		
Derivative financial instruments	268.4	729.3
Assets at fair value through profit and loss	5,847.4	6,577.5
Loans and receivables valued at amortised cost:		
Mortgages	4.1	4.3
Policy loans	0.2	0.9
Total financial investments	5,851.7	6,582.7

Substantially all of the loans are at variable interest rates. The carrying amounts shown above approximate to fair value as at the balance sheet date.

The historic cost of other financial investments is **£5,746.3m** (2008: £5,865.7m).

Listed investments included in the total investments are as follows:

	2009 £m	2008 £m
Shares and other variable yield securities and units in unit trusts	772.3	686.4
Debt securities and other fixed income securities	4,806.7	5,153.1
	5,579.0	5,839.5

6b. Derivative financial instruments

Derivative financial instruments are financial instruments that derive their value from the price of underlying items such as interest rates, foreign exchange, credit spreads and equity or other indices.

The Company purchases derivative financial instruments in connection with the management of its insurance contract liabilities, based on the principles of reduction of risk and efficient portfolio management. In accordance with market practice, collateral is received and/or pledged to reduce the exposure to counterparty credit risk.

Where collateral has been pledged by the Company and the right of set off is only enforceable on the occurrence of some future event then the asset continues to be recognised by the Company. On the same basis, the Company does not recognise collateral pledged by counterparties in the form of marketable securities, which is only enforceable by the Company on the occurrence of default by the counterparty.

The amount of collateral in respect of derivative financial instruments contracts pledged by and to the Company which has not been recognised on the balance sheet was **£291.0m** (2008: £443.9m) and **£61.0m** (2008: £314.7m) respectively.

Certain cash collateral is available to the Company for investment purposes and is therefore recognised as a financial asset and a liability, recorded as collateral creditor on the balance sheet within other creditors. At 31 December 2009 the amount of the collateral liability (per note 13) amounted to **£119.1m** (2008: £nil).

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

6b. Derivative financial instruments (continued)

The fair values of derivative financial instruments at the end of 2009 are as follows

	2009 Assets £m	2009 Liabilities £m	2008 Assets £m	2008 Liabilities £m
Options on interest rate swaps	56.7	-	49.0	-
Stock index futures	7.6	7.4	-	-
Swaps	173.9	212.2	680.3	422.8
Swap spread locks	26.0	133.8	-	231.7
Forward currency instruments	4.2	4.2	-	-
	268.4	357.6	729.3	654.5

The amount recoverable after one year is **£256.6m** (2008 £715.9m) The amount payable after one year is **£345.6m** (2008 £634.6m)

The long term business fund has an economic exposure to costs of guarantees attributable to interest rate movements

The long term fund has an economic exposure to costs of guarantees attributable to equity and property returns, interest rate movements and foreign exchange rate movements

The following types of guarantees exist

- Maturity guarantees on conventional with-profit (CWP) policies and Market Value Adjustment (MVA) free guarantees on unitised with-profit (UWP) policies
- CWP pensions maturity guarantees with guaranteed annuity options
- CWP deferred annuity contracts with guaranteed commutation options
- Guaranteed benefits on non participating business

Options on interest rate swaps

An interest rate swap option (swaption) gives the buyer, on payment of a premium, the right (but not the obligation) to enter into an interest rate swap on a pre-determined future date

Swaptions are held to protect against the impact of interest rate movements on the cost of guaranteed annuity options. This takes two forms

- Where policyholder liabilities are backed by equity and property assets, receiver swaptions are held to protect against falls in interest rates increasing the cost of guaranteed annuity options
- Where policyholder liabilities are broadly cashflow matched by fixed-interest assets, payer swaptions are held to protect against rises in interest rates taking guaranteed annuity options out-of-the-money

Stock Index futures

A stock index future is a contract for the delivery, at an agreed future date, of a sum of money based on the value of a stock index

A small number of stock index futures are held for efficient portfolio management purposes

Swaps

An interest rate swap is an agreement between two parties to swap fixed interest rate payments for payments that vary (float) in line with an agreed reference interest rate

Fixed interest assets are broadly matched to the liabilities they are backing, in order to protect against the impact of interest rate movements on the cost of maturity guarantees and guaranteed annuity options. A bond portfolio benchmark is used to give a reasonable overall duration match with interest rate swaps being used to hedge residual interest rate risk at key duration points

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

6b. Derivative financial instruments (continued)

Swap spread locks

A swap spread lock is structured as a swap or contract for difference with the payout dependent on the swap spread at maturity relative to the initial swap spread lock rate, and can be a net asset or liability

