Phoenix & London Assurance Limited

Annual FSA Insurance Returns for the year ended

31 December 2010

IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.4A, 9.6

Contents

Form 2

Statement of solvency - long-term insurance business

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
R2	894616	GL	31	12	2010	£000

		As at end of this financial year 1	As at end of the previous year 2
Capital resources			
Capital resources arising within the long-term insurance fund	11	468695	483653
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	369104	400969
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	837798	884622
Guarantee fund			
Guarantee fund requirement	21	71273	71162
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	766525	813460
Minimum capital requirement (MCR)			
Long-term insurance capital requirement	31	213819	213487
Resilience capital requirement	32		
Base capital resources requirement	33	3040	3128
Individual minimum capital requirement	34	213819	213487
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	213819	213487
Excess (deficiency) of available capital resources to cover 50% of MCR	37	544001	518097
Excess (deficiency) of available capital resources to cover 75% of MCR	38	677434	724507
Enhanced capital requirement			
With-profits insurance capital component	39	273926	174570
Enhanced capital requirement	40	487745	388057
Capital resources requirement (CRR)			
Capital resources requirement (greater of 36 and 40)	41	487745	388057
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	350053	496566
Contingent liabilities			
Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		

Covering Sheet to Form 2

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**

....	**M J Merrick**	**Chief Executive**
....	**A Moss**	**Director**
....	**J J Yates**	**Director**

Date: 22 March ~~2010~~ 2011

Form 3
(Sheet 1)

Components of capital resources

Name of insurer: **Phoenix & London Assurance Limited**

Global business

Financial year ended: **31 December 2010**

	Company registration number	GL/UK/CM	day	month	year	Units
R3	894616	GL	31	12	2010	£000

		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4
Core tier one capital					
Permanent share capital	11		81000	81000	81000
Profit and loss account and other reserves	12		259270	259270	303303
Share premium account	13				
Positive valuation differences	14		310640	310640	240537
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		650910	650910	624840
Tier one waivers					
Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit Items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				
Other tier one capital					
Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				
Total tier one capital before deductions (19+24+25+26+27+28)	31		650910	650910	624840
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
Total tier one capital after deductions (31-37)	39		650910	650910	624840

Form 3
(Sheet 2)

Components of capital resources

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	894616	GL	31	12	2010	£000

		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4
Tier two capital					
Implicit items, (tier two waivers and amounts excluded from line 22)	41				
Perpetual non-cumulative preference shares excluded from line 25	42				
Innovative tier one capital excluded from line 27	43				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44				
Perpetual cumulative preference shares	45				
Perpetual subordinated debt and securities	46		195000	195000	270000
Upper tier two capital in related undertakings	47				
Upper tier two capital (44 to 47)	49		195000	195000	270000
Fixed term preference shares	51				
Other tier two instruments	52				
Lower tier two capital in related undertakings	53				
Lower tier two capital (51+52+53)	59				
Total tier two capital before restrictions (49+59)	61		195000	195000	270000
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69		195000	195000	270000

Form 3
(Sheet 3)

Components of capital resources

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	894616	GL	31	12	2010	£000

		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4
Total capital resources					
Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		845910	845910	894840
Inadmissible assets other than intangibles and own shares	73		8112	8112	10218
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		837798	837798	884622
Available capital resources for GENPRU/INSPRU tests					
Available capital resources for guarantee fund requirement	81		837798	837798	884622
Available capital resources for 50% MCR requirement	82		650910	650910	624840
Available capital resources for 75% MCR requirement	83		837798	837798	884622
Financial engineering adjustments					
Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96				

Form 11

Calculation of general insurance capital requirement - premiums amount and brought forward amount

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**
Long term insurance business	

	Company registration number	GL/ UK/ CM	day	month	year	Units
R11	894616	GL	31	12	2010	£000

			This financial year 1	Previous year 2
Gross premiums written		11	10107	10535
Premiums taxes and levies (included in line 11)		12		
Premiums written net of taxes and levies (11-12)		13	10107	10535
Premiums for classes 11, 12 or 13 (included in line 13)		14		
Premiums for "actuarial health insurance" (included in line 13)		15		
Sub-total A (13 + 1/2 14 - 2/3 15)		16	10107	10535
Gross premiums earned		21	10107	10535
Premium taxes and levies (included in line 21)		22		
Premiums earned net of taxes and levies (21-22)		23	10107	10535
Premiums for classes 11, 12 or 13 (included in line 23)		24		
Premiums for "actuarial health insurance" (included in line 23)		25		
Sub-total H (23 + 1/2 24 - 2/3 25)		26	10107	10535
Sub-total I (higher of sub-total A and sub-total H)		30	10107	10535
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure		31		
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	1819	1896
	Excess (if any) over 57.5M EURO x 0.02	33		
Sub-total J (32-33)		34	1819	1896
Claims paid in period of 3 financial years		41	39837	45150
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42	19339	28012
	For insurance business accounted for on an accident year basis	43		
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44	35968	35321
	For insurance business accounted for on an accident year basis	45		
Sub-total C (41+42+43-44-45)		46	23207	37841
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47	20554	35437
Sub-total D (46-47)		48	2653	2404
Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)		49	0.50	0.50
Premiums amount (Sub-total J x reinsurance ratio)		50	910	948
Provision for claims outstanding (before discounting and net of reinsurance		51	1217	
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero		52		
Brought forward amount (See instruction 4)		53	1640	
Greater of lines 50 and 53		54	1640	948

Calculation of general insurance capital requirement - claims amount and result

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Long term insurance business

	Company registration number	GL/ UK/ CM	day	month	year	Units
R12	894616	GL	31	12	2010	£000

			This financial year 1	Previous year 2
Reference period (No. of months) See INSPRU 1.1.63R		11	36	36
Claims paid in reference period		21	39837	45150
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	22	19339	28012
	For insurance business accounted for on an accident year basis	23		
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	24	35968	35321
	For insurance business accounted for on an accident year basis	25		
Claims incurred in reference period (21+22+23-24-25)		26	23207	37841
Claims incurred for classes 11, 12 or 13 (included in 26)		27		
Claims incurred for "actuarial health insurance" (included in 26)		28		
Sub-total E (26 +1/2 27 - 2/3 28)		29	23207	37841
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)		31	7736	12614
Division of sub-total F (gross adjusted claims amount)	x 0.26	32	2011	3280
	Excess (if any) over 40.3M EURO x 0.03	33		
Sub-total G (32-33)		39	2011	3280
Claims amount Sub-total G x reinsurance ratio (11.49)		41	1006	1640
Higher of premiums amount and brought forward amount (11.54)		42	1640	948
General insurance capital requirement (higher of lines 41 and 42)		43	1640	1640

Form 13
(Sheet 1)

Analysis of admissible assets

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**
Category of assets	**Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	1

			As at end of this financial year 1	As at end of the previous year 2
Land and buildings		11		
Investments in group undertakings and participating interests				
UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25	10	10
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		
Other financial investments				
Equity shares		41	17233	
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	349264	401468
Rights under derivative contracts		44		
Fixed interest securities	Approved	45	3990	3892
	Other	46		
Variable interest securities	Approved	47		
	Other	48		58
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

Form 13
(Sheet 2)

Analysis of admissible assets

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	1

			As at end of this financial year 1	As at end of the previous year 2
Reinsurers' share of technical provisions				
Provision for unearned premiums		60		
Claims outstanding		61		
Provision for unexpired risks		62		
Other		63		
Debtors and salvage				
Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78		
	due in more than 12 months	79		
Other assets				
Tangible assets		80		
Deposits not subject to time restriction on withdrawal with approved institutions		81	56	26
Cash in hand		82		
Other assets (particulars to be specified by way of supplementary note)		83		
Accrued interest and rent		84	1062	968
Deferred acquisition costs (general business only)		85		
Other prepayments and accrued income		86		
Deductions from the aggregate value of assets		87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)		89	371615	406422

Form 13
(Sheet 3)

Analysis of admissible assets

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**
Category of assets	**Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	1

		As at end of this financial year 1	As at end of the previous year 2
Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting			
Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	371615	406422
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	174430	253334
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	546045	659756

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Form 13
(Sheet 1)

Analysis of admissible assets

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	10

			As at end of this financial year 1	As at end of the previous year 2
Land and buildings		11		
Investments in group undertakings and participating interests				
UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		202065
	Debts and loans	30		
Other financial investments				
Equity shares		41	271694	82211
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	3523543	288602
Rights under derivative contracts		44	251827	268390
Fixed interest securities	Approved	45	2944278	3177056
	Other	46	193816	1401686
Variable interest securities	Approved	47	115533	170180
	Other	48	7268	9120
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52	3651	4285
Other loans		53	414075	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	55092	53393
	Property linked	59	1965	1865

Form 13
(Sheet 2)

Analysis of admissible assets

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**
Category of assets	**Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	10

			As at end of this financial year 1	As at end of the previous year 2
Reinsurers' share of technical provisions				
Provision for unearned premiums		60		
Claims outstanding		61		
Provision for unexpired risks		62		
Other		63		
Debtors and salvage				
Direct insurance business	Policyholders	71	1697	2295
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	22447	186954
	due in more than 12 months	79		
Other assets				
Tangible assets		80		
Deposits not subject to time restriction on withdrawal with approved institutions		81	3458	31908
Cash in hand		82		
Other assets (particulars to be specified by way of supplementary note)		83		
Accrued interest and rent		84	36244	69229
Deferred acquisition costs (general business only)		85		
Other prepayments and accrued income		86	19849	7343
Deductions from the aggregate value of assets		87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)		89	7866437	5956583

Form 13
(Sheet 3)

Analysis of admissible assets

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
R13	894616	GL	31	12	2010	£000	10

Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting

		As at end of this financial year 1	As at end of the previous year 2
Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	7866437	5956583
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	8112	10218
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	1125623	1117295
Other asset adjustments (may be negative)	101	(166194)	(253549)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	8833977	6830547

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Form 14

Long term insurance business liabilities and margins

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**
Total business/Sub fund	**Ordinary Long Term Business**
Units	**£000**

			As at end of this financial year 1	As at end of the previous year 2
Mathematical reserves, after distribution of surplus		11	4984034	4921686
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	135539	210539
Long term insurance business fund carried forward (11 to 13)		14	5119573	5132225
Claims outstanding	Gross	15	55163	44722
	Reinsurers' share	16		
	Net (15-16)	17	55163	44722
Provisions	Taxation	21		
	Other risks and charges	22	507	4495
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	4117	2279
	Reinsurance accepted	32		
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37		
	Other	38	2351115	499748
Accruals and deferred income		39	2806	
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	2413708	551245
Excess of the value of net admissible assets		51	333156	273114
Total liabilities and margins		59	7866437	5956583

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	1965	1865

Total liabilities (11+12+49)	71	7397742	5472930
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	1125623	1117295
Other adjustments to liabilities (may be negative)	74	310612	240322
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	8833977	6830547

Liabilities (other than long term insurance business)

Name of insurer	**Phoenix & London Assurance Limited**
Global business	
Financial year ended	**31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R15	894616	GL	31	12	2010	£000

			As at end of this financial year 1	As at end of the previous year 2
Technical provisions (gross amount)				
Provisions for unearned premiums		11		
Claims outstanding		12		
Provision for unexpired risks		13		
Equalisation provisions	Credit business	14		
	Other than credit business	15		
Other technical provisions		16		
Total gross technical provisions (11 to 16)		19		
Provisions and creditors				
Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		4797
	Foreseeable dividend	48		
	Other	49	2512	656
Accruals and deferred income		51		
Total (19 to 51)		59	2512	5453
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63	195000	270000
Total (59 to 63)		69	197512	275453

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		270656

Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	8264	
Capital and reserves	84	340270	384303
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	546045	659756

Form 16

Profit and loss account (non-technical account)

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R16	894616	GL	31	12	2010	£000

			This financial year 1	Previous year 2
Transfer (to)/from the general insurance business technical account	From Form 20	11		
	Equalisation provisions	12		
Transfer from the long term insurance business revenue account		13	75953	930
Investment income	Income	14	12871	23569
	Value re-adjustments on investments	15	34	
	Gains on the realisation of investments	16	5	164
Investment charges	Investment management charges, including interest	17	8680	13720
	Value re-adjustments on investments	18		1449
	Loss on the realisation of investments	19		
Allocated investment return transferred to the general insurance business technical account		20		
Other income and charges (particulars to be specified by way of supplementary note)		21		9645
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29	80183	19138
Tax on profit or loss on ordinary activities		31	1060	5096
Profit or loss on ordinary activities after tax (29-31)		39	79123	14042
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41		
Tax on extraordinary profit or loss		42		
Other taxes not shown under the preceding items		43		
Profit or loss for the financial year (39+41-(42+43))		49	79123	14042
Dividends (paid or foreseeable)		51	31000	
Profit or loss retained for the financial year (49-51)		59	48123	14042

Form 17

Analysis of derivative contracts

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R17	894616	GL	31	12	2010	£000	10

Derivative contracts			Value as at the end of this financial year		Notional amount as at the end of this financial year	
			Assets 1	Liabilities 2	Bought / Long 3	Sold / Short 4
Futures and contracts for differences	Fixed-interest securities	11	9876	892	292576	
	Interest rates	12	182866	237268	1869477	2549653
	Inflation	13				
	Credit index / basket	14				
	Credit single name	15				
	Equity index	16	516	454	53235	53173
	Equity stock	17				
	Land	18				
	Currencies	19	44217	44176	44217	44176
	Mortality	20				
	Other	21				
In the money options	Swaptions	31	1258		12376	
	Equity index calls	32				
	Equity stock calls	33				
	Equity index puts	34				
	Equity stock puts	35				
	Other	36				
Out of the money options	Swaptions	41	13094			
	Equity index calls	42				
	Equity stock calls	43				
	Equity index puts	44				
	Equity stock puts	45				
	Other	46				
Total (11 to 46)		51	251827	282790	2271881	2647002
Adjustment for variation margin		52				
Total (51 + 52)		53	251827	282790		

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

Form 18

With-profits insurance capital component for the fund

Name of insurer	**Phoenix & London Assurance Limited**
With-profits fund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

Regulatory excess capital

			As at end of this financial year 1	As at end of the previous year 2
Regulatory value of assets	Long-term admissible assets of the fund	11	7866437	5956583
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	1607671	1387553
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	6258766	4569031
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	3376364	3534133
	Regulatory current liabilities of the fund	22	2640979	848526
	Total (21+22)	29	6017342	4382659
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	213819	213414
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	6231161	4596074
Regulatory excess capital (19-39)		49	27605	(27043)

Realistic excess capital

Realistic excess capital	51	(118532)	(116901)

Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	146137	89858
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62	227271	297282
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63	69500	158336
Present value of future shareholder transfers arising from distribution of surplus	64	29981	54234
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	273926	174570

Form 19
(Sheet 1)

Realistic balance sheet

Name of insurer	**Phoenix & London Assurance Limited**
With-profits fund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

			As at end of this financial year 1	As at end of the previous year 2
Realistic value of assets available to the fund				
Regulatory value of assets		11	6258766	4569031
Implicit items allocated to the fund		12		
Value of shares in subsidiaries held in fund (regulatory)		13		
Excess admissible assets		21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund		22	152929	104117
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22		23		
Value of shares in subsidiaries held in fund (realistic)		24		
Prepayments made from the fund		25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))		26	6411695	4673147
Support arrangement assets		27		
Assets available to the fund (26+27)		29	6411695	4673147
Realistic value of liabilities of fund				
With-profits benefit reserve		31	3299062	3468337
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past miscellaneous deficit attributed to with-profits benefits reserve	33		690
	Planned enhancements to with-profits benefits reserve	34	757	757
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	153777	191807
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41	361674	340264
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43	356275	313202
	Future costs of smoothing (possibly negative)	44	25069	14483
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	98260	79130
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	688258	555339
Realistic current liabilities of the fund		51	2424376	649471
Realistic value of liabilities of fund (31+49+51)		59	6411695	4673147

Form 19
(Sheet 2)

Realistic balance sheet

Name of insurer **Phoenix & London Assurance Limited**

With-profits fund **Ordinary Long Term Business**

Financial year ended **31 December 2010**

Units **£000**

Realistic excess capital and additional capital available

		As at end of this financial year 1	As at end of the previous year 2
Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	6530227	4790048
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	6530227	4790048
Risk capital margin for fund (62-59)	65	118532	116901
Realistic excess capital for fund (26-(59+65))	66	(118532)	(116901)
Realistic excess available capital for fund (29-(59+65))	67	(118532)	(116901)
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

Other assets potentially available if required to cover the fund's risk capital margin

Additional amount potentially available for inclusion in line 62	81	320072	367388
Additional amount potentially available for inclusion in line 63	82		

Form 40

Long-term insurance business : Revenue account

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		Financial year 1	Previous year 2
Income			
Earned premiums	11	52527	58160
Investment income receivable before deduction of tax	12	209554	300599
Increase (decrease) in the value of non-linked assets brought into account	13	195731	(480807)
Increase (decrease) in the value of linked assets	14	(101)	126
Other income	15		
Total income	19	457712	(121922)
Expenditure			
Claims incurred	21	349723	364909
Expenses payable	22	31384	42651
Interest payable before the deduction of tax	23	11789	17391
Taxation	24	1515	(1460)
Other expenditure	25		
Transfer to (from) non technical account	26	75953	930
Total expenditure	29	470363	424421
Business transfers - in	31	105389	113745
Business transfers - out	32	105389	113745
Increase (decrease) in fund in financial year (19-29+31-32)	39	(12651)	(546343)
Fund brought forward	49	5132225	5678568
Fund carried forward (39+49)	59	5119573	5132225

Form 41

Long-term insurance business : Analysis of premiums

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
Gross						
Regular premiums	11	75549	23854	200	99603	108940
Single premiums	12	76	155	437	668	(808)
Reinsurance - external						
Regular premiums	13	1080	239		1319	1136
Single premiums	14					3057
Reinsurance - intra-group						
Regular premiums	15	33902	12018	3	45923	46808
Single premiums	16		502		502	(1029)
Net of reinsurance						
Regular premiums	17	40567	11597	197	52361	60996
Single premiums	18	76	(347)	437	166	(2836)
Total						
Gross	19	75626	24009	637	100272	108132
Reinsurance	20	34982	12759	3	47745	49972
Net	21	40644	11250	634	52527	58160

