

**Windsor Life Assurance Company Limited**  
**Annual report and financial statements 2009**

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# Directors and officers

<b>Board of Directors</b>	Richard Hudson	Chairman
	Graham Singleton	Chief Executive Officer (appointed 28 September 2009)
	Roger Craine	Director (appointed 1 October 2009)
	Michael Eves	Director (appointed 1 October 2009)
	Duncan Ferguson	Director (appointed 1 October 2009)
	Jim Gallagher	Director (appointed 1 October 2009)
	Christian Mumenthaler	Director (appointed 1 October 2009)
	Michael Urmston	Director (appointed 1 October 2009)
	Weldon Wilson	Chairman (resigned 31 December 2009)
	Jonathan Yates	Chief Executive Officer (resigned 18 September 2009)
	David Baxter	Director (resigned 1 October 2009)
	Bob Howe	Director (resigned 1 October 2009)
	Mark Swallow	Director (resigned 1 October 2009)
	Craig Thornton	Director (resigned 1 October 2009)

<b>Company Secretary</b>	Andrew Nash (appointed 21 January 2010)
	Paul Shakespeare (resigned 21 January 2010)

<b>Actuarial Function Holder</b>	Paul Downey
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<b>Solicitors</b>	Freshfields LLP, London
	Wragge & Co, Birmingham

	Nicholson, Graham & Jones London
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<b>Bankers</b>	HSBC
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<b>Consulting actuaries</b>	Towers Watson, London
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<b>Auditors</b>	PricewaterhouseCoopers LLP Hay's Galleria 1 Hay's Lane London SE1 2RD
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<b>Registered office</b>	Windsor House Telford Centre Telford Shropshire TF3 4NB
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<b>Company Registration Number</b>	754167
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# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2009.

### **Business review and principal activities**

The Company is part of the Swiss Re Group, a worldwide reinsurance and financial services company and the ultimate parent undertaking of the Company. Swiss Re transfers into the Company acquired individual closed blocks of in-force long-term life, pensions and health business, either through reinsurance or by the purchase of an entire life insurance company and the transfer of its business to the Company under Part VII of the Financial Services and Markets Act 2000. The Company then administers the policies until they reach maturity or are surrendered or an insured event occurs. The principal products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities.

The Company's parent undertaking, Admin Re UK Limited (ARUK) acquired Barclays Life Assurance Company Limited (BLA) on 31 October 2008 comprising around 760,000 life insurance, pension policies and annuity contracts representing £6.8 billion in invested assets. It is anticipated that the business of BLA will be transferred to the Company by way of a Part VII transfer within the next 12 months.

In 2008 and also the beginning of 2009, the Company was impacted by declining asset values and the Company saw falls in the value of its equity and fixed income portfolios. Due to declining asset values, the Company has taken a number of actions to protect its solvency position in 2008 and 2009. In 2008, the Company entered into three intra-group retrocessions (IGR) with Swiss Reinsurance Company Ltd to improve the regulatory capital position of WLA. The IGR's give a reduction in annuity liabilities of £390m in return for an obligation to transfer to the reinsurer future surplus emerging on certain unit linked business and also provide protection against future improvements in mortality for some annuity business. This improved regulatory solvency but did not result in an increase in net assets as under UK GAAP we recognise a corresponding creditor for future premiums payable under the IGR in the balance sheet.

In May 2009, ARUK made a capital contribution of £37m to the Company. A further £105m capital contribution was made in December 2009. The solvency position was improved in order to enable the company to strengthen the assumption in relation to structured settlement products, to strengthen the reserving basis for corporate bond default and to maintain a further margin over respectability capital. Management continue to monitor the solvency of the Company in order to manage this economic risk.

As part of the service to existing customers, the Company continues to write small amounts of new business on a passive basis, responding to requests for pension annuities on retirement of existing policyholders, top-ups to existing contracts, single premium reinvestment options at maturity and recurrent single premiums. New business premium income for 2009 was £155.7m (2008: £108.0m).

Windsor Life is preparing for Solvency II and IFRS implementation in 2012 and have dedicated resources to these key regulatory developments. The main aim of Solvency II is to establish a revised set of EU-wide risk based capital requirements that will replace the current Solvency I requirements. This will result in capital requirements that are better matched to the true risks of the insurer and ensure consistency across Europe. The Regulator's requirements, to perform a gap analysis and indicate intention to apply for internal model approval, have been achieved within timescales and the Company is hoping to have a fully approved model by the implementation date of October 2012.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

### **Business environment**

The Company operates in a highly competitive market although lack of available capital has restricted the number of companies actively seeking to make acquisitions. Once business has been transferred into the Company it must work to retain the business by providing excellent customer services. The Company has access to a market leading administration system which allows it to deliver on its customer service objectives.