These are used to hedge against the risk of swap spreads widening on interest rate receiver swaps and swaptions that are currently held

Forward Currency Instruments

A forward currency contract is a contract in which the parties agree to exchange cash flows in two different currencies at an agreed upon date in the future

Forward currency contracts are held for efficient portfolio management purposes

6c. Fair value hierarchy

As at 31 December 2009

Financial investments

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial Assets at fair value through profit and loss				
<i>Designated upon initial recognition</i>				
Shares and other variable yield securities and units in unit trusts (*)	976.3	-	-	976.3
Debt securities and other fixed income securities	4,721.4	73.0	12.3	4,806.7
<i>Held for trading</i> Derivative financial instruments (note 6b)	11.8	256.6	-	268.4
Total financial investments	5,709.5	329.6	12.3	6,051.4

(*) Includes £202.1m investment in UK Commercial Property Trust (note 14) and £1.9m assets held to cover linked liabilities (note 7)

Financial liabilities

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
<i>Held for trading</i> Derivative financial instruments (note 6b)	11.6	346.0	-	357.6
Total financial liabilities	11.6	346.0	-	357.6

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 date. 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 instruments that are not traded in an active market are determined using valuation techniques where all significant inputs are market observable. 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 date. Where discounted cash flow techniques are used, future and contractual cash flows are based on current market positions, market calibrated discount rates and interest rate assumptions for similar instruments.

Level 3 financial instruments. The Company's financial assets determined by valuation techniques where there remain significant observable inputs, are based on a combination of independent third party evidence and internally developed models.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

6. Investments (continued)

6c. Fair value hierarchy (continued)

Significant transfers of financial instruments between level 1 and level 2

For the year ended 31 December 2009

	From level 1 to level 2 £m	From level 2 to level 1 £m
Financial investments		
Financial Assets at fair value through profit and loss		
<i>Designated upon initial recognition</i>		
Debt securities and other fixed income securities	47.4	41.1
	<u>47.4</u>	<u>41.1</u>

During 2009 there was a general improvement in the liquidity of the fixed and variable rate securities market as an asset class which resulted in a number of securities moving from level 2 into level 1. Conversely the liquidity in certain individual sectors of the market decreased resulting in the reclassification of a number of securities from level 1 to level 2.

6d. Movements in level 3 financial instruments measured at fair value

	At 1 January 2009 £m	Total losses in profit and loss account £m	Transfers from level 1 and level 2 £m	At 31 December 2009 £m	losses on assets held at end of year £m
Financial investments					
Financial Assets at fair value through profit and loss					
<i>Designated upon initial recognition</i>					
Debt securities and other fixed income securities	11.3	(2.0)	3.0	12.3	(2.0)
	<u>11.3</u>	<u>(2.0)</u>	<u>3.0</u>	<u>12.3</u>	<u>(2.0)</u>

All gains and losses on level 3 financial instruments are included in the profit and loss account.

6e. Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

Debt securities categorised as level 3 investments are valued using broker quotes. Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

Phoenix & London Assurance Limited

Notes on the financial statements (continued)

6. Investments (continued)

6f Stocklending

The Company lends listed financial assets in its investment portfolio to other institutions. The Company conducts its stocklending programme only with well-established, reputable institutions in accordance with established market conventions.

The financial assets do not qualify for derecognition as the Company retains all the risks and rewards of the transferred assets except for the voting rights. The carrying amounts of listed financial assets lent out at the reporting date are **£1,833.6m** (2008: £1,727.6m).

It is the Company's practice to obtain collateral in stocklending transactions, usually in the form of cash or marketable securities. This collateral held is not brought on balance sheet, as the Company is not permitted to sell or re-pledge the collateral held in the absence of default. The fair value of financial assets accepted as collateral amounts to **£1,909.2m** (2008: £2,407.6m).

7. Assets held to cover linked liabilities

	2009 £m	2008 £m
Investments		
Shares and other variable yield securities and units in unit trusts	1.9	1.8
	<u>1.9</u>	<u>1.8</u>

The cost of assets held to cover linked liabilities is **£1.2m** (2008: £1.7m).

8. Other debtors

	2009 £m	2008 £m
Amounts due from group undertakings	3.8	18.4
Taxation	4.5	-
Deferred tax asset (note 3b)	9.4	1.8
Stockbroker balances	186.2	20.3
Other	1.0	7.0
	<u>204.9</u>	<u>47.5</u>

Other debtors include £4.7m (2008: £1.1m) falling due after more than one year.