Form 42

Long-term insurance business : Analysis of claims

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
Gross						
Death or disability lump sums	11	46248	7211	86	53545	43513
Disability periodic payments	12	5014			5014	5031
Surrender or partial surrender	13	45443	144178	201	189822	191306
Annuity payments	14	2131	51792	1801	55724	46496
Lump sums on maturity	15	125274	11420	1626	138320	187503
Total	16	224111	214601	3714	442426	473849
Reinsurance - external						
Death or disability lump sums	21	314			314	1623
Disability periodic payments	22	618			618	632
Surrender or partial surrender	23	269			269	128
Annuity payments	24	3		248	251	249
Lump sums on maturity	25					189
Total	26	1204		248	1452	2820
Reinsurance - intra-group						
Death or disability lump sums	31	17873	681		18554	26526
Disability periodic payments	32	4277			4277	4472
Surrender or partial surrender	33	13559	39787		53346	60602
Annuity payments	34					
Lump sums on maturity	35	1439	13635		15074	14521
Total	36	37148	54103		91251	106121
Net of reinsurance						
Death or disability lump sums	41	28061	6530	86	34677	15364
Disability periodic payments	42	119			119	(73)
Surrender or partial surrender	43	31616	104391	201	136208	130576
Annuity payments	44	2128	51792	1553	55473	46247
Lump sums on maturity	45	123835	(2215)	1626	123246	172794
Total	46	185759	160498	3466	349723	364909

Form 43

Long-term insurance business : Analysis of expenses

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
Gross						
Commission - acquisition	11					
Commission - other	12	910	947		1857	2071
Management - acquisition	13					
Management - maintenance	14	13869	10452		24321	20080
Management - other	15	2104	5062		7166	22499
Total	16	16882	16461		33343	44650
Reinsurance - external						
Commission - acquisition	21					
Commission - other	22	37	39		76	105
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26	37	39		76	105
Reinsurance - intra-group						
Commission - acquisition	31					
Commission - other	32	923	961		1884	1894
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36	923	961		1884	1894
Net of reinsurance						
Commission - acquisition	41					
Commission - other	42	(50)	(53)		(103)	72
Management - acquisition	43					
Management - maintenance	44	13869	10452		24321	20080
Management - other	45	2104	5062		7166	22499
Total	46	15922	15462		31384	42651

Form 44

Long-term insurance business : Linked funds balance sheet

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**

Internal linked funds (excluding cross investment)

		Financial year 1	Previous year 2
Directly held assets (excluding collective investment schemes)	11	541	541
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13		
Total assets (excluding cross investment) (11+12+ 13)	14	541	541
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17		
Total net assets (14-15-16-17)	18	541	541

Directly held linked assets

		Financial year 1	Previous year 2
Value of directly held linked assets	21	1424	1325

Total

		Financial year 1	Previous year 2
Value of directly held linked assets and units held (18+21)	31	1965	1865
Surplus units	32		
Deficit units	33		
Net unit liability (31-32+33)	34	1965	1865

Long-term insurance business : Revenue account for internal linked funds

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**

		Financial year 1	Previous year 2
Income			
Value of total creation of units	11		
Investment income attributable to the funds before deduction of tax	12	42	66
Increase (decrease) in the value of investments in the financial year	13	64	161
Other income	14		
Total income	19	106	227
Expenditure			
Value of total cancellation of units	21	106	146
Charges for management	22		2
Charges in respect of tax on investment income	23		
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26		
Total expenditure	29	106	149
Increase (decrease) in funds in financial year (19-29)	39		78
Internal linked fund brought forward	49	541	462
Internal linked funds carried forward (39+49)	59	541	541

Form 46

Long-term insurance business : Summary of new business

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**

		UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
Number of new policyholders/ scheme members for direct insurance business						
Regular premium business	11	346	229	1	576	390
Single premium business	12		433		433	469
Total	13	346	662	1	1009	859
Amount of new regular premiums						
Direct insurance business	21	32	52	0	83	69
External reinsurance	22					
Intra-group reinsurance	23					
Total	24	32	52	0	83	69
Amount of new single premiums						
Direct insurance business	25	76	155	437	668	475
External reinsurance	26					
Intra-group reinsurance	27					
Total	28	76	155	437	668	475

Long-term insurance business : Analysis of new business

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Direct Insurance Business	

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
100	Conventional whole life with-profits OB	1	0		
125	Conventional endowment with-profits OB target cash	1	0		
300	Regular premium non-profit WL/EA OB	8	0		
325	Level term assurance	329	29		
330	Decreasing term assurance	7	1		
395	Annuity non-profit (PLA)				76

Long-term insurance business : Analysis of new business

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Direct Insurance Business	

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
155	Conventional pensions endowment with-profits	218	49	414	140
185	Group conventional pensions endowment with-profits	1	0	1	0
305	Single premium non-profit WL/EA OB			4	9
325	Level term assurance	10	3		
435	Miscellaneous non-profit			14	6

Long-term insurance business : Analysis of new business

Name of insurer	**Phoenix & London Assurance Limited**
Total business	
Financial year ended	**31 December 2010**
Units	**£000**
Overseas / Direct Insurance Business	

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
325	Level term assurance	1	0		
395	Annuity non-profit (PLA)				437

Form 48

Long-term insurance business : Assets not held to match linked liabilities

Name of insurer	**Phoenix & London Assurance Limited**
Category of assets	**10 Total long term insurance business assets**
Financial year ended	**31 December 2010**
Units	**£000**

		Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
		1	2	3	4	5
Assets backing non-profit liabilities and non-profit capital requirements						
Land and buildings	11					
Approved fixed interest securities	12	1148703	1218533	53081	3.41	
Other fixed interest securities	13	60780	436673	24684	5.40	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	445723				
Total	19	1655206	1655206	77765	3.93	
Assets backing with-profits liabilities and with-profits capital requirements						
Land and buildings	21		325463	18069	5.55	13.16
Approved fixed interest securities	22	1827440	1952216	78847	3.41	7.73
Other fixed interest securities	23	136035	974467	51488	5.40	7.73
Variable interest securities	24	123941	125914	2261	0.53	6.62
UK listed equity shares	25	271691	299522	16480	4.11	13.39
Non-UK listed equity shares	26	2	243688	5838	3.73	10.72
Unlisted equity shares	27		243			
Other assets	28	3795065	2232660	8218	0.37	6.62
Total	29	6154174	6154174	181201	2.72	7.98
Overall return on with-profits assets						
Post investment costs but pre-tax	31					8.77
Return allocated to non taxable 'asset shares'	32					9.66
Return allocated to taxable 'asset shares'	33					7.25

Form 49

Long-term insurance business : Fixed and variable interest assets

Name of insurer	**Phoenix & London Assurance Limited**
Category of assets	**10 Total long term insurance business assets**
Financial year ended	**31 December 2010**
Units	**£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		1	2	3	4
UK Government approved fixed interest securities	11	2551459	11.62	3.46	3.46
Other approved fixed interest securities	21	477069	7.50	3.16	3.16
Other fixed interest securities					
AAA/Aaa	31	249500	4.04	2.98	2.88
AA/Aa	32	121338	8.59	4.72	4.31
A/A	33	485866	8.52	5.45	4.81
BBB/Baa	34	370365	6.94	6.22	5.02
BB/Ba	35	41995	6.23	9.25	6.98
B/B	36	17	8.05	10.39	5.97
CCC/Caa	37				
Other (including unrated)	38	78444	5.56	7.85	5.77
Total other fixed interest securities	39	1347525	7.02	5.40	4.59
Approved variable interest securities	41	119444	17.13	0.41	0.36
Other variable interest securities	51	6469	13.00	2.72	0.49
Total (11+21+39+41+51)	61	4501967	9.95	3.92	3.68

Form 50

Long-term insurance business : Summary of mathematical reserves

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
Gross						
Form 51 - with-profits	11	885341	2442457	8335	3336134	3486242
Form 51 - non-profit	12	175559	1430764	32858	1639181	1451148
Form 52	13	58459	92756		151216	170176
Form 53 - linked	14	33153	808856		842009	788054
Form 53 - non-linked	15	736	44		780	1624
Form 54 - linked	16	24735	28925	1431	55092	53393
Form 54 - non-linked	17					
Total	18	1177984	4803802	42625	6024411	5950637
Reinsurance - external						
Form 51 - with-profits	21	751			751	783
Form 51 - non-profit	22	4436	1194	3931	9561	11121
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	5187	1194	3931	10312	11904
Reinsurance - intra-group						
Form 51 - with-profits	31	8851			8851	8634
Form 51 - non-profit	32	79492	87	10	79590	108993
Form 52	33	26463	78011		104474	115731
Form 53 - linked	34	31188	808856		840043	786189
Form 53 - non-linked	35	152	44		197	363
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	146146	886998	10	1033154	1019911
Net of reinsurance						
Form 51 - with-profits	41	875740	2442457	8335	3326532	3476824
Form 51 - non-profit	42	91631	1429483	28917	1550030	1331034
Form 52	43	31996	14745		46741	54445
Form 53 - linked	44	1965			1965	1865
Form 53 - non-linked	45	584			584	1261
Form 54 - linked	46	24735	28925	1431	55092	53393
Form 54 - non-linked	47					
Total	48	1026650	3915611	38683	4980945	4918822

Form 51
(Sheet 1)

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Gross	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	3714	43176	560				25506
120	Conventional endowment with-profits OB savings	3252	28794	727				22488
125	Conventional endowment with-profits OB target cash	67544	1467548	31250				815661
210	Additional reserves with-profits OB			0				21686
300	Regular premium non-profit WL/EA OB	43732	78908	2784				61611
305	Single premium non-profit WL/EA OB	335	1183	2				1184
325	Level term assurance	36410	5979574	18630				23204
330	Decreasing term assurance	4569	138498	1014				971
345	Accelerated critical illness (reviewable premiums)		551635	3263				4895
355	Stand-alone critical illness (reviewable premiums)	5562	595739	3146				4719
360	Income protection non-profit (guaranteed premiums)	18123	285117	7742				18598
365	Income protection non-profit (reviewable premiums)	6	17974	0				659
380	Miscellaneous protection rider		199318	299				82
385	Income protection claims in payment		5086					32606
390	Deferred annuity non-profit	300	22					579

Form 51
(Sheet 2)

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
395	Annuity non-profit (PLA)	929	1567					24394
410	Group life	54	124029	4				108
435	Miscellaneous non-profit	267	80077	387				573
440	Additional reserves non-profit OB			2				1376

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Reinsurance ceded external	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
100	Conventional whole life with-profits OB		1920	17				751
300	Regular premium non-profit WL/EA OB		248	2				181
360	Income protection non-profit (guaranteed premiums)		8554	232				558
385	Income protection claims in payment		153					348
435	Miscellaneous non-profit		42088	148				3349

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Reinsurance ceded intra-group	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
100	Conventional whole life with-profits OB		10	0				4
120	Conventional endowment with-profits OB savings		438	11				368
125	Conventional endowment with-profits OB target cash		13509	252				8479
325	Level term assurance		5082844	15771				19125
330	Decreasing term assurance		131125	971				782
345	Accelerated critical illness (reviewable premiums)		515336	3064				4597
355	Stand-alone critical illness (reviewable premiums)		577994	3072				4608
360	Income protection non-profit (guaranteed premiums)		276564	7510				18040
380	Miscellaneous protection rider		199318	299				82
385	Income protection claims in payment		4933					11259
395	Annuity non-profit (PLA)		0					0
435	Miscellaneous non-profit		3869	45				0
440	Additional reserves non-profit OB			1				21000

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
155	Conventional pensions endowment with-profits	84223	2620686	8470				1925630
165	Conventional deferred annuity with-profits	5637	44	329				169228
185	Group conventional pensions endowment with-profits	9142	309942	1295				272695
210	Additional reserves with-profits OB			52				74904
305	Single premium non-profit WL/EA OB	8088	107494	0				174809
325	Level term assurance	1497	95608	318				1022
380	Miscellaneous protection rider	1	6564	58				1621
390	Deferred annuity non-profit	8403	26411					406171
400	Annuity non-profit (CPA)	27505	63155	1				842094
435	Miscellaneous non-profit	1	139903	1				4811
440	Additional reserves non-profit OB			30				235

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Reinsurance ceded external	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
325	Level term assurance		60594	194				564
390	Deferred annuity non-profit							629
440	Additional reserves non-profit OB			12				

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Reinsurance ceded intra-group	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
400	Annuity non-profit (CPA)		4					87

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
Overseas / Gross	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	24	739	6				436
120	Conventional endowment with-profits OB savings	69	1193	26				813
155	Conventional pensions endowment with-profits	116	4481	50				3477
165	Conventional deferred annuity with-profits	12	29	2				490
185	Group conventional pensions endowment with-profits	35	2475					2345
205	Miscellaneous conventional with-profits	25	58	12				775
300	Regular premium non-profit WL/EA OB	35	148	0				129
325	Level term assurance	108	15693	58				113
330	Decreasing term assurance	65	4571	25				14
390	Deferred annuity non-profit	74	256					4093
400	Annuity non-profit (CPA)	284	2118					28485
410	Group life	1						10
435	Miscellaneous non-profit	1	9	0				9
440	Additional reserves non-profit OB							4

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
Overseas / Reinsurance ceded external	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
400	Annuity non-profit (CPA)		248					3931
435	Miscellaneous non-profit		1	0				0

Form 51

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
Overseas / Reinsurance ceded intra-group	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
325	Level term assurance		946	4				9
330	Decreasing term assurance		235	1				1

Long-term insurance business : Valuation summary of accumulating with-profits contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Gross	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	2301	41164		40590	32319	5815	38134
505	Life UWP whole life regular premium	2778	96995	1716	4503	2944	4172	7116
510	Life UWP endowment regular premium - savings	284	1814	135	1677	1626	57	1683
515	Life UWP endowment regular premium - target cash	1215	35695	1027	11464	10344	1183	11527

Long-term insurance business : Valuation summary of accumulating with-profits contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Reinsurance ceded intra-group	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium		29119		28831	21561	4850	26410
505	Life UWP whole life regular premium		92492				39	39
510	Life UWP endowment regular premium - savings		137	0			0	0
515	Life UWP endowment regular premium - target cash		24231	49			14	14

Long-term insurance business : Valuation summary of accumulating with-profits contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
525	Individual pensions UWP	8192	82847	1326	71112	46962	25420	72382
535	Group money purchase pensions UWP	511	21711	2922	20026	16641	4452	21092
610	Additional reserves UWP				(718)	(718)		(718)

Long-term insurance business : Valuation summary of accumulating with-profits contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Reinsurance ceded intra-group	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
525	Individual pensions UWP		82847	1326	71112	46962	25420	72382
535	Group money purchase pensions UWP		21711	2922	5531	4208	1421	5629

Long-term insurance business : Valuation summary of property linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
700	Life property linked single premium	870	21989		22102	22102	462	22565
710	Life property linked whole life regular premium	3369	343397	2700	11051	11051	274	11325

Form 53

Long-term insurance business : Valuation summary of property linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Reinsurance ceded intra-group	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium		21199		20989	20989	3	20992
710	Life property linked whole life regular premium		300075	2311	10199	10199	150	10348

Long-term insurance business : Valuation summary of property linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Gross	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked	70129	787311	7393	782669	769539	40	769579
735	Group money purchase pensions property-linked	2224	39927	472	39927	39316	4	39320

Form 53

Long-term insurance business : Valuation summary of property linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Reinsurance ceded intra-group	

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked		787311	7393	782669	769539	40	769579
735	Group money purchase pensions property-linked		39927	472	39927	39316	4	39320

Form 54

Long-term insurance business : Valuation summary of index linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Life / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity	34	629			24735		24735

Form 54

Long-term insurance business : Valuation summary of index linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
UK Pension / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity	200	2292			28727		28727
910	Miscellaneous index linked	18	160			199		199

Long-term insurance business : Valuation summary of index linked contracts

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**
Overseas / Gross	

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity	4	117			1431		1431

Form 57

Long-term insurance business: Analysis of valuation interest rate

Name of insurer: **Phoenix & London Assurance Limited**

Total business: **Ordinary Long Term Business**

Financial year ended: **31 December 2010**

Units: **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK L&GA WP Form 51 endowment assurances	832245	2.37	3.18	3.38
UK Pens NP Form 51 annuities in payment (including associated reversionary benefits)	866561		3.89	4.07
UK Pens NP Form 51 assurances	591838		3.22	3.38
UK Pens WP Form 51 pure endowments and deferred annuities:				
with ongoing premiums	550002		3.75	3.96
other	1824631		4.50	4.73
Misc	261701	n/a	n/a	
Total	4926977			

Form 58

Long-term insurance business : Distribution of surplus

Name of insurer	**Phoenix & London Assurance Limited**
Total business / subfund	**Ordinary Long Term Business**
Financial year ended	**31 December 2010**
Units	**£000**

		Financial year 1	Previous year 2
Valuation result			
Fund carried forward	11	5119573	5132225
Bonus payments in anticipation of a surplus	12	7156	6168
Transfer to non-technical account	13	953	930
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	5127682	5139322
Mathematical reserves	21	4980945	4918822
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	146737	220500
Composition of surplus			
Balance brought forward	31	210539	160500
Transfer from non-technical account	32	(75000)	
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	11198	60000
Total	39	146737	220500
Distribution of surplus			
Bonus paid in anticipation of a surplus	41	7156	6168
Cash bonuses	42		
Reversionary bonuses	43	3090	2864
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	10245	9031
Net transfer out of fund / part of fund	47	953	930
Total distributed surplus (46+47)	48	11198	9961
Surplus carried forward	49	135539	210539
Total (48+49)	59	146737	220500
Percentage of distributed surplus allocated to policyholders			
Current year	61	91.49	90.67
Current year - 1	62	90.67	90.54
Current year - 2	63	90.54	90.58
Current year - 3	64	90.58	90.33