The Company has exposure to some individual asset backed securities. These holdings range from residential and commercial mortgage backed securities to whole business securitisations, such as UK regulated water companies. Most of the underlying holdings represent European and UK based assets. The Company uses Swiss Re Asset Management (SRAM) and other external asset managers to manage performance and to value and monitor the holdings and report the performance of the Company's investment portfolio to the Investment Management Committee at the Board's request.

In accordance with the Company's accounting policies these investments are held at fair value. The valuation is established with reference to external market sources where available and in certain limited situations management judgement where external valuations are not considered reliable. Valuation methods are described fully in note 1(c). There was no significant impact on the suitability of these holdings for liability matching as at 31 December 2009.

The Company's internal audit function advises management on the effectiveness of its internal control systems and the adequacy of these systems to manage business risk and to safeguard the Company's assets and resources. The effectiveness of the Company's internal audit function is currently reviewed by the Admin Re Audit and Risk Committee.

### **Business strategy**

The business strategy is to be a major life and pensions consolidator in the UK market by offering companies who wish to exit from closed books of business the opportunity to do so and producing from the consolidated business suitable economies of scale so that a stable profit stream is generated.

As a group Swiss Re aims to optimise its allocation of capital and enable insurers to release capital from non-core operations. This is done by sourcing and securing closed blocks of in-force life and health business and assuming responsibility for administering the underlying policies. It increases operational efficiency by removing the need for life insurers to maintain legacy IT systems and processing infrastructures. This enables a company and its shareholders to exit a line of business and redeploy the resulting capital and available resources to core operations or new ventures.

The Company retains business and manages policyholder expectations with the following strategies:

- building on our systems architecture to deliver excellent policyholder administration and constantly updating for changing regulatory requirements;
- investments managed by experienced investment managers delivering consistently competitive returns; and
- risks controlled by comprehensive risk mitigation processes, systems and procedures.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

The Company believes that this enables it to operate in line with its core values:

- We willingly serve our customers, meaning our policyholders, business partners and each other.
- We recognise our customers' interests and treat them fairly.
- We respond to our customers' needs in a timely, consistent and transparent manner.
- We are committed to high standards of quality.

### Future outlook

The Company continues to service its existing policyholders and manage the challenges arising from the current economic environment. As the UK emerges from a period of recession the expectation from customers, investors, governments and regulators is changing rapidly and pervasively. The environment will continue to evolve at a rapid pace over the next two to three years, making a return to the relative stability and certainty that preceded the crisis unlikely, at least in the short term. In the current environment the Company's strategy is focussed on improving customer retention which can add significantly to the embedded value of the business. This can be achieved by improving customer service, developing a brand image and maintaining an effective cost base and relative investment performance.

ARUK manages the administration function on behalf of the Company and recharges for the services provided. The amount recharged is set on a per policy basis based on pre-determined tariffs. The financial risk is therefore transferred to ARUK and any additional costs in excess of the tariffs received will be borne by ARUK and any excess income will benefit ARUK. The management service agreement (MSA) was implemented on 1 January 2008.

### Principal risks and uncertainties

The following have been defined as key business risks:

**Market risk** is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk typically comprises currency risk, interest rate risk and other price risk. Interest rate risk is discussed separately below. Other price risk is the risk that arises from changes in market prices and these may be caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. The risk is carefully monitored in the monthly Windsor Life Investment Management Committee meetings. If required, investment managers will be asked to re-balance the portfolio to avoid over exposure to one class of asset, location or business sector. Prices are sourced from a variety of providers, primarily Interactive Data, FTI, Markit and Thomson Reuters.

For unit-linked policyholder funds, where the policyholder bears the underlying investment risk, the Company invests the assets in accordance with the stated objectives for the particular fund which the policyholder has selected. In certain cases this is a single investment, as prescribed. For with-profits funds, the Company invests the assets in a diverse portfolio covering a wide range of asset classes and geographical regions in order to manage market risk, but with regard to the capital position of the fund and the guaranteed element of certain benefits. For non profit and shareholder funds the Company invests in a diverse portfolio of assets appropriate to the nature of the underlying liabilities. The assets held are either in the currency of the liabilities or are hedged to ensure that is the case.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

**Insurance risk** includes risk arising due to adverse movements in mortality, longevity, morbidity and persistency. The risk is managed using a variety of techniques including trend analysis, appropriate modelling, pooling of risk, reinsurance and prudent provisioning. In common with other major risks an amount of risk capital over and above the Minimum Capital Requirement (MCR) is held by the Company to cover insurance risk.