9. Share capital

	2009 £m	2008 £m
Allotted, called up and fully paid		
81,000,000 (2008: 81,000,000) ordinary shares of £1 each	<u>81.0</u>	<u>81.0</u>

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

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

10. Fund for future appropriations

	2009 £m	2008 £m
Fund for future appropriations at 1 January	-	41.7
Transfer during the year	-	(41.7)
Fund for future appropriations at 31 December	-	-

At 31 December 2009, the fund for future appropriations ("FFA") is **£nil** (2008: £nil) after recognising support of **£43.9m** (2008: £69.3m). This has been accounted for by recognising other technical charges of **£25.4m** (2008: Other technical income £69.3m) within the technical account – long term business and a corresponding credit within the non-technical account, included under unrealised gains / (losses) on investments.

This support is consistent with the internal capital support arrangements disclosed in the Directors Report and note 21 and will be returned to the shareholder fund as and when the financial position of the WPF improves.

11. Long term business provision

The Company has adopted Financial Reporting Standard 27 in its financial statements. The Company falls within the scope of the Financial Services Authority's ("FSA") realistic capital regime and is required to use the FSA's realistic calculation in measuring the policyholders' liabilities at that date.

Asset shares within the realistic liabilities for with-profits contracts have been determined in accordance with the Company's Principles and Practice of Financial Management ("PPFM"). In calculating the cost of guarantees, asset shares were projected to claim date assuming a risk free rate of return and guarantee cost, time discounted to the valuation date, at the risk free rate of return.

Other significant assumptions impacting the cost of options and guarantees are investment volatilities and correlations. Expected returns and volatilities have been calibrated to ensure consistency with market values at an appropriate term for the anticipated liability profile.

In calculating the realistic liabilities, account has also been taken of potential future management actions consistent with those set out in the Company's PPFMs.

Process and assumptions used to determine the liabilities

For with profits business, the demographic assumptions about future experience are intended to be "best estimates". They are determined after considering recent experience and/or relevant industry data. Economic assumptions are market consistent.

For non profit business, the mortality assumptions are derived by adding a prudence margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

Valuation interest rate

For with profits business, the liabilities are determined stochastically using an appropriate number of risk neutral scenarios produced by a proprietary economic scenario generator calibrated to market conditions and gilt yields as at the valuation date.

For non profit business, the method used to determine valuation interest rates follows the regulations set out in Section 1.2 of INSPRU. Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns on the hypothecated assets. The yield is then adjusted to make allowance for credit risk, reinvestment risk and investment management expenses.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

11. Long term business provision (continued)

Expense inflation

Expenses are assumed to increase at the rate of increase in the RPIX plus fixed margins in accordance with the various MSAs that the Company has in place with outsourced service providers. For with profits business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve 3.58% (2008 2.54%)

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, recent experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistence)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the type of business. Surrender or voluntary premium discontinuances are assumed for with-profits policies. Withdrawal rates used in the valuation of with-profits policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rates

For with-profits business the discretionary participating bonus rates are determined in accordance with the Company's Principles and Practices of Financial Management (PPFM). It is assumed that reversionary bonuses will continue at the current level. Terminal bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

For non profit business, the principal interest rate assumptions were

Product	2009 (%)	2008 (%)
Life non-profit	2.69	2.60
Pension non-profit	3.36	3.35
PHI claims in payment	3.75	4.95
Pension annuities in payment	4.90	5.40

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Notes to the financial statements (continued)

11. Long term business provision (continued)

The mortality assumptions were varying proportions of the following published tables

	Published Table 2009	Published Table 2008
Life non profit (Term assurance)	TM92/TF92	TM92/TF92
Pension non-profit	AM92/AF92	AM92/AF92
Pensions annuities in payment	PMA92/PFA92 (c2020)	PMA92/PFA92 (c2020)
Pension deferred annuities (in deferment)	AM92/AF92	AM92/AF92
Pension deferred annuities (in payment)	PMA92/PFA92 (c2020)	PMA92/PFA92 (c2020)

The annual per policy expense assumptions and assumed inflation rates were

Premium paying policies 2009	Premium paying policies 2008	Annuities in payment 2009	Annuities in payment 2008	Expense inflation 2009	Expense inflation 2008
£38.79	£33.77	£18.29	£15.93	7.38%	6.34%

Asset share uplift

Following a period of consultation with the relevant policyholders, on 11 December 2009 the High Court approved the Company's proposal to remove the guaranteed pension rate ("GPR") from with-profit pension policies with a GPR and more than ten years to retirement. In return, policyholders have received an immediate increase to the value of their policy and will benefit prospectively from a change to the investment strategy through increased exposure to equities and commercial property. All costs of implementing this scheme have been charged to the with profit fund and are reflected within administrative expenses in the technical account.