Form 59A

Long-term insurance business : With-profits payouts on maturity (normal retirement)

Name of insurer **Phoenix & London Assurance Limited**

Original insurer **Phoenix & London Assurance Limited**

Date of maturity value / open market option **01 March 2011**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	8987			CWP	N	sum assured plus bonuses
Endowment assurance	20	14655			CWP	N	sum assured plus bonuses
Endowment assurance	25	25533	1689		CWP	N	sum assured plus bonuses
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	23863	2557		UWP	N	return of fund
Regular premium pension	15	39128	3557		UWP	N	return of fund
Regular premium pension	20	74422			CWP	N	return of fund
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	10937	1084		UWP	N	return of fund
Single premium pension	15	15416	2780		UWP	N	return of fund
Single premium pension	20	45557			CWP	N	return of fund

Long-term insurance business : With-profits payouts on surrender

Name of insurer	**Phoenix & London Assurance Limited**
Original insurer	**Phoenix & London Assurance Limited**
Date of surrender value	**01 March 2011**

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	8323			CWP	N	sum assured plus bonuses
Endowment assurance	20	14956			CWP	N	sum assured plus bonuses
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	10500		437	UWP	Y	return of fund

Form 60

Long-term insurance capital requirement

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2010**

Units **£000**

		LTICR factor 1	Gross reserves / capital at risk 2	Net reserves / capital at risk 3	Reinsurance factor 4	LTICR Financial year 5	LTICR Previous year 6
Insurance death risk capital component							
Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%					
Classes I (other), II and IX	13	0.15%			0.50		
Classes I (other), II and IX	14	0.3%	7354687	1896558		11032	12191
Classes III, VII and VIII	15	0.3%	349714	41443	0.50	525	561
Total	16		7704401	1938001		11557	12752
Insurance health risk and life protection reinsurance capital component							
Class IV supplementary classes 1 and 2 and life protection reinsurance	21					1640	1640
Insurance expense risk capital component							
Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	5123153	4959417	0.97	49594	48965
Classes III, VII and VIII (investment risk)	33	1%	4074	1125	0.85	35	35
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	1425	1425	1.00	14	20
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%	61559	22068	0.85	523	769
Class V	37	1%					
Class VI	38	1%					
Total	39					50166	49789
Insurance market risk capital component							
Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	5123153	4959417	0.97	148783	146895
Classes III, VII and VIII (investment risk)	43	3%	4074	1125	0.85	104	104
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	1425	1425			
Classes III, VII and VIII (other)	45	0%	837290				
Class IV (other)	46	3%	61559	22068	0.85	1570	2307
Class V	47	0%					
Class VI	48	3%					
Total	49		6027500	4984034		150456	149306
Long term insurance capital requirement	51					213819	213487

NOTES TO APPENDIX 9.1

0201 Section 148 waiver

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in April 2009. The effect of the direction is to modify the provisions of INSPRU 2.1.22R so that a group of persons is not closely related by reason of the relationship described in INSPRU 2.1.40R(1) if control is exercised by, or on behalf of, HM Treasury.

0204 Part VII transfer

With effect from 1 January 2011 the long term business fund together with the majority of the shareholder fund of the insurer were transferred to Phoenix Life Limited for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 11 February 2011.

0301 Reconciliation of net admissible assets to total capital resources after deductions

The reconciliation of the net admissible assets to total capital resources after deductions is as follows:

	2010 £'000	2009 £'000
Total other than long term insurance business assets – Form 13 line 89	371,615	406,422
Total long term insurance business assets - Form 13 line 89	7,866,437	5,956,583
Less Liabilities - Form 14 lines 11, 12 and 49	(7,397,742)	(5,472,931)
Less Liabilities Form 15 line 69	(197,512)	(275,453)
Net admissible assets	624,798	614,622
Subordinated loan	195,000	270,000
Capital resources after deductions - Form 3 line 79	837,798	884,622

0310 Valuation differences between the FSA Return and IFRS Report and Accounts

Form 3 line 14 positive valuation differences are as follows:

	2010 £'000	2009 £'000
Valuation differences between Peak 1 and Peak 2 liabilities	310,640	240,537
Form 3 line 14	310,640	240,537

NOTES TO APPENDIX 9.1 (continued)

0313 Reconciliation of the movement in profit and loss account and other reserves

	2010 £'000
Balance at 31 December 2010 - Form 3 line 12 column 3	259,270
Balance at 31 December 2009 – Form 3 line 12 column 4	303,303
Movement	(44,033)
Explained by:	
Profit retained for the financial year - Form 16 line 59	48,123
Contingent loan write off in IFRS accounts	(17,157)
Contingent loan repayment	(75,000)
Other - rounding	1
	(44,033)

1305 and *1319* Counterparty exposures

The investment guidelines operated by the Company for:

(a) the maximum exposure to any one counterparty during the financial year; and
(b) the maximum exposure to any one counterparty, other than an approved counterparty during the financial year;

are consistent with the limits as set out in INSPRU 2.1.22R for market risks and counterparty exposures unless the Company decides in an individual case that a higher limit is appropriate. For certain asset classes the investment guidelines restrict counterparty exposure limits further, with the additional restriction potentially dependent on the credit rating of the counterparty.

At no time during the financial year were either of the above amounts exceeded.

1309 Hybrid Securities

The aggregate value of Hybrid Securities held by the insurer is £397,118,000.

NOTES TO APPENDIX 9.1 (continued)

1318 Other asset adjustments as reported in Form 13 line 101 are as follows:

Total other than long term insurance business assets	2010	2009
	£'000	£'000
Internal capital support – principal and interest	227,271	297,282
Reclassification of debtors and creditors	8,264	-
Contingent loan write off	(61,105)	(43,948)
Form 13 line 101	174,430	253,334

Total long term insurance business assets		
		£'000
Internal capital support – principal and interest	(227,271)	(297,282)
Reclassification of debtors and creditors	(28)	(215)
Contingent loan write off	61,105	43,948
Form 13 line 101	(166,194)	(253,549)

1401 and *1501* Provision for reasonably foreseeable adverse variations

No provision for reasonably foreseeable adverse variations has been made as liabilities are matched to assets.

As at 31 December 2010, 99% of the investment assets were classified as investments that are traded using quoted market prices in active markets (level 1). An active market is characterised by regular market transactions in identical assets on an arm's length basis. This includes listed equities, listed debt securities and quoted unit trusts in active markets.

The balance of the investment assets are valued using models with significant observable market parameters (level 2), or valued using models with significant unobservable market parameters (level 3).

For level 2 investment assets these are measured on a fair value basis from inputs other than quoted prices that are observable either directly or indirectly for the asset.

Level 3 investment assets have little, if any, market activity so that there are no observable inputs available. In such cases, unobservable inputs reflect the insurer's own assumptions about the inputs that market participants would use in pricing the asset.

The valuation of level 3 investments is carried out on a prudent basis and as such any valuation adjustments or reserves necessary under GENPRU 1.3.30R to 1.3.33R has already been reflected within the carrying value of the asset.

NOTES TO APPENDIX 9.1 (continued)

1402 Liabilities

(a) There are no charges over assets.

(b) There is no potential liability to taxation on capital gains which might arise if the insurer disposed of the assets of the long term insurance business.

(c) In common with the Life Insurance industry, the Company has experienced a large number of complaints in respect of mortgage endowment business. A provision has been established, but the ultimate redress cost may be greater or smaller than is currently provided and will be dependent on the level of complaints and the period over which the policies were written.

(d) The insurer has no guarantees, indemnities or other contractual commitments other than those affected by the insurer in the ordinary course of its insurance business, in respect of the existing or future liabilities of related companies.

(e) In the opinion of the directors, there are no other fundamental uncertainties affecting the financial position of the insurer.

1405 Other adjustment to liabilities

Other adjustments to liabilities as reported in Form 14, line 74 is as follows:

	2010	2009
	£'000	£'000
Valuation differences between Peak 1 and Peak 2 liabilities	310,640	240,537
Reclassification of debtors and creditors	(28)	(215)
Form 14 line 74	310,612	240,322

1502 Liabilities (other than long term insurance business)

(a) There are no charges over assets.

(b) There is no potential liability to taxation on capital gains which might arise if the insurer disposed of the assets of the long term insurance business.

(c) There are no contingent liabilities.

(d) The insurer has no guarantees, indemnities or other contractual commitments other than those affected by the insurer in the ordinary course of its insurance business, in respect of the existing or future liabilities of related companies.

(e) In the opinion of the directors, there are no other fundamental uncertainties affecting the financial position of the insurer.

NOTES TO APPENDIX 9.1 (continued)

1507 Adjustments to liabilities

Other adjustment to liabilities as reported on Form 15 line 83 is as follows;

	2010	2009
	£'000	£'000
Reclassification of debtors and creditors	8,264	-
Form 15 line 83	8,264	-

1508 Subordinated loan

The Company entered into the following arrangement 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 capital of £50m in excess of the larger of the Individual Capital Assessment (ICA), as required under GENPRU 1.2 as enhanced to satisfy any Individual Capital Guidance (ICG) provided by the FSA, and the Capital Resources Requirement, as shown on Form 2, line 41, of the returns to the FSA, if Form 2 was to be prepared on the date concerned (ignoring for this purpose any adjustment required by GN45). The loans are 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 £280.0m (2008: £280.0m). Interest is due under this loan agreement at LIBOR plus 2%, but is only payable at the Company's discretion, giving 30 days notice to the lender and is shown under creditors. On 31 December 2010 the Company had drawn-down £195.0m (2009: £270.0m).

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 memorandum account at the 31 December 2010 was £195.0m (2009: £270.0m). Assets are transferred from the SH memorandum account 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 memorandum account to the LTF memoranda at 31 December 2010 was £227.3m (2009: £297.3m) including accrued interest. Assets are repayable to the SH memorandum account 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 memorandum account into the LTF memoranda accounts, £157.8m (2009: £139.1m) was required to achieve a realistic basis surplus of £nil.

NOTES TO APPENDIX 9.1 (continued)

1601 Basis of conversion of foreign currency

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 insurance business. For assets and liabilities held outside the long term funds, the resulting exchange adjustments are taken to the non-technical account.

1603 Other income and charges

The income on Form 16 Line 21 is £nil for 2010. The 2009 charge of £9,645,000 represents project expenses initially charged to the shareholder fund in previous years and which have subsequently been re-allocated to the long term business fund.

1700 Form 17 Total other than long term insurance business assets

Form 17 for Total other than long term insurance business assets has been omitted because all entries are blank.

1701 Our practice is to seek collateral for derivative asset positions from our counterparties as part of managing our overall credit risk. In line with IFRS accounting standards the cash held as collateral is reported on Form 13 line 43 and an equal liability in Form 14 line 38 rather than reducing the value shown on Form 13 line 44. This balance of £94m has in consequence not been reflected as 'Variation margin' in Form 17 Line 52.

1801 Regulatory current liabilities of the fund

Form 18 line 22 is analysed as follows:

	2010	2009
	£'000	£'000
Form 14 line 49	2,413,708	551,245
Internal capital support	227,271	297,281
	2,640,979	848,526

NOTES TO APPENDIX 9.3

4004 Business transfers

During the year, £105.4m of vesting annuities have remained within the Fund. These amounts have not been recognised as part of premiums and claims on Form 41 and Form 42 respectively but as "business transfers in" and "business transfers out". As these amounts are not single premiums on Form 41 they have not been included in the new business Form 46 and Form 47.

4008 Provision of management services

Management services have been provided during the year by Pearl Group Management Services Limited and Ignis Asset Management Limited. Both companies are part of the Phoenix group of companies.

4009 Material connected party transactions

A number of reinsurance contracts are in place between the Company and other group companies. All these contracts are entered into on "arms length" basis, details of which are listed in Appendix 9.4 Paragraph 9 of the Return.

During the year the company reassured premiums of £46,426,000 with Phoenix Life Limited.

4010 Unit linked investment income

Included within Form 40 Line 12 is £42,000 of Unit Linked Investment income (2009: £66,000).

4011 Expenses payable

Policy administration is outsourced to Pearl Group Management Services Limited (PGMS), which in turn has an agreement to sub-contract administration to Diligenta 2 (formerly Unisys Insurance Services Limited). Under the agreement with PGMS, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk.

4401 Basis of valuation of assets

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

The assets held to cover linked liabilities, as at 31 December 2010 are as below:

	2010
	£'000
Property linked annuity	541
Capital International Bond	572
Equity Fund	852
Total	1,965

NOTES TO APPENDIX 9.3 (continued)

4801 "Asset Share" Philosophy

No part of the with-profits business is in respect of business which falls within paragraph (1) (b) of the definition of with-profits fund.

4802 Expected Income from Defaulted Assets

There are no securities where the payment of interest is in default apart from securities which are themselves in default. Securities held with the following counterparties were in default at the valuation date: Cattles 7.875% and Pinton Estates 11.25%. A total market value of £0.8m is allowed for these securities with £6.0m nominal holdings.

4803 Treatment of Securities with Variable Redemption Dates

There were a range of redemption dates assumed for variable redemption date securities. The market values are as follows:

Assumed redemption date	2010
	£'m
Earliest	184.3
Interim	63.1
Latest	60.4
Total Optional maturity date securities	307.8

4804 Assets with a Range of Yields

Other assets include:

- short term deposits where the expected return is a short-term interest rate;
- cash and other current assets where there is no expected return; and
- swaptions where the expected return is calculated as described in Appendix 9.4 5 (1) (a).

4806 Assets Backing the With Profits Benefits Reserve

The asset mix underlying an individual policy asset share varies in accordance with the Company's Principles and Practices of Financial Management. For the purposes of the disclosure in column 5 we have considered returns on asset shares in aggregate. The assets backing the with profits benefit reserve as at 31 December 2010 were:

Asset Type	2010
	£'m
Land and buildings	398
Approved fixed interest securities	1,443
Other fixed interest securities	679
UK listed equity shares	348
Non UK listed equity shares	348
Other assets	0

NOTES TO APPENDIX 9.3 (continued)

4807 Return on Fixed Interest Securities

A single investment return has been calculated for approved and other fixed interest securities and is reported in column 5 for both these categories.

4808 Return on Variable Interest Securities

A single investment return has been calculated for variable interest securities and other assets and is reported in column 5 for both these categories.

4809 Treatment of Swaps and Futures

The Company holds a number of swaps in connection with its fixed interest assets. The value of the swaps as shown in Form 17 column 1 is included in Line 28, column 1 and Line 18, column 1 and then for the purposes of column 2 re-allocated across lines relating to fixed interest securities as described in Appendix 9.4 paragraph 4.9 in proportion to the market value of the underlying fixed interest securities. The yield shown in column 4 reflects the overall impact of this aggregation but including those swaps included in Form 17 column 2 as well.

For fixed interest securities expected income relates to the fixed interest assets shown in column 1. The Company also holds a small number of equity futures where the net value is included in Line 28, column 1 and then for the purposes of column 2 reallocated to equities.

4810 Net Return on "Asset Shares"

The entry in Line 33 column 5 is after tax.

4901 Rating Agency Used for Split by Credit Rating

Ratings shown are the weaker of ratings provided by Moody's Investors Service and Standard & Poor's Corporation.

4902 Fixed and Variable Interest Assets – Economic Effect of Swaps

The value of assets in column 1 corresponds to the value of assets in column 2 of Form 48 but ignoring the swap apportionment referred to in note 4809. The yields in columns 3 and 4 exclude the economic effect of the swap apportionment.

5201 Number of group schemes without records at member level

Product Code	Number of Group Schemes
535	13

5500 Unit Prices for Internal Linked Funds

Form 55 has been omitted because of the operation of the de minimis rules.

5600 Index Linked Business

Form 56 has been omitted because of the operation of the de minimis rules.

NOTES TO APPENDIX 9.3 (continued)

5801 Transfer from non-technical account

During the financial year, the long term insurance business fund repaid £75m of capital support back to the shareholder fund. As at the end of the financial year, the long term insurance business fund transferred £1m to the non-technical account. Both of the figures have been reported separately on Form 58 to provide a clearer understanding of the movements between the long term insurance business fund and the shareholder fund.

	2010
	£'000
Repayment of capital support from long term fund to shareholder fund - Form 58 line 32	75,000
Transfer to non-technical account - Form 58 line 13	953
Transfer to non-technical account - Form 40 line 26	75,953

(a) Investment Guidelines

Derivative contracts will be held in the long-term funds as a result of:

(i) discretionary powers exercised by the Investment Manager within the constraints laid down by the Investment Management Agreement or otherwise stipulated by the Company. The Investment Management Agreement requires that derivative contracts may only be used for the purposes of efficient portfolio management and specific examples include the implementation of tactical asset allocation decisions and changes to the strategic benchmark and cashflow management purposes. The Investment Manager is required to comply with all relevant rules regarding the use of derivative contracts in insurance.

(ii) investment decisions made by the Company to reduce the degree of market risk within the long-term funds. Specific examples include the use of interest rate swaps to improve cashflow matching, interest rate swaptions to hedge interest rate risks on policies with guaranteed annuity options or guaranteed cash options, equity index futures and options to hedge the market risk on policies with policy options and guarantees and spreadlocks to hedge swap spread risks inherent in other hedging instruments. The Company operates an appropriate control environment in which such investment decisions are taken and implemented.

(b) The Investment Management Agreement referred to in (i) above does not explicitly prohibit the use of contracts where any rights or obligations were not, at the time when the contract was entered into, reasonably likely to be exercised. However the requirement that contracts are used for the purposes of efficient portfolio management means that such occurrences are unlikely.

Investment decisions referred to in (ii) above do involve the use of such derivatives to hedge the funds against interest rate and other market movements. For instance the Company holds payer swaptions where the fixed rate is as high as 8.4% p.a. However, changes in the value of these options arising from changes in market interest rate expectations provides a hedge against movements in the cost of guarantees attaching to certain policies.

(c) The Company holds payer swaptions with an aggregate nominal of £144.8m where the fixed rate equals or exceeds 8% p.a.