**Interest rate risk** is the risk that the fair value of financial assets or liabilities will fluctuate because of changes in market interest rates, and in particular that those fluctuations may not be well matched. This is monitored by calculating the mean duration of the investment portfolio (the mean duration is an indicator of the sensitivity of the assets and liabilities to changes in the current interest rates). The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using the statutory valuation basis. Any divergence that occurs between the mean duration of the assets/liabilities is minimised by buying and selling fixed interest securities to achieve the desired portfolio duration.

Where appropriate the Company invests particular fund assets so that the duration is closely matched to that of liabilities. In addition, the Company monitors the expected asset and liability cash flows to ensure that they are broadly similar.

**Equity price risk** is the risk that the fair value of equities held will fluctuate because of changes in the equity markets. The equity holdings of the Company are primarily in the with-profits and unit-linked funds. To mitigate this risk, investments are monitored in order to ensure compliance with the regulatory limits for solvency purposes. Investments held are listed on recognised stock exchanges or are collective investment schemes approved by the EU under the UCITS directive. Again, these risks are monitored as part of the Windsor Life Investment Management Committee meetings.

**Credit risk** is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- exposure to corporate bonds and asset backed securities;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- resultant valuation rate used to value liabilities.

The Company places limits on its exposure to a single counterparty and to geographical and industry segments. For bonds that do not carry a public rating the investment manager follows a process to assign an internal credit rating.

**Liquidity risk** is the risk that cash may not be available to pay obligations when due at a reasonable cost. Therefore the Board sets limits on the minimum proportion of liquid investments available to meet such obligations. Limits are also set on property holdings, the Company's least liquid investment. As the vast majority of the Company's assets are listed investments and realisable in a relatively short period of time and with maturity dates to match liabilities, overall the liquidity risk of the Company is considered to be low.

**Expense risk** is the risk that expenses may not be well controlled and unplanned increases in expenses may threaten the solvency of the Company and the security of the policyholders. The Company mitigates this risk by having in place a management services agreement (MSA) with ARUK which charges the company a fixed fee per policy, while incurring the majority of expenses itself. The financial expense risk is therefore transferred to ARUK. Other costs outside of the MSA are controlled by a robust business, planning and budget cycle and where appropriate these are provided for in the company reserves.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

**Operational risk** is the risk of loss that arises from people, processes and procedures within the organisation. Within the Company this is wide ranging and can cover risks arising from policy administration issues. These are generally processing or platform functionality errors, data quality (which predominantly arise from errors made in historic conversions), financial modelling, corporate tax, business continuity and outsourcing. The Company mitigates its operational risk by the use of a wide range of techniques including scenario planning, training, formal risk assessments and policy and procedure documentation. The Company monitors operational risk through routine management information and auditing.

### Key Performance Indicators

<b>KPI</b>	<b>2009</b>	<b>2008</b>
Solvency ratio (Non-profit fund) - (NPF)	189%	165%
Solvency ratio (With-profit fund) - (WPF)	431%	447%
Policy count	1,203,000	1,274,000
Complaints per 1,000 policies	0.35	0.49

### Solvency ratio (NPF)

The solvency ratio is a key measure of the financial strength of the Company and represents the amount of capital held above the regulatory MCR. In the opinion of the Directors in holding the MCR and an amount of respectability capital based on an assessment of risks the Company faces, the Company has sufficient capital to cover the risks inherent in the business and to cover a very wide range of adverse scenarios. The declining asset values seen in 2008 and early 2009 relative to preceding years has exposed the company to additional risk in its capital position. The Directors therefore continually monitor the solvency of the business to ensure that the Company is adequately capitalised.

### Solvency ratio (WPF)

Surplus in the WPF is retained for future allocation between policyholders and shareholders. As the WPF is exposed to equity risk the surplus acts to mitigate the risk that in adverse market conditions the fund may not have the assets to cover its contractual liabilities or may not be able to meet the reasonable expectations of policyholders.

### Complaints per 1000 policies administered

The Company monitors complaint numbers to ensure that policyholders are receiving a high standard of policy administration and so that issues arising can be investigated, and if appropriate, processes and procedures changed to ensure that complaints do not occur again. In the early part of 2008 the Company saw an increase in the number of complaints which were from issues with an administration platform transfer. These issues have now been addressed, resulting in a reduction of complaints received per 1000 policies from 0.49 in 2008 to 0.35 in 2009. The Company holds a reserve to enable it to meet costs that arise from complaints or missold policies.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

### Treating customers fairly

The fair treatment of customers has always been a key objective of WLA. Over the last 5 years, this principle has received renewed emphasis from the Financial Services Authority (FSA) and lots of initiatives have been undertaken to demonstrate our commitment to delivering this throughout our operations and processes.