Under the scheme, the increases to policy values are to be finalised during 2010. The increases to policy values used for these accounts are best estimates of the final increases. To the extent that the final increases differ from the estimated increases, there will be a financial impact on the value of the FFA.

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Notes to the financial statements (continued)

11. Long term business provision (continued)

Sensitivities

The amount of the long term business provision is sensitive to changes in the assumptions used in the valuation, in particular interest rates, mortality and morbidity

Interest rates reflect yields on investments, primarily yields on fixed interest securities. A reduction in yields would tend to lead to a reduction in interest rates and increase the long term business provision. An increase in credit spreads would tend to reduce the long term business provision.

Mortality assumptions take account of both the recent experience of the business and wider industry experience. A lighter mortality assumption would tend to increase the long term business provision for annuities in payment but reduce it for other contracts.

The expense assumption reflects the expected expenses, appropriately apportioned over all policies, as at the valuation date. An increase in the expense assumption would lead to an increase in the long term business provision. The expense inflation assumption reflects how much the per policy expense assumption will increase in the future. A higher expense inflation assumption will increase the long term business provision.

Moderate changes in assumptions for business written in the with profit fund usually have no direct material impact on profit or equity holders' funds. As the realistic value of the liabilities exceeds the value of the assets within the fund a larger impact will be seen.

The table below indicates the stand-alone impact of certain key economic assumption changes on the value of financial assets offset by the related change in the value of insurance and investment contracts on the with profit fund.

	Change in assumption	Impact on profit before equity holders' tax 2009 £m	Impact on equity holders' funds 2009 £m	Impact on profit before equity holders' tax 2008 £m	Impact on equity holders' funds 2008 £m
Fixed interest yield assumptions	-1%	31.8	22.9	96.4	69.4
Fixed interest yield assumptions	+1%	(11.7)	(8.4)	(136.4)	(98.2)
Corporate bond spreads	+1%	(47.1)	(33.9)	(77.7)	(55.9)
Equity and property values	-10%	(16.3)	(11.7)	(16.5)	(11.9)

In reality, given the correlation between the assumptions, it is not often possible to demonstrate the effect of key assumptions whilst other assumptions remain unchanged. It should also be noted that in some instances these sensitivities are non-linear, consequently larger or smaller impacts should not be interpolated or extrapolated from these results.

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Notes to the financial statements (continued)

12. Technical provisions for linked liabilities

Linked liabilities comprise amounts held in respect of insurance contracts of **£1 9m** (2008 £1 8m) and amounts in respect of investment contracts of **£786.2m** (2008 £695 9m) The investment contract liabilities are fully reinsured to Phoenix Life Limited, a fellow Group Company

13. Other creditors including taxation and social security	2009 £m	2008 £m
Amounts due to group undertakings	4.8	13 4
Collateral creditor	119.1	-
Other	23.5	52 0
	<u>147.4</u>	<u>65 4</u>

14. Investments in group undertakings and participating interests

The Company owns the whole of the issued share capital of Imbercourt Limited and SAPLIS Limited (in liquidation) Both subsidiaries are registered in England and Wales

The Company owns 30.3% (2008 40 7%) of the shares of UK Commercial Property Trust Limited (UKCPT), a company incorporated in Guernsey and is designated as a participating interest This forms part of the investment portfolios attributable to the long term business funds and is accounted for as a financial investment

	2009 £m	2008 £m
Shares in group undertakings - at current value	(0.2)	1 0
Shares in participating undertakings - at current value	202.1	187 3
	<u>201.9</u>	<u>188 3</u>

The shares in group undertakings of £(0 2)m comprise the net liabilities of Imbercourt Limited

15. Directors' emoluments

The emoluments of Messrs M Dale, A B Davidson, D J R Ferguson, E J C Hawkes, M J Merrick, J S Moss, H E M Osmond, M D Ross and J S B Smith in respect of their services to the Company are disclosed in the financial statements of Pearl Group Holdings (No 2) Limited (formerly Pearl Group Limited ("PGH2"))

The aggregate emoluments of the remaining directors of the Company were **£551,374** (2008 £2,159,473) Of this **£55,137** (2008 £449,923) has been allocated to the Company

The emoluments of the highest paid Director are disclosed in the financial statements of PGH2

Retirement benefits are accruing for 0 (2008 2) continuing Directors under defined contribution and defined benefit schemes

Annual bonuses are shown in the year in which they are earned

During the year TDR Capital LLP of whom Mr M Dale and Mr L Tamberlin are designated members received **£812,500** (2008 £1,762,500) from Impala Holdings Limited as shareholder monitoring fees

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

16. Auditors' remuneration

The remuneration receivable by the Company's auditors for auditing the accounts amounted to **£255,820** (2008 £155,000). In addition, the Company's auditors received **£74,270** (2008 £45,000) for reviewing other regulatory returns and **£163,614** (2008 £nil) for other services.