(h) The Company did not hold any derivatives or quasi-derivatives during the financial year which required a significant provision under INSPRU 3.2.17R or which fell outside the definition of a permitted derivatives contract.

(i) The total value of any fixed consideration received by the Company during the financial year in return for granting rights under derivative contracts was nil.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix & London Assurance Limited

Global Business

Financial year ended 31 December 2010

The persons who, to the knowledge of the Company, were controllers at any time during the financial year were:

a) Pearl Life Holdings Limited;
b) Impala Holdings Limited;
c) Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited);
d) Phoenix Life Holdings Limited;
e) PGH (LCA) Limited;
f) PGH (LCB) Limited;
g) PGH (LC1) Limited;
h) PGH (LC2) Limited;
i) PGH (MC1) Limited;
j) PGH (MC2) Limited;
k) PGH (TC1) Limited;
l) PGH (TC2) Limited;
m) Phoenix Group Holdings (formerly Pearl Group);
n) Xercise Limited;
o) Xercise2 Limited;
p) Jambright Limited;
q) TDR Capital Nominees Limited; and
r) TDR Capital LLP

The persons who, to the knowledge of the insurer, were controllers at the end of the financial year were:

1. Pearl Life Holdings Limited

As at 31 December 2010, Pearl Life Holdings Limited owned 100% of the shares of Phoenix & London Assurance Limited and was able to exercise 100% of the voting power at any general meeting.

2. Impala Holdings Limited

As at 31 December 2010, Impala Holdings Limited owned 100% of the shares of Pearl Life Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

3. Pearl Group Holdings (No. 2) Limited

As at 31 December 2010, Pearl Group Holdings (No. 2) Limited owned 75% of the shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 75% of the voting power at any general meeting.

4. Phoenix Life Holdings Limited

As at 31 December 2010, Phoenix Life Holdings Limited owned 100% of the ordinary shares of Pearl Group Holdings (No. 2) Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix & London Assurance Limited

Global Business

Financial year ended 31 December 2010

(continued)

5. **PGH (LCA) Limited**

   As at 31 December 2010, PGH (LCA) Limited owned 50% of the ordinary shares of Phoenix Life Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

6. **PGH (LCB) Limited**

   As at 31 December 2010, PGH (LCB) Limited owned 50% of the ordinary shares of Phoenix Life Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

7. **PGH (LC1) Limited**

   As at 31 December 2010, PGH (LC1) Limited owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power at any general meeting.

8. **PGH (LC2) Limited**

   As at 31 December 2010, PGH (LC2) Limited owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power at any general meeting.

9. **PGH (MC1) Limited**

   As at 31 December 2010, PGH (MC1) Limited owned 100% of the ordinary shares of PGH (LC1) Limited, which in turn owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power of Impala Holdings Limited at any general meeting.

10. **PGH (MC2) Limited**

   As at 31 December 2010, PGH (MC2) Limited owned 100% of the ordinary shares of PGH (LC2) Limited, which in turn owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power of Impala Holdings Limited at any general meeting.

Returns under the Accounts and Statements Rules

Statement of additional information on controllers required by rule 9.30

Phoenix & London Assurance Limited

Global Business

Financial year ended 31 December 2010

(continued)

11. PGH (TC1) Limited

As at 31 December 2010, PGH (TC1) Limited owned 100% of the ordinary shares of PGH (MC1) Limited, which in turn owned 100% of the ordinary shares of PGH (LC1) Limited, which in turn owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power of Impala Holdings Limited at any general meeting.

12. PGH (TC2) Limited

As at 31 December 2010, PGH (TC2) Limited owned 100% of the ordinary shares of PGH (MC2) Limited, which in turn owned 100% of the ordinary shares of PGH (LC2) Limited, which in turn owned 12.5% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power of Impala Holdings Limited at any general meeting.

13. Phoenix Group Holdings (formerly Pearl Group)

As at 31 December 2010, Phoenix Group Holdings owned 100% of the ordinary shares of PGH (LCA) Limited, 100% of the ordinary shares of PGH (LCB) Limited, 100% of the ordinary shares of PGH (TC1) Limited and 100% of the ordinary shares of PGH (TC2) Limited which between themselves own 100% of the ordinary shares of Impala Holdings Limited, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power of PGH (LCA) Limited, PGH (LCB) Limited, PGH (TC1) Limited and PGH (TC2) Limited at any general meeting.

14. Xercise Limited

As at 31 December 2010, Xercise Limited owned the legal title to 13.2% of the share capital of Phoenix Group Holdings, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 13.2% of the voting power at any general meeting.

The beneficial interest in the Phoenix Group Holdings shares was transferred to Xercise2 Limited and its wholly owned subsidiaries on 4 October 2010.

15. Xercise2 Limited

On 4 October 2010, Xercise2 Limited, and its wholly owned subsidiaries acquired the beneficial interest in the Phoenix Group Holdings shares previously held by Xercise Limited.

As at the date of the submission of this return, it is understood that approval from the FSA for the application by Xercise2 Limited and its wholly owned subsidiaries to become a controller of Phoenix & London Assurance Limited is pending.

16. Jambright Limited

As at 31 December 2010, Jambright Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 2.6% of the share capital of Phoenix Group Holdings, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 2.6% of the voting power at any general meeting.

17. TDR Capital Nominees Limited

As at 31 December 2010, TDR Capital Nominees Limited owned 14.1% of the share capital of Phoenix Group Holdings, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and was able to exercise 14.1% of the voting power at any general meeting.

18. TDR Capital LLP

As at 31 December 2010, TDR Capital Nominees Limited and Jambright Limited, which are associates of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being subsidiary undertakings of TDR Capital LLP, together owned 16.7% of the share capital of Phoenix Group Holdings, a company of which Phoenix & London Assurance Limited is a subsidiary undertaking, and were able to exercise 16.7% of the voting power at any general meeting.

APPENDIX 9.4

PHOENIX & LONDON ASSURANCE LIMITED

Abstract of Valuation Report

1. INTRODUCTION

(1) Valuation Date

The valuation relates to 31 December 2010.

(2) Previous Valuation

The previous valuation under Rule 9.4 related to 31 December 2009.

(3) Interim Valuations

No interim valuations (for the purposes of Rule 9.4) have been carried out since 31 December 2009.

2. PRODUCT RANGE

A scheme of arrangement under Part 26 of the Companies Act 2006 has been implemented with effect from 31 December 2009 to remove guaranteed annuity rates from certain UK individual with-profits pensions (pure endowment) policies in exchange for potential increases to non-guaranteed benefits. The policies affected are described as Libra policies.

There have been no other significant changes since the last valuation date.

Phoenix & London Assurance Limited has one with-profits fund which is closed to new business except by increment.

3. DISCRETIONARY CHARGES AND BENEFITS

(1) Application of Market Value Reduction

The Company reserves the right to apply a Market Value Reduction (MVR) to policies that invest in the Unitised With Profits (UWP) Fund.

<u>Mortgage Savings Plan, Regular Savings Plan and Universal Protection Plan</u>

MVRs were applied from 1 January 2010 to 30 June 2010 on all premium-paying policies or increments. From 1 July 2010 to 31 December 2010, MVRs were only applied to premium-paying policies or increments that commenced in calendar years 1996, 1997, 2005, 2006, 2007, 2009 or 2010.

Unitised With Profits Bond

MVRs have been applied throughout the period since the last valuation to policies or increments commencing in March1997, or between August 1997 and October 1997, or between February 1998 and June 1998, or in August 1998. No MVRs were applied during the period to policies or increments commencing between June 1996 and August 1996 and between October 1998 and November 1998. MVRs for parts of the period applied to policies commencing on other dates.

UWP Group Pensions

MVRs on these contracts have been applied at some point throughout the period since the last valuation to policies or increments commencing between 1 April 2006 and 31 March 2008. Only policies or increments commencing between 1 April 2007 and 30 June 2007 had an MVR applied throughout the whole period.

Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

MVRs have been applied from 1 January 2010 to 30 June 2010 to single premium policies or increments commencing in years between 1998 and 2001 and after 2005. From 1 July 2010 to 31 December 2010 MVRs only applied to single premium policies or increments commencing in years 2007 and 2010. For regular premium policies or increments MVRs were applied to all policies from 1 January 2010 to 30 June 2010. From 1 July 2010 to 31 December 2010 MVRs only applied to regular premium policies or increments commencing in 2010.

(2) Premiums on Reviewable Protection Policies

There were no changes to premium rates on reviewable non-linked protection policies since the previous valuation date.

For Progressive Protection Plan a change to premium rates is permitted but did not occur during the report period. The gross reserves for Progressive Protection Plan at the valuation date amounted to £9.6m.

(3) Non-profit Deposit Administration

There are no non-profit deposit administration policies.

(4) Service Charges on Linked Policies

The policy charges for the following linked contracts have changed during the valuation year:

Product	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Universal Protection Plan	3.50	3.45	-1.43%
Mortgage Savings Plan and Regular Savings Plan	4.12	4.06	-1.46%

For Individual Personal Pension Plan, Group Personal Pension Plan, Company Pension Scheme & Company Additional Pension Scheme the monthly policy charges changed as follows:

Contribution Type	**Previous Policy Charge**	**New Policy Charge**	**Percentage Increase**
	£	£	
Regular premium and increments	0.00	0.00	n/a
Paid-up policies and policies on premium holidays (other than for Group Personal Pension Plan)	2.00	2.00	0.00%
Paid-up policies and policies on premium holidays for Group Personal Pension Plan	0.00	0.00	n/a
Single premium stand alone contracts issued before 16 October 1995	5.70	5.65	-0.88%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.30	0.00%
Single premium stand alone contracts issued between 21 September 1998 and 9 April 2000	4.15	4.10	-1.20%
Single premium stand alone contracts issued after 9 April 2000	3.60	3.60	0.00%

For Personal Additional Pension Plan the monthly policy charges changed as follows:

Contribution Type	**Previous Policy Charge**	**New Policy Charge**	**Percentage Increase**
	£	£	
Regular premium policies issued before 29 January 1996	5.70	5.65	-0.88%
Regular premium policies issued between 29 January 1996 and 9 April 2000	5.40	5.35	-0.93%
Regular premium policies issued after 9 April 2000	3.60	3.60	0.00%
Paid-up policies and policies on premium holidays	2.00	2.00	0.00%
Single premium stand alone contracts issued before 16 October 1995	5.70	5.65	-0.88%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.30	0.00%
Single premium stand alone contracts issued between 21st September 1998 and 9 April 2000	4.15	4.10	-1.20%
Single premium stand alone contracts issued after 9 April 2000	3.60	3.60	0.00%

For Executive Pension Plan the monthly policy charges changed as follows

Contribution Type	Previous Policy Charge	New Policy Charge	Percentage Increase
	£	£	
Regular premium policies issued before 29 January 1996	5.70	5.65	-0.88%
Regular premium policies issued after 29 January 1996	5.40	5.35	-0.93%
Paid-up policies and policies on premium holidays	2.00	2.00	0.00%
Single premium stand alone contracts issued before 16 October 1995	5.70	5.65	-0.88%
Single premium stand alone contracts issued between 16 October 1995 and 20 September 1998	2.30	2.30	0.00%
Single premium stand alone contracts issued after 20 September 1998	4.15	4.10	-1.20%

(5) Benefit Charges on Linked Policies

There were no changes to benefit charges on linked policies in the valuation year.

(6) Accumulating With-Profits Charges

When determining terminal bonus or MVR's expenses are notionally charged to the specimen policy asset shares in respect of Unitised with-profit bonds.

The maintenance expense allowance for the period 1 January 2010 to 30 June 2010 was £41.90 p.a., and for the period 1 July 2010 to 31 December 2010 was £43.04 p.a. This compares to £36.81 p.a. for the 12 month period prior to the previous valuation.

Charges for guarantees and smoothing between January 2010 and December 2010 were 1.5% p.a. of asset shares (1.0% p.a. business written on or after 1 July 1998).

Investment expenses were at the rate of 0.125% p.a. between the current and previous valuation.

(7) Unit Pricing of Internal Linked Funds

Immediate Annuity Fund

Policyholder benefits consist of an annual annuity equal to the unit price multiplied by the number of units allocated to their policy. The unit price is calculated quarterly as the value of the fund, divided by the actuarial value of the units in issue.

The fund is closed to new business so no units are being created. Annuity payments and other expense are debited to the fund. Units are cancelled (and thus disregarded from the unit price calculation) when benefits stop being payable due to the death of the annuitant.

The assets of the fund mainly comprise shares in the UK Commercial Property Trust and money market funds. These assets are valued on a bid basis when determining the fund value.

Other Internal Linked Funds

Benefits attaching to other internal linked funds other than the Immediate Annuity Fund are wholly reassured ultimately to Phoenix Life Limited and the unit pricing of the funds is described in the Returns of that company.

(8) Tax Deductions From Internal Linked Funds

There is no deduction for tax within the Immediate Annuity Fund.

(9) Tax Provisions for Internal Linked Funds

There is no provision for tax within the Immediate Annuity Fund.

(10) Discounts on Unit Purchases

No commission is payable by the managers of F&C UK Equity OEIC on the purchase of units by the company. This OEIC backs the Family Fund and Equity Plan products of which only Equity Plan continues to purchase units.

4. VALUATION BASIS

(1) Valuation Methods

The valuation methods used are as follows:

Gross Premium Method

Reserves for policies other than those products included in the section "Other Products" or "Accumulating With-Profits Policies" have been established using a prospective gross premium method applied to each policy.

For with-profits policies an allowance has been made for policies being surrendered or being made paid-up in the future.

Accumulating With-Profits Policies

Reserves for accumulating with profits policies on Form 52 have been calculated for each policy as the greater of:

(i) the discounted value of:

(a) the guaranteed benefits at the maturity date or guarantee point allowing for future reversionary bonus rates in accordance with the table in paragraph 4 (7) (which is consistent with treating customers fairly); and

(b) assumed future expenses per paragraph 4 (6).

(ii) the lower of:

(aa) the amount that would reasonably be expected to be paid if the policyholder exercised his option to take a cash sum on the valuation date, having regard to the representations of the company; and

(bb) the amount in (aa) disregarding all discretionary adjustments.

Other Products

Where benefits under property linked policies are reassured to Phoenix Life Limited, the method of calculation is fully disclosed in the Returns of that company.

Progressive Protection Plan contracts have been valued as one year's premium for life cover and one and a half-year's premium for critical illness cover.

Calculation Notes

Where annuity benefits are payable to any spouse that may exist at the date of death of the annuitant, we assume that 90% are married with the female 3 years younger than the male life.

Individual Permanent Health Insurance contracts with an extra premium have an additional reserve of 2 years' extra premiums.

(2) Valuation Interest Rates

The valuation interest rates used are as follows:

	Current Valuation	Previous Valuation
Life Business		
With-Profits Endowment Assurances	2.37%	2.20%
Other With-Profits Assurances	2.27%	1.73%
UWP Bond	1.17%	0.71%
Non-Profit Endowment Assurances	2.39%	2.69%
Other Non-Profits Assurances	2.27%	1.73%
Annuities in payment (new GAF)	3.50%	4.40%
Annuities in payment (old GAF)	3.89%	4.90%
Monies on Deposit	3.60%	3.60%
RPI Linked Annuities in payment (net)	0.19%	0.27%
PHI		
Claims In Payment	3.00%	3.75%
Other	3.00%	3.75%

	Current Valuation	Previous Valuation
Pensions Business		
With Profits Pure Endowment & With Profits Deferred Annuities – Regular		
	3.75%	3.63%
With Profits Pure Endowment & With Profits Deferred Annuities – Single premiums and paid-ups:		
Initial rate	4.50%	4.79%
Reinvestment rate	4.50%	4.62%
Annuities in Payment	3.89%	4.90%
RPI Linked Annuities in payment	0.27%	0.39%
RPI Linked Deferred Annuities	0.27%	0.39%
Group UWP	3.75%	3.75%
Non-Profit Assurances	3.22%	3.36%
Non-Profit Deferred Annuities		
Pre Vesting	3.22%	3.36%
Post Vesting	3.22%	3.36%
Monies on Deposit	4.50%	4.50%

(3) Risk Adjustments

The yields on assets were reduced for risk as follows:

Fixed Interest

(a) Approved Securities:

No reduction

(b) Other Securities

A deduction was applied to the yield on an individual stock by stock basis to allow for the risk of default. The individual stock risk margins were calculated as a long-term average default rate plus an additional allowance for expected deviations from the historic average. The long term average default rates assumed in the valuation (in basis points) are:

Rating	5yr	10yr	20yr
AaaSSR	0	0	0
Aaa	4.3	12.3	15.2
Aa	19.0	32.1	48.2
A	33.2	47.7	65.3
BBB	82.8	104.1	122.4
BB	261.3	277.3	287.2
B	591.7	524.7	442.5

In the table above the rating "AaaSSR" indicates that UK government stocks (and supernationals/ sovereign stocks with a credit rating of Aaa) are assumed not to default. In contrast, supernationals/sovereign stocks with a credit rating below Aaa are assumed to default according to the rates shown.

A number of different techniques were then employed to arrive at the final adjustment to the yield, namely:

- Financial sector subordinated debt attracted deductions based on the senior rating of the issuer rather than the rating of the bond itself. However, a nil recovery rate was applied to reflect lower priority on default. For banks that were in receipt of state aid, there was an additional deduction reflecting the assumption that coupons would be missed or deferred without interest.
- Certain stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).

At the previous valuation an additional prudence margin of 25% was applied. At the current valuation this margin was removed and a new provision created to allow for additional defaults in the short term. This additional provision is equivalent to a 10% prudence margin on the default assumptions shown in the table above.

Variable Interest

The yield on variables interest rate stocks was capped at the real yield on the over 5 years, 5% inflation FTSE Index linked gilt index. This cap applied to both approved and non-approved variable interest stocks.

Equities

The yield on equity shares was capped at the lower of 25% p.a. or twice the annualised 15 year gilt yield.

Additional adjustments were also made to the dividend yield of Lloyds TSB and Royal Bank of Scotland shares where the dividend yield was set to zero to reflect the current expectations of those shares.