17. Provisions for other risks

	Complaints and litigation costs		Other		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
At 1 January as previously reported	0.2	0.4	2.7	-	2.9	0.4
Utilised	(0.2)	(0.2)	(0.3)	(0.3)	(0.5)	(0.5)
Charges to/(release) from						
Increase in provision	-	-	2.1	3.0	2.1	3.0
At 31 December	-	0.2	4.5	2.7	4.5	2.9

18. Capital commitments

The Company had no capital commitments at 31 December 2009 (2008 £nil).

19. Operating leases

Annual commitments under non-cancellable operating leases were £nil (2008 £nil).

20. Contingent liabilities and other risks

The Company had no contingent liabilities at 31 December 2009 (2008 £nil).

21. Contingent and subordinated loans

The Company entered into the following arrangements with Pearl Life Holdings Limited ("PLH") in order to support its ongoing solvency position.

Subordinated loan agreement

Under this agreement, the Company has a loan facility from PLH, whereby support is provided where it is anticipated that the Company has insufficient capital to meet the "Capital Test". The Capital Test requires there to be sufficient capital to meet both the Individual Capital Assessment (ICA), as calculated under GENPRU 1.2, with INSURU 7.1 providing specific guidance for insurers, and have an excess of available capital resources equal to at least **£50.0m** under both the statutory and realistic solvency regulations, as shown on Form 2, line 42, of the returns to the FSA, if Form 2 was to be prepared on the date concerned. The loan is repayable at the Company's discretion, giving at least 6 months notice to both the lender and the FSA, to the extent that the Capital Test is met. The amount available to the Company under the subordinated loan agreement is limited to such amount as would cause the aggregate of the loan to equal no more than **£280.0m** (2008 £280.0m). Interest is due under these loan agreements at LIBOR plus 2%, but is only payable at the Company's discretion, giving 30 days notice to the lender and is shown under accruals and deferred income. On 31 December 2009 the Company had drawn-down **£270.0m** (2008 £270.0m).

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

21. Contingent and subordinated loans (continued)

Internal capital support memorandum

Under this memorandum, the Company has agreed with PLH and with the FSA to establish memoranda accounts within the shareholder's (SH) and long-term (LTF) funds to provide support to the LTF. The amount credited to the SH memoranda accounts at the 31 December 2009 was **£270.0m** (2008 £270.0m). Assets are transferred from the SH memoranda accounts to the LTF memoranda accounts when the Company becomes aware that the value of assets comprised in the LTF have fallen (or are likely to fall) below the "Threshold Amount". The Threshold Amount is £25.0m in excess of the requirements under both the statutory and realistic solvency regulations. The amount transferred from the SH memoranda accounts to the LTF memoranda accounts at 31 December 2009 was **£297.3m** (2008 £290.6m) including accrued interest of **£35.4m** (2008 £28.7m). Assets are repayable to the SH memoranda accounts from the LTF memoranda accounts out of profits arising in the Long Term Fund to the extent that the assets comprised in the LTF are greater than the Threshold Amount, subject to receipt by the Company of permission in writing of the FSA. Of the amount transferred from the SH memoranda accounts into the LTF memoranda accounts, **£139.1m** (2008 £165.5m) was required to achieve a realistic basis surplus of £nil.

22. Related party transactions

The Company has taken advantage of the exemption given by FRS 8 by not disclosing information on related party transactions with entities that are wholly owned members of the Phoenix Group.

There were no transactions during the year with key management personnel other than the Directors' emoluments as disclosed in note 15.

23. Parent undertaking and controlling party

The Company's immediate parent company is PLH, registered in England and Wales. A copy of that company's financial statements can be obtained from 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Prior to 2 September 2009 the Company's ultimate parent undertaking was Pearl Group Holdings (No 2) Limited. Subsequent to this date, the ultimate parent undertaking became Phoenix Group Holdings (previously named Pearl Group) whose registered office is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

A copy of the accounts of Phoenix Group Holdings, which is the parent undertaking of the smallest and largest group to consolidate these financial statements, can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.

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Notes to the financial statements (continued)

24. Financial risk management

The Company has operated processes and structures to support the effective management of its risks, both financial and other risks, in accordance with the group-wide risk management framework established across the Phoenix group. A clear organisation structure with documented, delegated authorities and responsibilities from the Board to executive management committees and senior managers is in place. A policy framework is also in place, which sets out the high level risk appetite, together with risk management, control and business conduct standards for the Company. Each policy is the responsibility of a member of senior management who is charged with overseeing compliance with the policy.

The Company's Directors are responsible for the system of risk management and internal control, including financial, operational and compliance controls and for reviewing its effectiveness. Due to the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate risk. In assessing these risks, the Directors take into account any benefits that may accrue from risk acceptance before making a commercial decision to ensure that risks are commensurate with the anticipated returns.

As part of the overall risk management framework, the Company operated throughout the year a capital management framework using Individual Capital Assessment (ICA) principles for identifying the risks to which it is exposed, quantifying their impact on economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected, remote level of risk applied to a number of stresses (both financial and non-financial) across the business.

Asset and liability management strategies were used to mitigate these financial risks. These risks include credit risk, market risk and liquidity risk. Each of these is described below, together with a summary of how the Company manages them.

1. Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion. These financial obligations can relate to both on and off balance sheet assets and liabilities.

The Company is exposed to the following main types of credit risk:

- Credit risk resulting from direct investment activities, including investments in fixed interest, equities, derivative financial instruments, collective investment vehicles and the placing of cash deposits,
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and purchase of derivative financial instruments,
- Credit risk resulting from investment activities associated with the Company's free resources.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to frequent review.

The table below provides information regarding the credit risk exposure of the Company at 31 December 2009 by classifying financial and reinsurance assets according to Standard and Poor's and Moody's credit ratings of the counterparties. Only credit risk on assets where risk is borne by the shareholder is shown, therefore, unit-linked assets are excluded.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

24. Financial risk management (continued)

The credit risk borne by the shareholder on with-profits policies is minimal other than when the realistic value of liabilities exceeds the available assets in the WPF. The bonuses to with-profit policyholders are designed to distribute to policyholders a fair share of the return on the assets in the with-profits fund together with other elements of the experience of the fund. With-profit policies are managed such that bonuses distributed to the policyholder are smoothed over the years. The shareholders are entitled to receive one-ninth of the cost of bonuses declared. As detailed in note 21 above, in certain circumstances additional financial support to the with-profit fund may be provided by the shareholder fund. The process for exercising discretion in the management of the with-profit funds is set out in the principles and practices of financial management ("PPFM") for each with-profit fund and is overseen by with-profit committees.

As at 31 December 2009	AAA	AA	A	BBB	BB and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	-	-	-	-	-	4.3	4.3
Derivative financial instruments	268.4	-	-	-	-	-	268.4
Debt securities and other fixed income securities	3,655.7	303.5	516.2	218.6	85.8	121.2	4,901.0
Reinsurance assets							
i. Reinsurers' share of insurance and investment contract liabilities	-	-	11.9	-	-	1,105.4	1,117.3
ii. Reinsurance receivables	-	-	-	-	-	-	-
Cash and Cash equivalents	-	7.2	576.2	-	-	-	583.4

As at 31 December 2008	AAA	AA	A	BBB	BB and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	-	-	-	-	-	5.2	5.2
Derivative financial instruments	-	69.6	646.3	-	-	13.4	729.3
Debt securities and other fixed income securities	4,077.3	338.0	580.9	141.3	16.7	7.6	5,161.8
Reinsurance assets							
i. Reinsurers' share of insurance and investment contract liabilities	-	11.4	-	-	-	1,035.3	1,046.7
ii. Reinsurance receivables	-	-	-	-	-	1.0	1.0
Cash and Cash equivalents	481.6	-	65.6	-	-	-	547.2

(Source of credit ratings – Standard & Poor's/Moody's)

*The non rated reinsurance assets include those amounts which are due from other group companies

Credit ratings have not been disclosed in the above table for equities. Whilst the Company is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings.

Non-equity based derivative financial instruments are included in the credit risk table above and are subject to appropriate collateral arrangements.

Credit risk in relation to fixed income securities and cash and cash equivalents has been assessed on a look through basis where the exposure to the securities is via collective investments vehicles.

The Company has no material financial assets which have been impaired or are past due (2008: £nil).

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Notes to the financial statements (continued)

24 Financial Risk Management (continued)

Concentration of credit risks

Concentration of credit risk might exist where the Company has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Company has most of its counterparty risk within its life and pension business and this is monitored by the counterparty limits contained within the Company's investment guidelines, overlaid by regulatory requirements.

The long term business which the Company writes is not generally exposed to significant concentrations of credit risk due to regulatory requirements and other practices limiting investments in individual assets and asset classes.