The yield on equity shares was reduced by 5.0% of the yield after the above adjustments.

Property

The yield on property was capped at the greater of 10% p.a. or twice the annualised 15 year gilt yield.

The yield on property was reduced by 5.0% of the yield after the above adjustment.

All other assets producing income

The yield was reduced by 2.5% of the unadjusted yield.

(4) Mortality Basis

The valuation mortality bases (on ultimate rates) are as follows:

Product Group	Current Valuation	Previous Valuation
Endowment and Whole of Life Assurances	81% AM92 110% AF92	81% AM92 110% AF92
Term Assurance - aggregate	95% TM92 116% TF92	95% TM92 116% TF92
Term Assurance - non-smoker	79% TM92 95% TF92	79% TM92 95% TF92
Term Assurance - smoker	200% TM92 237% TF92	200% TM92 237% TF92
Pensions pre-vesting and pension term assurances	52.6% AM92 59.3% AF92	52.6% AM92 59.3% AF92
Life Annuities in Payment	Modified IM80 c2010 Modified IF80 c2010	Modified IM80 c2010 Modified IF80 c2010
Pensions post vesting	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020
Pensions immediate annuities	Modified PMA92 c2020 Modified PFA92 c2020	Modified PMA92 c2020 Modified PFA92 c2020

Life annuities currently in payment

The mortality basis for the current (previous) year is:

Males: 77.7% (78.9%) of IM80 (c=2010) improving at 1.5% (1.5%) p.a.
Females: 79.0% (80.0%) of IF80 (c=2010) improving at 1.25% (1.25%) p.a.

The expectation of life under the current and previous year valuation assumptions for sample ages are:

	Current Year		Previous Year	
Age	Males	Females	Males	Females
65	21.82	24.64	21.67	24.52
75	13.72	15.63	13.60	15.53

Pension annuities currently in payment

Specimen percentages of the base tables used for the current and previous years valuations are:

		Current valuation		Previous valuation	
		Male	Female	Male	Female
at age	65	123.3%	120.4%	127.7%	123.5%
at age	75	73.4%	87.4%	76.1%	90.2%
at age	85	74.1%	92.5%	76.1%	94.3%
at age	95	78.9%	96.6%	79.7%	97.4%

Specimen annual improvement rates for the current valuation, dependent on calendar year, are:

Males	2011	2021	2031	2041	2051	2061
65	3.41%	2.95%	2.59%	2.98%	2.98%	2.98%
75	3.44%	2.97%	2.44%	2.38%	2.44%	2.44%
85	2.81%	2.23%	2.11%	1.90%	1.90%	1.90%
95	1.64%	1.43%	1.40%	1.38%	1.35%	1.35%

Females	2011	2021	2031	2041	2051	2061
65	2.52%	2.94%	2.90%	2.98%	2.98%	2.98%
75	2.84%	2.75%	2.50%	2.43%	2.44%	2.44%
85	2.10%	2.11%	2.04%	1.90%	1.90%	1.90%
95	1.41%	1.34%	1.39%	1.37%	1.35%	1.35%

The expectation of life under the current and previous year valuation assumptions for sample ages are:

	Current Year		Previous Year	
Age	Males	Females	Males	Females
65	25.01	26.54	24.81	26.37
75	15.56	16.79	15.39	16.63

Deferred pension contracts (post vesting) including Guaranteed Annuity Options

Sample percentages of the base tables used for the current year and previous year valuations are:

		Current valuation		Previous valuation	
		Male	Female	Male	Female
up to age	55	478.2%	446.9%	488.9%	455.0%
at age	65	123.3%	120.4%	127.7%	123.5%
at age	75	73.4%	87.4%	76.1%	90.2%
at age	85	74.1%	92.5%	76.1%	94.3%
at age	95	78.9%	96.6%	79.7%	97.4%

Specimen annual improvement rates, dependent on calendar year, are:

Males	2011	2021	2031	2041	2051	2061
55	2.63%	2.41%	3.24%	3.25%	3.25%	3.25%
65	3.41%	2.95%	2.59%	2.98%	2.98%	2.98%
75	3.44%	2.97%	2.44%	2.38%	2.44%	2.44%
85	2.81%	2.23%	2.11%	1.90%	1.90%	1.90%
95	1.64%	1.43%	1.40%	1.38%	1.35%	1.35%

Females	2011	2021	2031	2041	2051	2061
55	2.14%	3.08%	3.25%	3.25%	3.25%	3.25%
65	2.52%	2.94%	2.90%	2.98%	2.98%	2.98%
75	2.84%	2.75%	2.50%	2.43%	2.44%	2.44%
85	2.10%	2.11%	2.04%	1.90%	1.90%	1.90%
95	1.41%	1.34%	1.39%	1.37%	1.35%	1.35%

The expectation of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions are:

	Current Age	Expectation of life from Age	Current Year		Previous Year	
			Males	Females	Males	Females
Deferred	45	65	28.31	29.85	28.16	29.72
annuities	55	65	26.64	28.23	26.48	28.08

The mortality assumptions are as described. No explicit allowance has been made for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on mortality or morbidity.

(5) Morbidity Basis

For Individual Permanent Health Insurance the assumed inception & recovery rates are based on modified CMIR12. The percentages of CMIR12 for sample inception & recovery rates, based on a 12 month deferred period, are as follows:

Percentages of Inception rates for the modified CMIR12 table at current year

Age	Table	Current Year		Previous Year	
		Male	Female	Male	Female
25	CMIR12	89.00%	150.00%	110.00%	188.00%
35	CMIR13	89.00%	150.00%	110.00%	188.00%
45	CMIR12	37.00%	62.00%	46.00%	78.00%
55	CMIR12	48.00%	81.00%	60.00%	102.00%

Recovery rates expressed as a percentage of CMIR12 for all durations

Age	Table	Current Year		Previous Year	
		Male	Female	Male	Female
25	CMIR12	29.00%	29.00%	29.00%	29.00%
35	CMIR12	29.00%	29.00%	29.00%	29.00%
45	CMIR12	29.00%	29.00%	29.00%	29.00%
55	CMIR12	29.00%	29.00%	29.00%	29.00%

Mortality for Individual Permanent Health Insurance has remained unchanged from the previous valuation at 76% TM92 for males and 76% TF92 for females.

(6) Expenses

For policies valued using a gross premium valuation, allowance has been made for renewal commission as paid and an annual renewal expense in accordance with the expense table below inflating at 4.50% p.a.

For accumulating with-profits policies the reserve, calculated formulaically, includes an allowance for expenses in accordance with the expense table below inflating at 4.50% p.a. Renewal commission is assumed to be payable from the margins within future premium allocations.

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. Compared to the MSA at the previous valuation the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid to UISL on a fixed charge basis.

The new fee scale shown in the table below comes into effect on 1 September 2012. For the period from the valuation date to 31 August 2012 the fees continue at the level of the previous MSA agreement as follows (though still subject to expense inflation):

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Annuity	20.24	18.29
All other classes[1]	42.91	38.79

The new MSA specifies fee inflation to be RPIX +1.0% at 1 January each year. The MSA at the previous valuation allowed for fee inflation at RPIX +3.8%.

The inflation rate assumed in last year's valuation was 7.38% p.a..

Expense Table

Product Group	Per Policy Expense	
	Current Valuation	Previous Valuation
	£	£
Annuity	26.33	18.29
All other classes[1]	55.83	38.79

[1] For basic policies only except for executive pensions where increments are also deemed to incur expenses.

Expenses on life policies are assumed to benefit from tax relief at 20%.

The assumed investment future management expenses are:

Investment expenses (net of 20% tax for Life fund business)	**Current valuation**	**Previous valuation**
Conventional Life & UWP Bond	0.086%	0.100%
Conventional Pensions DA	0.108%	0.125%
Conventional Pensions PE (Libra and non-Libra policies)	0.116%	0.125%
UWP Group Pensions	0.127%	0.125%
Life Non Profit policies	0.064%	0.100%
Pensions Non Profit policies	0.080%	0.125%

The investment expenses for life fund business should be netted down for policyholder tax at 20%.

In addition to the base fees, there is an explicit additional services fee which is allowed for as a new provision of £11.0m. At the previous valuation these additional services had been allowed for implicitly within the investment expense assumption. There is also a performance fee payable to the asset manager. This is not allowed for in the valuation basis because no over or under investment performance is assumed in the valuation interest basis.

(7) Unit Growth Rates

The unit linked business is reassured to Phoenix Life Limited and the valuation basis is disclosed in that company's returns.

(8) Future Bonus Rates

For conventional with-profits business there is no allowance for future bonuses.

For accumulating with-profits business the assumed reversionary bonus rates are:

Product	2011 p.a	2012 p.a	2013& later p.a
Bonds	0.50%	0.08%	0.00%
Other life	0.50%	0.08%	0.00%
UWP Group pensions	2.00%	0.33%	0.00%
Other pensions	1.00%	0.17%	0.00%

(9) Persistency Assumptions

The Company anticipates voluntary premium discontinuances on the with-profits life and pension contracts specified in the table below; no voluntary discontinuances are assumed for other products.

Initial discontinuance rates are in accordance with the tables below and are assumed to reduce linearly to 5% of the initial rate at maturity/retirement.

For with-profits life products (excluding whole life) and with-profits pension products initial rates of discontinuance are:

Initial Surrender Rates (%)

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	-	2.1%	1.4%	1.4%
CWP target cash endowment	Surrender	-	2.8%	2.8%	2.8%
CWP Executive Pension	Pup	7.0%	7.0%	7.0%	7.0%
CWP Executive Pension	Surrender	3.5%	3.5%	3.5%	3.5%
CWP Personal pension - regular premium	Pup	3.8%	3.6%	2.1%	2.1%
CWP Personal pension regular premium	Surrender	1.5%	1.2%	1.8%	1.8%
CWP Personal pension single premium	Surrender	0.8%	1.1%	1.2%	1.2%

Policies becoming paid-up after the valuation date are assumed not to subsequently surrender.

For pension policies surrendering within 15 years of normal retirement date a proportion of surrenders are deemed to be early retirements with associated guaranteed annuity option entitlements. The proportion of surrenders assumed to be early retirements is 100% at normal retirement decreasing linearly to 0% 15 years prior to normal retirement.

(10) Other Material Assumptions

Not applicable.

(11) Allowance for Derivatives

The Company holds a number of swaps in connection with its fixed interest assets. The effect of the swaps has been taken into account by adding the value of the fixed interest assets to the value of the swaps and adjusting the yield on the fixed interest assets to take account of the effect of the swaps. The effect of the swaps has been determined by assuming that the future yields are in accordance with the yields implied by the forward swap curve.

We hold a number of Swaption contracts to hedge against interest rate falls impacting the guaranteed annuity option reserves. Further details are provided in section 5 below.

We hold a number of Spreadlock contacts to assist in managing the risk of variation in the spreads on the Swap contacts that are held. These contacts do not directly impact the long term insurance liabilities.

(12) Effect of Basis Changes

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

5. OPTIONS AND GUARANTEES

(1) Guaranteed Annuity Rate Options

(a) An additional reserve is calculated, where the value of the annuity is greater than the cash sum, using the assumptions set out in section 4 and, additionally, assuming

- All policyholders will exercise the option.

- The percentage of the cash sum which will be used to purchase the annuity on guaranteed terms will be :

85% for Pension Reserve contracts
85% for Personal Pension Scheme protected rights contracts
85% for Additional Pension Plan contracts
83% for Executive Benefits Plan and Retirement Security Plan
85% for Personal Pension Plan and Personal Pension Scheme contracts
85% for Transfer Plan

These are initial proportions and are assumed to increase linearly to 95% over 20 years.

Where the guaranteed annuity option may be exercised in different forms (e.g. with or without escalation, with or without spouse reversionary benefit) then suitable assumptions have been made regarding the proportion of policyholders electing for the various benefit format. Under certain contracts the spouse's annuity terms are not guaranteed under the policy.

- The expenses of payment are 1.27% of the value of the annuity

The reserves calculated as above have been compared with the market value of the options determined using a market consistent stochastic model (as used to determine the realistic value of options and guarantees for the realistic balance sheet). After adding a margin for prudence, if the aggregate market consistent value is higher than the reserves then the reserves are increased to provide a suitable margin over this cost. However, the reserves calculated as above produced a greater reserve than that calculated using the market consistent approach.

(b)

(i) Product Name	(ii) Basic Reserve £m	(iii) Spread of outstanding durations (yrs)	(iv) Guarantee Reserve £m	(v) Guaranteed Annuity Rate (Male at 65)	(vi) Increments	(vii) Form of annuity[2]	(viii) Retirement Ages
Additional Pension Plan	7.0	0 to 40	2.6	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Executive Benefit Plan	107.8	0 to 38	42.0	10.0% 7.6% 8.1% 5.6%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Retirement Security Plan	84.7	0 to 40	30.9	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Transfer Plan	217.9	0 to 33	64.4	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
PPP81	279.5	0 to 30	97.9	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Fow ler	383.5	0 to 42	95.3	10.0% 8.1% 8.1% 6.2%	Yes[1]	Level - single life Esc 3% - single life Level - 60% spouse Esc 3% - 60% spouse	Ages 50 to 75
Fow ler (DSS)	732.0	0 to 34	78.6	10.0% 8.1% 8.3% 6.4%	Yes[1]	Level - single life Esc 3% - single life Level - 50% spouse Esc 3% - 50% spouse	Ages 60 to 75
Pensions Reserve	14.1	0 to 31	4.1	10.0% 8.1%	Yes[1]	Level - single life Level - 60% spouse	Ages 50 to 75

[1] Benefits secured by increments commencing after 1 December 1998, DSS payments received after 30 June 1999 or on payments received on Transfer Plan after 31 July 1999 do not include a guaranteed annuity option.
[2] Annuity is payable monthly in advance and guaranteed for 5 years. The forms of annuity represent the various forms assumed in the reserving calculation. Not all forms are necessarily contractual obligations and may represent a concession by the Company.

(2) Guaranteed Surrender and Unit-linked Maturity Values

UWP Bond

Policies established on the administration system after 29 September 1997 are wholly reassured with Phoenix Life Limited and the required disclosure for these policies may be found in the Returns of that company.

Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

UWP benefits secured are wholly reassured with Phoenix Life Limited and the required disclosure may be found in the Returns of that Company.

Guaranteed Unit-Linked Maturity Values

In respect of business retained by the Company there are no guaranteed unit-linked maturity values.

In respect of unit-linked business written by the Company and reassured to Phoenix Life Limited, the guarantees are fully described in the Returns of Phoenix Life Limited.

(3) Guaranteed Insurability Options

Various endowments purchased in connection with a mortgage include options to effect additional cover in certain circumstances without requiring additional evidence of health. Take-up of this option has been extremely low and no additional reserve is held.

Some of the term assurance policies include options to convert to other policies without requiring further evidence of heath. Take-up of this option has been extremely low and no additional reserve is held. The sum assured under the policies is less than £1bn.

(4) Other Guarantees and Options

None.

6. EXPENSE RESERVES

(1) Aggregate Expense Loadings

The aggregate amount of expense contributions arising during the 12 months following the valuation date from explicit and implicit margins made in the valuation are:

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
All products	4.9	1.4	12.0	6.1	24.4
All expenses attributable	4.9	1.4	12.0	n/a	18.3
Total	4.9	1.4	12.0	6.1	24.4

(2) Implicit Allowances

The implicit allowances above are in respect of investment management expenses. They are based on the rate of investment fees payable to the investment manager applied to the amount of reserves. This implicit allowance is met by the difference between the risk-adjusted yield on the assets and the valuation rate of interest.

(3) Form 43 Comparison

The total amount of maintenance expenses shown in 6 (1) is different from the total shown in line 14 of Form 43:

	F43.14	table 6(1)	Difference
Homogeneous risk group	(a) £m	(b) £m	(b) - (a)
All products	24.3	24.4	0.1
Total	24.3	24.4	0.1

The expense loadings in table 6 (1) are based on a smaller book of business due to the run-off of this closed fund than in form 43 line 14, though this is partially offset by the inclusion of an additional year's inflation compared to Form 43 line 14.

(4) New Business Expense Overrun

Since the company is closed to new business, except for contractual increments, it does not expect to incur any material strain in writing new business so no additional reserve is required.

(5) Maintenance Expense Overrun

Expense reserves in accordance with 6(1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the standard fees payable under a management services agreement plus a prudent allowance for costs that are not covered by these fees.

No costs of terminating the management services agreement have been allowed for because the contract is not cancellable by the services provider.

(6) Non-attributable expenses

The non-attributable expense reserve is the expected cost of certain planned projects of a non-recurring nature that are not covered by the standard fee under the management services agreement.

7. MISMATCHING RESERVES

(1) Analysis of Reserves by Currency

The mathematical reserves (other than liabilities for property linked benefits) after distribution of surplus comprise:

Currency	Mathematical Reserves £m	Percentage matched in same currency
Sterling (£)	4,979.7	100%
Other	1.2	100%
Total	4,980.9	

(2) Other Currency Exposures

See table in paragraph 7 (1).

(3) Currency Mismatching Reserve

The liabilities in currencies other than sterling are matched by assets in the same currency. The currency mismatching reserve is therefore nil.

(4) Most Onerous Scenario Under GENPRU 2.1.18(R)

Phoenix & London Assurance Limited, being a realistic basis life firm, is not required to calculate a resilience capital requirement under GENPRU 2.1.18(R).

(5) Most Onerous Scenario Under INSPRU 3.1.23(R)

Not applicable.

(6) Resilience Capital Requirement

Not applicable.

(7) Additional Reserves Arising From INSPRU 1.1.34(2)(R)

No further reserve is required for mismatching as investments are closely matched to the liabilities.

8. OTHER SPECIAL RESERVES

Details of other special reserves are set out below:

Description	Reserve £m
Data Contingency Reserve	13.5
Tax credit reversal	14.7
Solvency II	8.6
Actuarial Systems Transformation	8.0
UISL stabilisation risk transfer	10.5
Additional services fee for asset management	11.0
10% margin in credit default rates	10.6

Additional Reserves

Additional reserves, exceeding the lesser of £10m and 0.1% of total mathematical reserves, comprise:

- Data contingency reserves for additional liabilities which may arise in connection with data errors affecting the long-term business.
- An asset of £18.9m is relation to group tax relief of notional case 1 losses is held in Form 13. The value of this tax benefit to the long term fund has been assessed to be £4.2m. A provision of £14.7m has therefore been made to allow for the difference.
- A provision to cover the costs of the Solvency II project apportioned to PALAL.
- A provision to cover the costs of the Actuarial Systems Transformation project apportioned to PALAL.
- A provision is held as part of the UISL risk transfer to offset an accounting prepayment asset held to cover the transfer of risk payment made to Diligenta.
- A provision to cover additional service fees payable to the asset managers for other services that are not part of the investment management fee.
- A provision equivalent to holding a 10% margin in the long term average credit default rates in 4 (3) (b).

9. REINSURANCE

(1) Unauthorised reinsurers

(a) No premiums were payable on a facultative basis to a reinsurer that was unauthorised to carry on insurance business in the UK.

(b) No premiums were payable to a connected company reinsurer that was unauthorised to carry on insurance business in the UK.

(2) Reinsurance Treaties

The required details of reinsurance treaties in force at the valuation date are below.

(g) Not applicable since there are no deposit back arrangements under any of the treaties.

(h) All treaties are open to new business, other than those marked with an asterisk.

New business only arises from incremental policies or the exercising of options under existing contracts.

(i) There are no undischarged obligations

(n) Credit risk arises from a possible failure of the reinsurer to meet its obligations. For reinsurers that are not connected companies the risk is not deemed material. No provision has been made for credit risk in respect of reassurances with other companies in the Phoenix group.

Legal risks arise from disputes regarding the operation of the treaties. Provision for any associated costs is by way of the litigation provision described in 8 above.

(o) No provision has been made under any of the treaties for any liability of the company to refund any amount of reinsurance commission in the event of the lapse or surrender of the contracts. Where such a liability exists, then the refund of commission will be more than offset by the return of the premium from the reinsurer.

(p) There is a financing arrangement in place to provide support to the long-term fund. The details of the arrangement are described fully in note 1508.

For the purposes of the regulatory valuation no provision has been made for the contingent repayment of £227.3m from the long-term fund to the shareholder fund.

(d) Name of Reinsurer	(e) Type of Business	Type of Reinsurance	Extent of Cover	(f) Premiums £000s	(j) Reserve Ceded £m	(l) Authorised in UK	(m) Connected to Company
Revios Re	Individual Life Assurance	2nd Surplus	100,000	12.2	See Note 2	No	No
*Munich Reinsurance	Individual Life Assurance	1st Surplus (Risk Premium)	375,000	29.3	See Note 2	Yes	No
Phoenix Life Limited	Note 1 (a)	Original Terms	No maximum	9,243.3	840.2	Yes	Yes
Phoenix Life Limited	Note 1 (b)	Original Terms /Risk Premium	Max of 350,000	28,458.5	104.6	Yes	Yes
Phoenix Life Limited	Note 1 (c)	Original Terms	No maximum	8,919.0	88.3	Yes	Yes
Hannover Re	Individual Life Assurance	2nd Surplus	200,000	43.0	See Note 2	Yes	No
Swiss Reinsurance	Individual Life Assurance	1st Surplus (Risk Premium)	1,125,000	691.9	See Note 2	Yes	No
GE Frankona	Individual Life Assurance	1st Surplus (Risk Premium)	375,000	232.9	See Note 2	Yes	No
*Scottish Re	Individual Life Assurance	2nd Surplus (Risk Premium)	50,000	19.4	See Note 2	Yes	No

In addition to the external reinsurance treaties listed above there was a further £290K of reinsurance premium paid to external reinsurers during the year.

Note 1:

The treaties with Phoenix Life Limited include:

(a) The reassurance of the unit linked liability in respect of:

Lifetime Plan
Universal Protection Plan
Challenger Bond
Personal Pension Plan
Personal Pension Scheme
Executive Benefits Plan
Pension Reserve
Executive Pension Plan
Company Pension Scheme
Company Additional Pension Scheme
Individual Personal Pension Plan
Group Personal Pension Plan
Personal Additional Pension Plan;

This business is reinsured to the Phoenix Life Limited Non Profit Fund.

(b) The reassurance of certain with-profits endowments and Moneymaker contracts on original terms.

This business is reinsured to the Phoenix Life Limited 100% With Profits Fund.

The reassurance of some term assurance, Progressive Protection and PHI on original terms and Universal Protection Plans on risk premium terms and life cover benefits under unitised with profits pensions, MSP and RSP.

This business is reinsured to the Phoenix Life Limited Non Profit Fund.

(c) The reassurance of:

(i) UWP Bond business written after September 1997

(ii) The UWP liabilities for:

Executive Pension Plan
Company Pension Scheme
Company Additional Pension Scheme
Individual Personal Pension Plan
Group Personal Pension Plan
Personal Additional pension Plan

This business is reinsured to the Phoenix Life Limited Phoenix With-Profits Fund.

Note 2:

Reinsurance ceded external reserves total £10.3m. This total has not been split between the respective reinsurers.

10. REVERSIONARY (OR ANNUAL) BONUS

(1) Details of bonus rates

The following rates of reversionary bonus, which are independent of age and original term of the contract, were declared on the valuation date:

Bonus Series	Math reserves	Reversionary Bonus Rate for Current Year	Reversionary Bonus Rate for Previous year	Total g'tee bonus for current year
	£m	%	%	%
Category 1 Contracts	2,204.3	0.05/0.05	0.05/0.05	0.05/0.05
Category 2 Contracts	1,019.1	0.10/0.10	0.10 /0.10	0.10/0.10
UWP Group Pensions	16.7	2.00	2.00	0.00
UWP life[1]	32.1	0.50	0.50	0.00

[1] The Company also writes unitised with-profits business which is wholly reassured to Phoenix Life Limited. The reversionary bonuses applying to these contracts are fully described in the Returns of that company.

Category 1 contracts are:

Additional Pension Plan
Executive Benefit Plan
Jersey Prosperity Plan
Pension Reserve
Personal Pension Plan
Retirement Security Plan
Transfer Plan

Category 2 contracts are all other contracts entitled to participate in profits excluding unitised with-profits contracts.

(2) Unitised with-profits business unit price increases

For unitised with-profits life policies, the reversionary bonus is added daily in the form of growth of the unit price. For business retained by the Company the reversionary bonus rate was 0.5% throughout 2010. The business other than UWP Group Pensions continues to be reassured to Phoenix Life Limited is described in the Returns of that Company.

(3) Super compound bonus

The table in 10 (1) shows bonus rates expressed as X%/Y% where X% is the bonus rate applied to the sum assured and Y% is the bonus rate applied to the attaching bonuses.

(4) Bonus series

Within a bonus series bonus rates do not vary.

APPENDIX 9.4A

PHOENIX & LONDON ASSURANCE LIMITED

Abstract of Valuation Report for Realistic Valuation

1. INTRODUCTION

(1) Valuation Date

The valuation date is 31 December 2010.

(2) Previous Valuation

The previous valuation related to 31 December 2009.

(3) Interim Valuations

An interim valuation was carried out on 30 June 2010.

2. ASSETS

(1) Economic Assumptions for Valuing Non-Profit Business

The economic assumptions for non-profit products are as follows:

	Current Valuation	Previous Valuation
Gross Investment return	See below	See below
Risk discount rate	See below	See below
RPI Inflation	3.50%	3.58%
Expense inflation	4.50%	7.38%

The margin over the RPI inflation has changed from 3.8% to 1% to reflect the terms of a new Management Services Agreement (MSA).

The value of future profits on non-profit products was calculated by assuming risk free rates of investment return and discount rates. These were based on a zero coupon gilt yield curve plus 10 basis points as at the valuation date.

Earned rates of return were assumed to be annual forward yields derived from the curve, net of tax and investment expenses.

Discount rates used were spot yields taken from the curve, net of tax and investment expenses.

The risk free yield curves (gilt yield curve plus 10 basis points) were:

	Risk Free Rate	
Term (years)	Current Valuation	Previous Valuation
1	0.73%	0.97%
2	1.12%	1.60%
3	1.64%	2.19%
4	2.12%	2.70%
5	2.51%	3.13%
6	2.84%	3.47%
7	3.12%	3.75%
8	3.37%	3.99%
9	3.60%	4.18%
10	3.79%	4.35%
12	4.09%	4.60%
15	4.37%	4.80%
20	4.58%	4.86%
25	4.60%	4.79%

Allowance has been made under INSPRU 1.3.39G for the illiquid nature of a proportion of the assets (namely the corporate bonds) backing the immediate non-profit annuities within the Fund.

A liquidity premium has been calculated by taking the difference between the present value of the cash flows arising from these bonds on two yields. The first is a yield equal to the equivalent risk free rate for the bond, increased by an allowance for the risk of default; the second is the gross redemption yield of the bond. The adjustment for the risk of default varies on a bond by bond basis.

(2) Amount Determined Under INSPRU 1.3.33R(2)

Not applicable.

(3) With-Profits Benefits Reserves Below de minimis Limit

Not applicable.

(4) Different Sets of Assumptions

Not applicable.

3. WITH-PROFITS BENEFITS RESERVE LIABILITIES

(1) Calculation of With-Profits Benefits Reserve

Product Type	Method	With-profits benefits reserve	Future policy related liabilities
		£m	£m
With-profits – Whole Life	Prospective	35	(2)
With-profits – Other Life	Retrospective	1,086	(74)
With-profits – Pensions (Regular and Single Premium): Libra policies	Retrospective	814	293
With-profits – Pensions (Paid-Up): Libra Policies	Prospective	165	60
With-profits – Pensions (Regular and Single Premium): non-Libra policies	Retrospective	800	288
With-profits – Pensions (Paid-Up): non-Libra Policies	Prospective	344	124
UWP Life	Retrospective	52	(0)
Other		2	0
Total		3,299	688
Form 19 Line 31		3,299	
Form 19 Line 49			688

In the table above, the future policy related liabilities total £688m. This is made up of £(76)m for with-profits life business, £765m for with-profits pensions business and £(0)m for UWP life business.

The split in the table above for both the with-profits life business and the with-profits pensions business is in proportion to the respective with-profits benefits reserves.

(2) Correspondence with Form 19

Not applicable.

(3) With-Profits Benefit Reserves Below de minimis Limit

The amount categorised as "Other" above falls within the de minims limit.

(4) Types Of Products

A scheme of arrangement under Part 26 of the Companies Act 2006 has been implemented with effect from 31 December 2009 to remove guaranteed annuity rates from certain UK individual with-profits pensions (pure endowment) policies in exchange for potential increases to non-guaranteed benefits. The policies affected are described as Libra policies.

The level of disclosure in the table above corresponds to material groupings of contracts offering significant variances in policyholder benefits. For example, unitised with-profits business is separated from conventional with-profits business, and pensions policies are divided into Libra and non-Libra policies.

4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD

(1) Retrospective Methods

(a), (b)

Product Type	Proportion of With Profits Benefit Reserve Calculated from Individual Contracts	Proportion of With Profits Benefit Reserve Calculated from Grouped Contracts
With-profits – Life (excluding whole life)	100%	0%
With-profits – Pensions (excluding paid-up policies)	100%	0%
UWP Life	100%	0%

(c) (i) Whilst the asset shares have been calculated using individual data in all cases, the method used for unitised with-profits business has been the application, to the individual data, of a factor (ratio of asset share to face value of units) which has been calculated by reference to grouped / sample data. This is consistent with the way the business is operated in practice.

(2) Significant Changes To Valuation Methods

No significant changes

(3) Expense Allocation

(a) The previous expense investigation was carried out in the fourth quarter of 2010.

(b) Expense investigations are normally carried out on an annual basis.

(c)

	Item	£m
(i)	Initial Expenses	Nil[1]
(ii)	Maintenance Expenses	11.8
(ii)	Investment Expenses	3.5
(iii)	Method	Average expense
(iv)	Expenses charged other than to with-profits benefits reserve	16.0

The expenses included in (iv) above include further investment expenses, other policy expenses that are not charged to asset shares (including the expenses associated with the non profit business), project costs and commission payments.

[1] Since the company is closed to new business (apart from contractual increments etc.), there are no material acquisition expenses.

(4) Significant Charges

The charges deducted from the with-profits benefits reserve in the year to the valuation date and the preceding year were:

	Current Valuation	Previous Valuation
	£m	£m
Net losses on non-profit business	1.5	1.3
Proportion of up-front outsourcing costs attributable to the period	0.0	0.0
Write-off of initial spreads on derivative contracts	0.5	0.5
Charges for guarantees and smoothing	52.9	68.7

(5) Charges For Non-Insurance Risk

Not applicable.

(6) Ratio Of Claims To Reserves

Terminal bonus rates are set in advance for conventional with-profits policies. The terminal bonus rate is set based on assumptions about future investment returns. Terminal bonus rates on maturing endowment life policies and pension policies vesting at the intended retirement date were set to give the following percentages of the with-profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with-profits benefits reserve but not less any exit charge, for the following specimen products and terms:

	Endowment Policies	Regular Premium Personal Pension Plan	Single Premium Personal Pension Plan	Regular Premium Executive Benefits Plan	Single Premium Executive Benefits Plan
1/1/2007 to 30/4/2007					
10 year term	99*	110*	113*	99*	123*
15 year term	95*	108*	98*	95*	114*
20 year term	93	106*	105*	96	110*
25 year term	93				
1/5/2007 to 31/8/2007					
10 year term	98*	109*	129*	99*	130*
15 year term	93*	107*	109*	96*	111*
20 year term	93	103*	116*	94	113*
25 year term	93				
1/9/2007 to 31/12/2007					
10 year term	97*	108*	135*	99*	135*
15 year term	93*	107*	112*	98*	115*
20 year term	93	104*	118*	95*	115*
25 year term	93				
1/1/2008 to 30/6/2008					
10 year term	98*	110*	144*	94*	144*
15 year term	94*	108*	122*	100*	129*
20 year term	94	110*	123*	99*	115*
25 year term	94				
1/7/2008 to 31/12/2008					
10 year term	105*	119*	168*	103*	167*
15 year term	105*	120*	143*	114*	161*
20 year term	100	125*	144*	115*	140*
25 year term	101				
1/1/2009 to 30/6/2009					
10 year term	104*	120*	105*	104*	178*
15 year term	108*	125*	147*	117*	167*
20 year term	105*	124*	145*	126*	152*
25 year term	100				
1/7/2009 to 31/12/2009					
10 year term	106*	124*	114*	108*	192*
15 year term	113*	132*	143*	125*	168*
20 year term	111*	129*	167*	133*	176*
25 year term	102				
1/1/2010 to 30/6/2010					
10 year term	100*	113*	106*	100*	179*
15 year term	106*	124*	133*	109*	145*
20 year term	102*	121*	152*	114*	158*
25 year term	100				
1/7/2010 to 31/12/2010					
10 year term	100*	113*	105*	100*	180*
15 year term	105*	124*	148*	109*	157*

* Denotes that a zero terminal bonus rate applied

Payouts on surrenders for conventional with-profits policies will generally have been based on a lower percentage of the with-profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with-profits benefits reserve before deducting any exit charge.

Payouts on surrenders of unitised with-profits bonds have been set to the following percentages of the with-profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with-profits benefits reserve but not less any exit charge.

Year	
2004	98.00%
2005	91.0% to 95.0%
2006	91.9% to 100%
2007	92.8% to 100%
2008	92.1% to 100%
2009	91.0% to 100%
2010	92.5% to 100%

(7) Allocated Return

The rate of investment return attributed to the with-profits benefits reserve of a policy depends on the asset mix for it. The asset mix and the outstanding term of the hypothecated fixed interest securities depend on the outstanding term and the level of guarantees under the policy (see PPFM for more details).

The average rates of investment return (before tax) added for the year to 31 December 2010 are:

Product Type	Investment Return
Conventional Life	7.22%
Conventional Pensions	9.68%
UWP Bond and Group Pension	9.79%
Other UWP Life	9.79%

5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

(1) Key Assumptions

A prospective method has been used for with-profits whole life business and for paid-up with-profits pensions business.

Bonus rates on with-profits whole life business and paid-up pensions contracts are the same as the bonus rates on endowments and regular premium pension contracts respectively for the same term. A bonus reserve valuation is used to determine the with-profits benefits reserve, where:

- the bonus rates are the supportable bonus rates determined from the relevant product, and
- the economic assumptions are consistent with the supportable bonus rates (rather than being derived from the risk free rate)

The assumptions underlying this method are as follows:

With-Profits Whole Life Business

The discount rate is the same as the investment return assumption. These rates together with the assumed rate for expense inflation are consistent with the assumed supportable bonus rates.

Economic Assumptions	
Discount rate p.a.	2.64%
Investment Return p.a.	2.64%
Expense Assumptions	
Investment Expense p.a.	0.086%
Per policy Expenses p.a.	£43.04
Expense Inflation p.a.	4.50%
Bonus Assumptions	
Reversionary Bonuses	
On Basic Sum Assured	0.10%
On accrued bonuses	0.10%

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

Elapsed Term in Years	2011	2016	2021	2026	2031	2036	2041	2046
10	5.1%	9.1%						
15	0.0%	16.0%	12.8%					
20	6.8%	16.6%	20.0%	8.6%				
25	22.2%	19.9%	16.4%	13.5%	10.3%			
30	67.7%	46.0%	21.6%	15.3%	16.1%	5.9%		
35	167.7%	111.2%	51.5%	16.2%	20.1%	11.2%	0.8%	
40	498.8%	226.8%	116.4%	49.3%	25.1%	22.5%	6.7%	0.0%

There are no lapses.

Paid-Up With-Profits Pensions Business

The discount rate is the same as the investment return assumption. These rates together with the assumed rate for expense inflation are consistent with the assumed supportable bonus rates.