The Company is also exposed to concentration risk with individual reinsurers and service outsourcers. This is due to the nature of the service market and the restricted nature of reinsurers that have acceptable credit ratings. The Company operates a policy to manage reinsurance and service outsourcer counterparty exposures and the impact from default is reviewed regularly by executive committees and measured through the Individual Capital Assessment stress and scenario testing.

The impact of non-government fixed interest securities and, inter-alia, the widening of market credit spreads during the year are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the Company holds takes into account fully the changes in swap spreads. Some of the Company's commercial property investments are held through a unit trust managed by Ignis Asset Management Limited. This unit trust has the power to restrict and or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

The amount disclosed in the balance sheet in respect of financial assets represents the Company's maximum exposure to credit risk, excluding those that back unit linked liabilities.

Collateral

The credit risk of the Company is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

For further detail on collateral please refer to the derivative financial instruments and stock lending note to the accounts (note 6).

ii. Liquidity risk

Liquidity risk is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due.

The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements. The Company manages liquidity risk through a clearly articulated Liquidity Risk Policy, Investment Guidelines and Treasury Management Guidelines. The Liquidity Risk Policy has the objectives of ensuring low probability of loss due to liquidity risk events, documentation of systems and controls of liquidity risk and cost-efficient control of liquidity risk. This Company in applying the policy ensures that

- Liquidity risk is managed in a manner consistent with the Company Board's strategic objectives, risk appetite and principles and practices of financial management ("PPFM"),
- The quality of profits are appropriately managed and the reputation of the Company is safeguarded, and
- Appropriate information on liquidity risk is available to those making decisions.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

24 Financial Risk Management (continued)

Liquidity controls in the Company are monitored on a regular basis and breaches are escalated to the Phoenix Group's Financial Risk and Capital Oversight Committee ("FRCOC")

The table below summarises the maturity profile of the financial liabilities of the Company. The basis of preparation is such that investment contracts are on a discounted basis consistent with the balance sheet. All remaining financial liabilities are shown on an undiscounted cash basis. Repayments which are subject to notice are treated as if notice were to be given immediately and are included as repayable within one year.

The maturity profile of the insurance liabilities is based on the estimated timing, of the amounts recognised in the balance sheet.

As at 31 December 2009	Up to 1 year	1-5 years	Greater than 5 years	Total
	£m	£m	£m	£m
Investment contracts without DPF	786.2	-	-	786.2
Borrowings	-	-	270.0	270.0
Derivative financial instruments	12.0	43.6	302.0	357.6
Payables	194.3	-	-	194.3

As at 31 December 2008	Up to 1 year	1-5 years	Greater than 5 years	Total
	£m	£m	£m	£m
Investment contracts without DPF	695.9	-	-	695.9
Borrowings	-	-	270.0	270.0
Derivative financial instruments	19.9	31.8	602.8	654.5
Payables	124.1	-	-	124.1

iii. Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The market risk impact on the Company depending on the nature of the contracts written is as follows:

Participating insurance and investment contracts

The main market risks inherent in these contracts are dependent upon the asset allocation of the with-profits fund. Generally, the more the fund is invested in an asset class, the greater the risk attached to movements in the particular asset markets.

The main market risks, reflecting the asset allocation, within the with-profits fund are due to variations in:

- equity prices,
- interest rates and bond prices,
- corporate bond spreads,
- equity price volatility affecting the value of policy guarantees, and
- bond volatilities affecting the value of guaranteed annuity options and other guarantees.

The Company adopts a strategy of matching fixed interest assets by term and of notionally delta hedging its equity and property assets with its guarantee reserves to minimise its exposure to market risks.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

24 Financial Risk Management (continued)

Non-linked non participating insurance contracts

For conventional non-participating products, the contract benefits are guaranteed at outset, which implies a guaranteed rate of return (ignoring mortality risk). The Company bears the risk of the assets held failing to meet the value of liabilities.

The Company's non-participating policies are written in its participating fund and are backed by a mix of government bonds, corporate bonds and interest rate swaps. Therefore, the main market risks within these funds are

- variation in interest rates and bond prices, and
- variation in corporate bond spreads

The former risk is materially mitigated by close matching of asset cash flows with projected liability cash flows.

Unit-linked non-participating insurance and investment contracts

All but an immaterial proportion of the Company's contracts of this nature are reinsured to Phoenix Life Limited, removing market risk except to the extent that it might increase the credit risk in respect of the reinsurer.

Currency risk

The Company's exposure to foreign exchange risk is limited. The Company's liabilities under its insurance and investment liabilities are very largely denominated in sterling. Thus the main foreign exchange risk arises from assets denominated in currencies other than sterling and, indirectly, from the earnings of UK companies arising abroad. This risk is incurred mainly in respect of the Company's participating policies, which have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed within the Financial Policy approved by the Asset-Liability Management Committee ("ALCO").

Interest rate risk

Interest rate risk is the risk that the value / future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Company's approach to interest rate risk is to manage it by maintaining an appropriate mix of fixed and variable rate instruments including derivative financial instruments. The policy also requires it to manage the maturity profile of these assets consistent with the liabilities to policyholders. The company has purchased spreadlocks to protect against the consequences of widening long dated swap spreads.

With-profits business and non-profits business within with-profits funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivative financial instruments. Any profit or loss arising from residual mismatches between such assets and liabilities is largely or completely offset by increased or reduced discretionary policyholder benefits, however, and so no tabular disclosure is provided.

Price risk

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Company limits the exposure to any one counterparty in its investment portfolios as well as the relevant foreign markets (refer to credit and currency exposure disclosures for concentration risks impacting price risks).

The portfolio of marketable equity securities, and property investments, which is carried on the balance sheet at fair value, has exposure to price risk. The Company's objective in holding these assets is to earn higher long term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in a number of dimensions. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

24 Financial Risk Management (continued)

Equity and property price risk is primarily undertaken in respect of assets held in with profits or unit linked funds. For unit linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with profits funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk.

At 31 December 2009, traded equity securities of **£82.2m** (2008: £183.0m) and **£202.1m** (2008: £187.3m) of property assets were held. The property assets consisted of shares in UK Commercial Property Trust Limited, an associated company (see note 14).

There is also an exposure to spread changes affecting the prices of corporate bonds and derivative financial instruments. This exposure applies to with profits funds, unit linked funds and in shareholders funds.

Sensitivities

An indication of the financial impact of market risk is given in note 11.

25. Capital management

The Group has developed a capital management framework using Individual Capital Assessment (ICA) principles for identifying the risks to which each of its business units and the Group as a whole are exposed and quantifying their impact on capital. The ICA process estimates the level of capital the Group should retain to ensure that there is only an extremely small risk that the Group will be unable to meet its liabilities. The capital required is calculated based on extreme but foreseeable risk events over a 1-year timeframe. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group and all of its insurance businesses should have available.

The Group also establishes a capital policy for each of its insurance subsidiaries. The purpose of the policy is to hold additional capital over and above that required by the company's regulatory requirements and its ICA assessment. This provides additional protection against the impact of adverse experience.

The capital position of the Group and each of its individual insurance subsidiaries is monitored by the Finance Risk and Capital Oversight Committee. The committee monitors the Company's capital composition and position against the requirements of the capital policy. The level of required capital of the Company is the greatest of 'Required capital and free surplus', defined as:

- the amount of capital required to meet regulatory capital adequacy requirements,
- the capital required under the Company's capital management policy.

For this purpose, the Company defines capital to be the amount of available capital resources reported in the Annual FSA Insurance Returns and which, at the balance sheet date, amounted to **£884.6m** (2008: £662.8m).

The capital policy has been established by the Company and is not externally imposed. However, external approval from the Financial Services Authority would be required before making any amendments to the policy.

The Company has complied with all externally imposed capital requirements throughout the year.

In addition to the requirement to maintain individual capital resources in excess of its individual capital resources requirement, the Company is required to ensure that its capital resources are sufficient to maintain group capital resources in excess of the group capital resources requirement at all times. This is calculated at the level of the Company's ultimate EEA insurance parent undertaking, Phoenix Life Holdings Limited ("PHLHL").

The group capital resources requirement is an aggregate of the individual capital resources requirements of each of the regulated entities within the PHLHL Group. Group capital resources are based on an aggregation of the capital resources of each of the regulated entities, net of the PHLHL Group's investment in them, and net of surplus assets held in the long term funds of the regulated entities, but without making any deduction for counterparty exposures in excess of defined limits.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

25. Capital management (continued)

There are different forms and quality of capital that may be admitted to the calculation of group capital resources. However, there are also restrictions which limit lower quality capital to prescribed levels. Lower quality capital which exceeds these levels must be excluded from group capital resources, with a corresponding effect on the excess of group capital resources over GCA requirements.

Following the technical breach of GCA requirements in 2008, the FSA issued an Own Initiative Variation of Permission ("OIVoP") which inter alia, required cash payments and any other transfer of economic benefits from regulated entities within The Phoenix Group (formerly Pearl Group) to be disclosed to, and approved by the FSA. Subsequently, on 2 September 2009 the FSA lifted the OIVoP.

The Company met its GCA requirements during the year.