Economic Assumptions	
Discount rate p.a.	4.88%
Investment Return p.a.	4.88%
Expense Assumptions	
Investment Expense p.a.	0.108%
Per policy Expenses p.a.	£43.04
Expense Inflation p.a.	4.50%
Bonus Assumptions	
Reversionary Bonuses	
On personal pension deferred annuities	0.05%
On other products	0.05%

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

Personal Pension Plan

Elapsed Term in Years	2011	2016	2021	2026	2031	2036	2041	2046
5	0.0%							
10	0.0%	0.0%						
15	0.0%	0.0%	0.0%					
20	0.0%	0.0%	0.0%	0.0%				
25	0.0%	0.0%	0.0%	0.0%	0.0%			
30	N/A	0.0%	0.0%	0.0%	0.0%	0.0%		
35	N/A	N/A	0.0%	0.0%	0.0%	0.0%	0.0%	
40	N/A	N/A	N/A	0.0%	0.0%	0.0%	0.0%	0.0%

Executive Benefit Plan

Elapsed Term in Years	2011	2016	2021	2026	2031	2036	2041	2046
5	10.5%							
10	6.1%	4.8%						
15	0.0%	0.1%	0.0%					
20	0.0%	0.0%	0.0%	0.0%				
25	0.0%	0.0%	0.0%	0.0%	0.0%			
30	3.5%	0.0%	0.0%	0.0%	0.0%	0.0%		
35	26.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
40	26.2%	9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Personal Pension Plan (Deferred Annuity)

Elapsed Term in Years	2011	2016	2021	2026
25	N/A			
30	56.9%	N/A		
35	62.6%	43.8%	N/A	
40	169.9%	50.1%	52.1%	N/A

There are no lapses.

Expenses

The life company entered into a new MSA with Pearl Group Management Services (PGMS) with effect from 1 September 2010. Compared to the MSA at the previous valuation the new service fees are higher and the new MSA uplift in the fee inflation is lower. In addition the new service fees incorporate the cost of several additional services that were previously paid for on a fixed charge basis.

The new MSA specifies fee inflation to be RPIX +1.0% at 1 January each year. The MSA at the previous valuation allowed for fee inflation at RPIX +3.80%.

Certain transitional provisions apply up to 1st September 2012.

(2) Different Sets of Assumptions

Not applicable.

6. COST OF GUARANTEES, OPTIONS AND SMOOTHING

(1) De Minimis Limit

Not applicable

(2) Valuation Methods For Guarantees etc

	Cost of Guarantees & Options	Smoothing Cost	Extent of Grouping	No of Individual policies	No of model points
All Business	Stochastic model	Deterministic calculation	All business	199,782	5,529

(a) <u>Cost of Guarantees & Options</u>

The costs of guarantees are determined using a stochastic model, with the asset returns being generated by a proprietary model. The following items were calculated stochastically:

(i) Guaranteed annuity option reserves.
(ii) The reserves required in addition to asset share to meet guaranteed benefits.
(iii) Future retentions at maturity where payouts of less than 100% of asset share are being targeted
(iv) Future profits and losses where amounts payable upon surrender are less or more than asset share.
(v) The value of future guarantee charges deducted from asset share.

The calculations were carried out using a risk neutral approach.

<u>Format of the Guaranteed Annuity Rates (GARs)</u>

The customer can elect to take the annuity guarantee in a number of different forms (e.g. with escalation, with spouse's pension). The value of the GAR is initially calculated assuming all male aged 65, non-escalating, no spouse's pension and then a factor is used in the stochastic model to weight the value of the GAR to allow for the expected take-up of benefits in alternative forms and the resulting expected variation in cost. The weighting factors vary between contract and are as follows:

Product	Weighting Factor
Fowler PPP (non DSS)	90%
Fowler PPP (DSS)	90%
Transfer Plan	89%
Executive Benefit Plan	89%
Pension Reserve	83%
Retirement Security Plan	90%
Additional Pension Plan	93%
PPP '81	89%

<u>Early Retirements</u>

Contracts provide a guaranteed annuity option upon early retirement. It is probable that some surrenders are actually early retirements with a GAR. We assume that 0% of surrenders are early retirements 15 years or more before maturity increasing linearly to 100% immediately prior to maturity. A factor is also applied to reflect the earlier application of the GAR at a younger age. These adjustments are made within the stochastic model.

Our calculations allow for the assumed expenses of paying the annuity.

Based upon actual experience we assume that policyholders elect to take a proportion of their benefits as cash where permitted.

The whole of the guarantee liability is shown within the future cost of contractual guarantees.

Cost of Smoothing

The small amount of smoothing cost was determined deterministically as the excess of the projected actual payouts over the projected target payouts.

For pensions policies the smoothing cost allows for any GARs that will be provided on the overpayment.

We compare actual payouts at the valuation date with target payouts.

Where there is currently an overpayment relative to the target we anticipate a change to terminal bonus rates effective from 1st July 2010 and assume that payouts can be cut by up to 7.5% at declarations every 6 months limited to 15% over a 12 month period.

In the stress scenarios the maximum cut increases to 12.5% every six months and 25% in any 12 months.

The calculation is carried out separately for each major class of conventional business but a weighted average overpayment across different terms is used.

(b) (i) None

(ii) All of the contracts are valued on a grouped basis.

(iii) For each product type we initially create separate model points for each combination of year of commencement and year of maturity. For unitised with profits bonds we split by commencement month.

This grouping allows for the asset mix associated with each cohort of business. It is aligned with the way in which we declare bonus rates on our business (our actual terminal bonus rate calculations are based on specimen policies split out in the same way i.e. product type, year of commencement and year of maturity although at quinquennial rather then annual intervals with monthly cohorts for unitised with-profits (UWP) bonds).

The initial model point files outlined above are then more heavily grouped to improve the run times in the stochastic model by amalgamating some of the smaller model points that were not making a significant contribution to the overall results. In order to test that this heavier grouping did not materially affect the results 3000 simulations were run at both levels of grouping and the results differed by less than 1% for the GAR & non GAR reserves.

(c) Less than 1% is unmodelled. The guarantee cost on this business is not material.

(3) Significant Changes

Margin on vesting annuities

Starting from the current valuation date, it is intended that future vesting annuites in the fund will be transferred to the Phoenix Life Limited (PLL) Non Profit Fund provided that the rates offered continue to be considered fair. Annuities currently in payment from the fund will not be transferred.

It is expected that the rates offered by the PLL Non Profit Fund will include a margin for profit and risk and, to allow for this, an additional margin has been established equal to 6% of the liability for deferred annuity policies and policies with a guaranteed annuity rate. This margin has been included for the first time at this valuation.

For the current valuation it is assumed that a part of the future margin costs will be charged to asset shares at the time they arise, with a net impact that 84% of the margin costs fall to the estate.

Barrie & Hibbert ESG Upgrade

The Economic Scenario Generator (ESG) has been upgraded at the current valuation to improve the asset modelling and to remain in line with the latest Industry practice. This represents a change since the previous valuation, and involves moving from the Local Volatility equity model to the Stochastic Volatility Jump Diffusion (SVJD) equity model.

The allowance for asset correlations in the ESG has also been changed to follow a correlation matrix approach at the current valuation. In contrast the asset correlations were driven by factor loadings in the previous valuation.

The treatment of overseas equities within the ESG has changed for this valuation. For the previous valuation a constant volatility implied by the UK equity market for overseas equity was used. The volatility used for the current valuation is that implied by the US equity market. The US equity market is considered more appropriate as it is where the fund invests its largest holding in overseas equity.

(4) Further Information on Stochastic Approach

(a) (i) The following tables give an indication of the extent to which the guarantees are in or out of the money at the valuation date. The table shows the percentage of the with-profits benefits reserve (including miscellaneous profit items) for each product that falls within each band. The bands are defined below.

% Asset Share	Band A	Band B	Band C	Band D
Endowments & Whole Life	0.2%	0.5%	0.8%	98.5%
Conventional Pensions	38.6%	4.8%	5.6%	51.0%
Unitised With Profit Bond	0.0%	0.0%	0.0%	100.0%

Where:

Band A	Contracts would need to earn >10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee

Band B	Contracts need to earn between 7.5% and 10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee
Band C	Contracts need to earn between 5% and 7.5%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee
Band D	Contracts need to earn <5%p.a. on the equities & property backing their asset share to meet the maturity guarantee

(ii) The asset returns in the stochastic model were generated by a proprietary model licensed from Barrie & Hibbert .

The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

UK gilt returns are modelled using a gilts + 10bps calibration in an Annual LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The equity model uses a local volatility surface calibrated to market implied volatilities for a range of strikes and maturities. Volatilities are assumed to be constant beyond quoted strikes and maturities.

The volatilities used for UK equities are set out in 6(4)(a)(vi). The split between UK and overseas equities was 50%/50%.

Corporate bond returns continue to be modelled using the extended Jarrow-Lando-Turnbull model. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

	Output Correlations @ Year 10									
	Cash	Equities	Property	Overseas Equities	5yr Govt ZCB	15yr Govt ZCB	5yr Corp ZCB	15yr Corp ZCB	5yr Index Linked ZCB	15yr Index Linked ZCB
Cash	1.00	(0.13)	(0.09)	(0.20)	(0.75)	(0.79)	(0.40)	(0.68)	(0.10)	(0.14)
Equities		1.00	0.29	0.54	0.19	0.15	0.63	0.38	0.07	0.14
Property			1.00	0.23	0.09	0.09	0.22	0.17	0.08	0.09
Overseas equities				1.00	0.26	0.22	0.47	0.35	0.14	0.22
5yr Govt ZCB					1.00	0.89	0.54	0.79	0.18	0.21
15yr Govt ZCB						1.00	0.49	0.88	0.13	0.22
5yr Corp ZCB							1.00	0.79	0.11	0.19
15yr Corp ZCB								1.00	0.13	0.25
5yr Index Linked ZCB									1.00	0.84
15yr Index Linked ZCB										1.00

(iii) The table below is based on 3000 scenarios:

		Asset type (all UK assets)	K=0.75				K=1				K=1.5			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)	2.51%	4.37%	4.60%	4.45%	x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond	883,590	526,148	325,011	218,203	x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)	101,288	241,286	328,919	398,064	205,279	384,746	495,673	582,070	539,814	728,437	870,535	980,108
3		FTSE All Share Index (p=0.8)	95,365	195,690	238,836	265,842	193,208	313,863	362,151	391,982	510,536	598,272	641,896	668,720
4		Property (p=1)	106,218	239,392	334,751	408,053	238,334	403,468	518,366	603,349	607,680	787,266	921,472	1,023,037
5		Property (p=0.8)	98,444	187,706	235,336	266,875	223,586	322,470	371,349	401,561	577,874	644,538	677,317	694,480
6		15 year risk free zero coupon bond (p=1)	16,503	17,697	14,106	21,401	87,205	81,137	91,139	127,996	500,047	499,359	507,967	531,537
7		15 year risk free zero coupon bond (p=0.8)	14,113	9,223	3,679	2,731	76,450	41,560	21,760	19,700	463,773	323,733	235,857	204,722
8		15 year risk free bonds (p=1)	24,816	35,977	39,292	50,625	105,879	119,196	126,590	150,805	488,452	476,752	488,304	517,316
9		15 year risk free bonds (p=0.8)	21,577	20,211	14,323	14,110	94,712	71,870	52,324	48,295	453,910	323,263	247,656	216,258
10		Portfolio of 65% FTSE All Share and 35% property (p=1)	74,996	191,946	271,905	339,755	179,753	331,835	435,557	516,092	535,430	684,457	811,723	908,742
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)	69,517	149,576	187,279	216,584	167,240	261,713	303,902	334,036	504,708	550,327	581,662	600,268
12		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=1)	53,283	141,309	201,517	255,696	142,735	264,158	344,046	412,881	503,781	599,794	698,267	783,421
13		Portfolio of 65% equity and 35% 15 year risk free zero coupon bonds (p=0.8)	48,980	106,384	132,155	153,477	131,437	201,971	228,901	250,753	470,806	468,324	478,618	490,568
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	34,357	94,351	139,384	185,897	120,256	207,656	270,832	332,610	498,308	553,371	627,438	697,712
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	30,710	65,222	81,204	98,047	108,766	148,301	163,280	181,426	464,224	414,409	403,566	407,369
			L=15				L=20				L=25			
16		Receiver swaptions	5.64%	6.12%	5.79%	4.61%	6.90%	7.70%	7.10%	5.52%	8.16%	9.07%	8.14%	6.17%

(iv) UK initial equity yield: 3.05%
UK initial property rental yield: 4.30%

(v) Not applicable – there are no significant territories other than the UK.

(vi) The following table shows the outstanding guarantees analysed by term. In addition, the guarantees in column B have a GAR at vesting at various strike rates as shown below.

Year	Guaranteed Benefit (Policies with no GAR)	Guaranteed Benefit (Policies with GAR)	PPPDA (Guaranteed Cash)
	£m	£m	£m
	A	B	C
2011	161	105	0
2012	188	118	1
2013	200	118	1
2014	140	117	1
2015	133	124	1
2016	59	133	1
2017	27	130	3
2018	28	136	2
2019	26	126	1
2020	93	41	2
2021	96	40	1
2022	94	36	1
2023	102	38	1
2024	105	30	0
2025	111	39	0
2026	108	32	0
2027	104	26	0
2028	111	23	0
2029	96	23	0
2030	89	20	0
2031	71	17	0
2032	64	14	0
2033	50	12	0
2034	41	10	0
2035	32	7	0
2036	23	7	0
2037	18	4	0
2038	7	3	0
2039	3	1	0
2040	1	1	0
2041	5	0	0
2042	1	0	0
2043	0	0	0
2044	0	0	0
2045	0	0	0

Specimen guaranteed annuity (£) per £1,000 cash:

		Annuity £ p.a.	
	Retirement Age	**Male**	**Female**
Executive Benefits Plan[1]	60	86.58	78.43
	65	100.00	88.50
	70	117.65	102.04
Personal Pension Plan[2]	60	92.60	82.50
	65	109.30	94.20
	70	133.80	111.30
	75	170.30	136.70

[1] guaranteed five years and payable monthly in advance
[2] payable annually in arrears

UK Equities

The asset model was calibrated by reference to the implied volatility of FTSE100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

Implied volatility data (%) at the valuation date is shown below:

Market

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	27.10	23.80	20.60	17.70	15.60
3	27.10	25.00	23.00	21.20	19.50
5	27.60	25.90	24.30	22.90	21.50
10	28.50	27.10	25.90	24.80	23.80

Model

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	25.80	23.50	21.30	18.80	16.00
3	26.30	24.70	23.10	21.70	20.20
5	26.90	25.70	24.50	23.40	22.40
10	27.10	26.20	25.40	24.60	23.90

Beyond 10 years the estimated volatility implied by the model calibration rises as follows:

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
15	30.36	29.49	28.73	28.04	27.42
20	30.24	29.53	28.95	28.45	28.04
25	30.60	30.01	29.50	29.07	28.69
30	31.67	31.07	30.56	30.10	29.69

Difference (Model – Market) %

	Strike				
Term	**0.8**	**0.9**	**1**	**1.1**	**1.2**
1	(1.30)	(0.30)	0.70	1.10	0.40
3	(0.80)	(0.30)	0.10	0.50	0.70
5	(0.70)	(0.20)	0.20	0.50	0.90
10	(1.40)	(0.90)	(0.50)	(0.20)	0.10

Property

While the market in property options is developing the market is not yet sufficiently well developed and is not suitable for calibration. Property has been modelled as an equity-type asset using a constant volatility of 15%.

Fixed Interest

A LIBOR Market Model calibrated to Gilts + 10 basis points continues to be used. The calibration at the valuation date was as follows:

Term	Govt. + 10bp	Model	Difference (Model - Market bp)
1	0.73%	0.73%	0
2	1.12%	1.12%	0
3	1.64%	1.64%	0
4	2.12%	2.12%	0
5	2.51%	2.51%	0
7	3.12%	3.12%	0
10	3.79%	3.79%	0
15	4.37%	4.37%	0
20	4.58%	4.58%	0
25	4.60%	4.60%	0

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps). The calibration at the valuation date is as follows:

Term	Market IV	Model	Difference (Model - Market bp)
1	19.10	20.31	121
2	17.10	17.95	85
3	16.10	17.06	96
4	15.30	16.37	107
5	14.60	15.93	133
7	13.50	14.94	144
10	12.60	14.49	189
15	12.20	12.88	68
20	11.70	12.09	39
25	11.50	10.96	(54)
30	11.20	10.11	(109)

Credit (Corporate Bonds)

The asset model uses a credit transition matrix. The fit of the model is targeted to the market spread on a 7 year A rated bond only. Credit derivatives are not used to derive market implied transition probabilities.

(vii) We carry out comprehensive tests on the output produced by the Barrie & Hibbert asset model as follows:

For UK and Overseas equities and for UK property we have verified that the ratio of the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) to the original asset value are acceptably close to unity– the martingale property.

The same test has been undertaken for 15-year zero-coupon gilts and for 4 classes of zero-coupon corporate bonds with terms of 1, 5, 10, 15, 20, 25 and 30 years. Departures from unity in the average discounted present values have not had a significant impact on the valuation result.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

For UK equity options we have verified, within acceptable limits, that the option prices calculated from the model output and converted into implied volatilities using the Black-Scholes formula reproduce the expected volatility surface.

We have also verified, within acceptable limits, that implied volatilities calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

(viii) The assets and liabilities have been computed using 3,000 (1,500 antithetic pairs of) simulated scenarios. This results in standard errors in the calculated yield curve of less than 1bp for terms 1- 30 years

For a 10-year at the money (based on the forward price) UK equity put option at a strike of 1.0, the standard error of the estimated option price represents 2.6% of its calculated value.

Similarly, for a range of swaptions with maturities between 5 and 25 years on underlying 20 year swaps the standard errors in the calculated prices represent, typically, 1.4% of these prices.

(b) Not applicable.

(c) Not applicable.

(5) Management Actions

(a) We do not assume that any scenario specific management actions take place in the stochastic model. However the model allows for our investment strategy as follows:

i) Re-balancing of property and equities during 2010 to bring the actual asset mix into balance with the strategic target.

ii) Close matching by outstanding term of fixed interest assets to liabilities by means of a swap overlay.

iii) An internal delta-hedge for equities and property which has an effect in the stress scenario.

iv) Reduction in equity/property backing as policies near guarantee date.

v) We assume that policy classes do not move from the guarantee-related asset mix band to which they are allocated at the valuation date, although in practice some change will occur in more extreme stochastic scenarios.

We will continue to apply existing market value adjustment (MVA) policy i.e. we allow for MVAs on surrender of UWP business (but with a "floor" based on a discounted value of the no MVA guarantee).

We assume that the guarantee charge will remain fixed at its current level, although in practice it may reduce from its current capped level in some scenarios or, in extreme scenarios, rise above it.

Reversionary bonus rates will remain at current levels in future years.

Future miscellaneous surplus will be nil.

vi) Except when less than the discounted value of maturity guarantees, exit charges on surrender for non-Libra policies will be 5% higher than on maturity. This differential reduces to nil over the last 10 years of the policy term.

For Libra policies, this exit charge on surrender will be 3% higher than on maturity. This differential also reduces to nil over the last 10 years of the policy term.

(b)

% UK & Overseas Equities		Current Valuation Date	Current Valuation Date Plus 5 years	Current Valuation Date Plus 10 years
	i	21%	25%	25%
	ii	Unchanged	Unchanged	Unchanged
	iii	Unchanged	Unchanged	Unchanged

Reversionary Bonus Rates on accumulating with profits		Current Valuation Date	Current Valuation Date Plus 5 years	Current Valuation Date Plus 10 years
		p.a	p.a	p.a
	i	0.5%	0.5%	0.5%
	ii	Nil	Nil	Nil
	iii	Nil	Nil	Nil

Derivative contracts do not have any significant impact on the figures shown.

(6) Persistency Assumptions

The surrender and paid-up assumptions are:

Product		Average surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	Surrender	2.00%	3.00%	2.00%	2.00%
CWP target cash endowment	Surrender	4.00%	4.00%	4.00%	4.00%
UWP savings endowment	Surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	Surrender	N/A	N/A	N/A	N/A
UWP bond	Surrender	N/A	N/A	10.00%	10.00%
UWP bond	Automatic withdrawals(*)				
CWP Exec Pension - regular premium	PUP	10.00%	10.00%	10.00%	10.00%
CWP Exec Pension	Surrender	5.00%	5.00%	5.00%	5.00%
CWP Personal Pension - regular premium	PUP	5.40%	5.20%	3.00%	3.00%
CWP Personal Pension - regular premium	Surrender	2.18%	1.68%	2.50%	2.50%
CWP Personal Pension - single premium	Surrender	1.20%	1.50%	1.70%	1.70%
UWP individual pension - regular premium	PUP	N/A	N/A	N/A	N/A
UWP individual pension - regular premium	Surrender	N/A	N/A	N/A	N/A
UWP individual pension - single premium	Surrender	N/A	N/A	N/A	N/A

(*) We assume that policies that are taking automatic withdrawals will continue to do so at the current rates.

We assume that future paid-up policies will lapse at the same rate as policies already paid up at the valuation date.

For pension policies surrendering within 15 years of normal retirement date a proportion of surrenders are deemed to be early retirements with associated guaranteed annuity option entitlements. The proportion of surrenders assumed to be early retirements is 100% at normal retirement decreasing linearly to 0% 15 years prior to normal retirement.

Take up Rates of Guaranteed Annuity Options

The assumed proportion of cash in each scenario is dynamic according to the following formula: -

$$Cash = Min(L, (Max(10\%, (CxF)))x(1 - Min(t,T) / SxT))$$

where

$$F = R'^{k(j)x100} x\ R^{(i-j-k(j))x100x(ABS(i-j)>semirange)}$$

and

$$k(j) = i - Min(Max(j, i - semirange), i + semirange)$$

where

L	Overall limit on cash proportion. For PALAL PPP81 and Fowler Personal Pensions we set this to the IR maximum of 25%. For all other products we set it to 1.25 x C
C	Current experience assumption
F	Overall reduction factor comprising R and R' components (see below) to reflect decline in cash as interest rates decline and GARs become more valuable.
R	Reduction factor that applies outside of central "plateau" range (R=2/3)
R'	Reduction factor that applies within central "plateau" range (R'=0.9)
$k(j)$	Interim calculation variable depending on i,j, and semirange
semirange	Central "plateau" assumed to apply over a range from (i-semirange) to (i + semirange). Set at 1%.
t	Time in years from the valuation date
T	Period over which we recognise a decline in cash due to longevity making GARs more valuable (T=30)
S	Amount of longevity decline (S=3 so that cash declines by 1/3 over T years)
i	Average yield of a long term (20 year) benchmark conventional gilt over the period used to set the current experience assumption for the GAR expense loading. This period is the 30 months from 2007 to Q2 2009 over which the average yield is 4.43%.
j	20 year gilt rate at maturity for the particular scenario

Annuitant Mortality

The mortality assumption for annuities in possession arising from the exercising of guaranteed annuity options is 5% higher than that described in Appendix 9.4, paragraph 4 (4).

(7) Policyholder Actions

Modelled policyholder behaviour is static i.e. it does not vary between the different stochastic simulations apart from GAR take up rates, which vary according to the formula in (6) above.

7. FINANCING COSTS

There is a financing arrangement in place to provide support to the long-term fund. This is fully described in note 1508. For the purposes of the realistic valuation £157.7m is deemed not repayable being the amount required to produce a value of zero on line 68 of Form 19 and is included as an item within the reconciliation of regulatory and realistic current liabilities in section 9.

8. OTHER LONG-TERM INSURANCE LIABILITIES

No amounts have been included in Line 46 of Form 19. The amount shown in Line 47 of Form 19 is made up as follows:

Additional reserves	
Litigation	8.1
Data Contigency Reserve	6.8
Endowment Mis-selling	2.3
UISL VAT reserve	1.2
Reversal of tax credit	14.7
Overdue claims	3.9
Reversionary Annuities	3.8
Projects	7.6
GAR end date	6.5
Solvency II	8.6
Actuarial Systems Transformation	7.1
UISL risk transfer	10.5
Adjustment to modelled fees	(5.0)
Additional investment service fees	11.0
Other	11.2
Total Additional Reserves	98.3

(a) Litigation Costs and potential other costs

A liability has been included for future litigation settlements and other similar costs.

(b) Data contingency reserve

A liability has been included for additional liabilities which may arise in connection with data errors affecting the long-term business.

(c) Endowment Compensation Reserve

Some policyholders have been given non-compliant advice to take out an endowment policy to repay a mortgage.

A realistic amount to cover the cost of providing compensation to them has been assessed from the number of complaints expected to be received, the proportion anticipated to be valid and the expected amount of compensation per case payable, account being taken of the FSA guidelines on determination of compensation. Provision has also been made for the cost of handling complaints received.

(d) UISL VAT reserve

Additional realistic reserves are held in respect of potential VAT changes before 1st September 2012, after which the provisions of the new MSA agreement take effect.

(e) Reversal of tax asset

Assets on Form 13 include an amount of £42.9m in relation to the Group tax relief of notional case 1 losses. The value of this tax benefit to the long term fund has been assessed to be £28.2m. A provision of £14.7m has therefore been made to allow for the difference.

(f) Overdue Claims

This is a manual reserve that is held to provide for the position where, at some time in the past deferred annuities may have been removed from the administration systems but no claim payment (or pension in payment) appears to have been paid or established.

(g) Reversionary annuities

This reserve is to allow for the liability in respect of reversionary annuities that have been removed from the system and have not had a new record added which reflects the death of the main life (changing the annuity to an annuity in payment).

(h) Future projects

The provision for future unknown projects has been reviewed by looking at project activity over 2007-9.

(i) GAR end date

This reserve is required because the realistic model is not able to allow correctly for the removal of the GAR end date at a mid year (ie 31 July 1999 for Transfer Plan and 30 June 1999 for DSS).

(j) Solvency II

The provision was established in December 2009 on all bases to cover expected the costs of the Solvency II project apportioned to PALAL.

(k) Actuarial Systems Transformation

This provision is to cover the costs of this project apportioned to PALAL.

(l) UISL risk transfer

This provision is held to offset an accounting prepayment asset held to cover a transfer of risk payment made to the new administration services provider.

(m) Adjustment to modelled fees

The realistic models cannot allow directly for the existing (lower) fees that apply up to August 2012. Therefore a negative provision of £5m has been set up to allow for this difference.

(n) Additional investment service fees

This provision is required because no allowance has been made for these additional service fees in the investment expense assumptions used in the actuarial models.

9. REALISTIC CURRENT LIABILITIES

(a) Future Tax Adjustment

The realistic balance sheet calculations assume that tax will be payable in relation to the realistic proportion of life business. In reality the tax is calculated by reference to statutory liabilities. An adjustment is made to assume that future tax will be based on the statutory life proportion rather than the realistic life proportion.

The liability as at the valuation date amounted to £(4.2)m, i.e. the future tax adjustment is an asset.

(b) Additional Tax on Shareholder Transfers

An allowance is made for the additional tax arising on transfers to shareholders in respect of life business. This is calculated as a percentage of the present value of future transfers to shareholders in respect of life business; the percentage is as used in the embedded value calculation.

The liability at the valuation date amounted to £1.7m.

(c) Future Reinsurance Profits

The Company reinsures part of its endowment, whole life and UWP liabilities to Phoenix Life Limited ("PLL").

We recognise the value of the excess of future expected reinsurance claims over payments to the Company's policyholders.

At the valuation date the value of these excesses amounted to £41m in respect of endowment and whole life reinsurances to PLL and £15.0m in respect of the UWP reinsurances to PLL.

(d) Contingent Loan

In the regulatory valuation no liability is recognised to repay the £227.3m contingent loan. In the realistic valuation it is assumed that the excess over the £157.8m required to give zero working capital is repayable.

The reconciliation of the realistic current liabilities to the regulatory current liabilities is:

	£m
Regulatory current liabilities	2,641
Future tax adjustment	(4.2)
Additional tax on shareholder transfers	1.7
Reinsurances	(56)
Contingent loan	(157.8)
Realistic current liabilities	2,424

10. RISK CAPITAL MARGIN

(a) The risk capital margin (RCM) amounts to £118.5m.

(i) The market risk scenario assumes that equities falls by 20% and real estate falls by 19.1%.

(ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.70%. This is consistent with a rise, or fall of 17.5% in the long term gilt yield. A fall in yields is the most onerous scenario.

(iii) The average change in spread for bonds backing with-profits liabilities, other than those issued or guaranteed by a credit risk scenario exempt organisation, is 1.77%:

(a) The change in the market value of bonds backing with profits liabilities, other than those issued or guaranteed by a credit risk scenario exempt organisation, is -6.74%
(b) not applicable
(c) not applicable
(d) not applicable
(e) The change in the market value of swaps is 8.17%. The change in value of the spreadlocks is -2.80%.

(iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency risk is +0.23%.

(v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).

(b) In the stress scenarios we further assume that:

(i) Annual bonus rates will be reduced to nil on traditional business and UWP business.

(ii) The data contingency provision increases from the £6.6m in the base scenario to £13.2m.

(iii) These actions are consistent with our PPFM and investment strategy.

(iv) The estimated effect of assuming reduced annual bonuses is to reduce the RCM by £10m.

(v) If the management actions described in 10(b)(i) were integrated into the projection of assets and liabilities and thus disclosed in 6(5)(a), the effect on table 6(5)(b) would be that reversionary bonus rates on accumulating with profits policies would be nil for each future year in question and for each scenario. There would be no change to future proportions of equity assets

(vi) The requirements of INSPRU 1.3.188R would be met if the actions described in 10(b)(i) were integrated into the projection of assets and liabilities.

The margin applied to the liability for deferred annuity policies and policies with a guaranteed annuity rate described in 6(3) above is also applied to the liabilities in the stressed market conditions. This is then applied to asset shares and the estate as in the base case.

(c) (i) The risk capital margin is covered by a combination of assets in the long term fund (being part of the contingent loan deemed not repayable) and shareholder fund which is principally invested in money market instruments and government gilts.

(ii) The Company has in place an internal capital support memorandum which provides for the transfer of contingent loan within the shareholders' fund to the long term fund should the need arise.

11. TAX

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

An approximate adjustment is made to allow for any differences between the tax calculated as described and the tax expected on a corporate basis. The adjustment is calculated within the stochastic model.

12. Derivatives

At the valuation date the company continued to hold a number of significant positions in interest rate swaps and swaptions. These positions are reviewed from time to time to ensure they continue to meet the risk reduction requirements of the fund.

The interest rate swaps are held in connection with the fixed interest portfolio and are used to improve the matching between the assets and the liabilities against changes in the yield curve for the long-term fund as a whole.

The interest rate swaptions are held in respect of the GAR liabilities. Receiver swaptions are held to cover part of the GAR liability where the with-profits benefits reserve is invested in equities or property. Payer swaptions are held where the-with profits benefits reserve is invested in fixed interest assets and the expected annuity benefit arising is matched by fixed interest investments.

The company has also entered into a number of swap spread lock contracts. These are used to hedge against the risk of swap spreads widening on the long (30 to 50 year) interest rate swaps that are currently held. They are structured as swaps or contracts for differences with the payout dependent on the swap spread at maturity relative to the initial swap spread, and can be a net asset or liability.

The contracts are denominated in sterling, are with approved credit institutions and collateral arrangements are in place to cover any risk of default.

13. Analysis of Working Capital

The movement in working capital over the twelve months to the valuation date is shown in the following table.

	£m
Opening working capital	**0.0**
Model adjustment and corrections	27.3
Retrospective changes to asset shares	0.0
Margin on vesting annuities as per 6(3)	(45.7)
Mismatch profits and losses	0.0
Assumption changes	
- Non-economic	5.3
- Economic	18.5
- Policyholder actions	0.0
Impact of new business	0.0
Other Variances	
- New provisions	(20.2)
- Compensation costs	0.0
- Charges	0.0
- Other non-economic	(13.8)
Change in contingent loan utilised	18.8
- Unexplained	9.8
Closing working capital	**0.0**

The following table shows a breakdown of the liabilities shown on lines 47 and 51 of Form 19 at the start and end of the year:

£m	**Current Valuation £m**	**Previous Valuation £m**
Compensation costs	2.6	3.0
Tax credit reversal	14.7	14.7
Other provisions	80.9	61.4
Form 19 Line 47 total	**98.3**	**79.1**
Accounting liabilities	2,641.0	848.5
Future tax profit	(4.2)	(5.8)
Additional tax on shareholders' transfers	1.7	1.8
Reassurance assets	(56.3)	(56.2)
Contingent loan	(157.8)	(138.9)
Form 19 Line 51 total	**2,424.4**	**649.5**

The effect of the change in the provisions for compensation costs together with the amounts paid are shown as "compensation costs" in the analysis of change table.

14. Optional Disclosure

None made.

Returns under the Accounts and Statements Rules

Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36

Phoenix & London Assurance Limited

Global business

Financial year ended 31 December 2010

Throughout the year, the actuary who was appointed to perform the with-profits actuary function for the Phoenix & London Assurance Limited With-Profits Fund was Mr A E Burke.

1 (a) Mr Burke held an insurance policy issued by the insurer in the normal course of business, the transactions being of a minor nature.

(b) The aggregate of the remuneration and value of other benefits receivable by Mr Burke from the insurer in respect of 2010 was £212,315

(c) Mr Burke was throughout the year a member of the PGL Pension Scheme, and was entitled to the standard benefits under the rules of the scheme.

(d) During the year, Mr Burke held options to subscribe for 11,255 shares in Phoenix Group Holdings, the ultimate holding company, granted under the Company's Long Term Incentive Plan and the Save As You Earn Scheme (SAYE).

2 The insurer has made a request of Mr Burke to furnish to it the particulars specified in rule 9.36(1) of IPRU(INS). The above particulars were obtained from the insurer's Human Resources records with the permission of Mr Burke.

Note 1

Under rule 9.36(4) of IPRU(INS), reference to the insurer includes reference to any body corporate which is the insurer's subsidiary undertaking or parent undertaking and to any other subsidiary undertakings of its parent undertaking.

Returns under the Accounts and Statements Rules

Certificate required by rule 9.34(1)

Phoenix & London Assurance Limited

Global business

Financial year ended 31 December 2010

We certify that:

(1) (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and

(b) we are satisfied that:

(i) throughout the financial year, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and

(ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.

(2) (a) in our opinion, premiums for contracts of long-term insurance business entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular to establish adequate mathematical reserves;

(b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business; and

(d) the directors, have in preparing the return, taken and paid due regard to:

(i) advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and

(ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

M J Merrick	A Moss	J Yates
....	....	....
Chief Executive	Director	Director

Date: 22 March 2011

Returns under the Accounts and Statements Rules

Certificate required by rule 9.34(1)

Phoenix & London Assurance Limited

Global business

Financial year ended 31 December 2010

Note to the Directors' Certificate

1 Principles and Practices of Financial Management

Paragraph 2(c) which relates to the management of the with-profits fund in accordance with the Principles and Practices of Financial Management (PPFM), has been omitted from the return due to certain minor instances where the management of the fund differed from the PPFM but these have not resulted in the unfair treatment of policyholders.

Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Phoenix & London Assurance Limited

Global business

Financial year ended 31 December 2010

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 11 to 19, 40 to 45, 48, 49, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the valuation reports required by IPRU(INS) rule 9.31 ("the valuation reports").

We are not required to audit and do not express an opinion on:

- Forms 46, 47, 50 to 54, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate required by IPRU(INS) rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with IPRU(INS) rule 9.35. Our audit work has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the direction issued under section 148 of the Act referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also 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; or

- the Forms, the statement and the valuation reports are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 23 March 2011. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation reports.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

Opinion

In our opinion:

(a) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and

(b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports appropriately reflect the requirements of INSPRU 1.2 and 1.3.

Ernst & Young LLP

Ernst & Young LLP
Statutory Auditor
London
Date: 23 March 2011