WLA has an established Treating Customers Fairly (TCF) framework, setting out fairness principles for the key business activities, supported by a series of practices which are actual examples of activities carried out to evidence that the Company treats customers fairly. An extensive gap analysis has been carried out to identify and implement improvements, such as becoming lifetime members of the Plain English Campaign (PEC), to build on the Company's commitment to using plain English in policyholder communications.

WLA have embedded TCF into our corporate strategy, with appropriate staff engagement and practices to evidence this throughout the culture of the firm. We produce regular Management Information to measure performance against appropriate customer fairness issues and take appropriate actions on the results.

TCF remains a key priority for 2010, through both business as usual activities and projects, demonstrating our strong commitment to delivering fair customer outcomes.

### Results and dividends

The results for the year are set out on pages 14 and 15. The retained profit for the year is £0.1m (2008: £470.4m loss) and the net assets are £283.2m (2008:£141.1m).

The directors have declared or proposed the following dividends:

	<u>2009</u>	<u>2008</u>
	<u>£m</u>	<u>£m</u>
Ordinary dividends		
- 2007 Interim paid	-	215.0
- final proposed	-	-
	<hr/>	<hr/>
	-	215.0
Preference dividends paid	-	-
	<hr/>	<hr/>
	-	215.0
	<hr/> <hr/>	<hr/> <hr/>

### Directors

The names of the Directors who served during the year up to 31 December 2009 are listed on page 3.

### Directors' interests

No director had any disclosable interests in the share capital of the Company or any other group company.

# Windsor Life Assurance Company Limited (registered number 754167)

## Directors' report

### **Statement of Directors' responsibilities**

The following statement should be read in conjunction with the Independent Auditors' Report set out on page 12 with a view to distinguishing for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and accounting estimates that are reasonable and prudent;
- (iii) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that the financial statements comply with the above requirements and also confirm that:

- (v) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (vi) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Creditors payment policy**

It is the Company's policy to pay suppliers promptly and it fully supports the Government's initiative to encourage and promote the practice. The Company's average creditor payment period at 31 December 2009 was 25 days (2008: 27 days).

### **Auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

Windsor Life Assurance Company Limited (registered number  
754167)  
Directors' report

**Website posting**

These financial statements are published on the Company's website [www.windsor-life.com](http://www.windsor-life.com).

A printed version of the annual report and accounts is available from the Company's registered office.

On behalf of the Board of Directors

Graham Singleton  
Director  
29 March 2010

# Independent auditors' report to the members of Windsor Life Assurance Company Limited

We have audited the financial statements of Windsor Life Assurance Company Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Section 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

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

# Independent auditors' report to the members of Windsor Life Assurance Company Limited

## **Matters on which we are required to report exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Gordon Ireland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

29 March 2010

# Profit and loss account

## Technical account - long-term business

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	361.8	369.1
Outward reinsurance premiums	2	(330.9)	(405.0)
		30.9	(35.9)
Investment income	3	705.0	1,025.5
Unrealised gains on investments	3	1,957.0	-
Other technical income	10	106.6	89.8
<b>Net income in year</b>		<b>2,799.5</b>	<b>1,079.4</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- Gross amount		(1,036.9)	(1,099.3)
- Reinsurers share	2	346.0	10.3
Net claims paid		(690.9)	(1,089.0)
Change in the provision for claims			
- Gross amount		2.3	(13.2)
- Reinsurers share	16,2	(0.7)	0.1
Net change in claims provision		1.6	(13.1)
<b>Net claims cost in year</b>		<b>(689.3)</b>	<b>(1,102.1)</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Long-term business provision, net of reinsurance			
- Gross amount	16	(113.4)	465.3
- Reinsurers share	16,2	(6.9)	428.9
Other technical provisions			
- Technical provisions for linked liabilities gross amount		(1,349.7)	1,674.2
- Technical provisions for linked liabilities reinsurers share	16,2	(0.5)	18.5
<b>Net change in other technical provisions in year</b>		<b>(1,470.5)</b>	<b>2,586.9</b>
Net operating expenses	4	(40.8)	(46.6)
Investment expenses and charges	3,6	(600.8)	(41.2)
Unrealised losses on investments	3	-	(2,954.5)
Other technical charges	10	-	(24.6)
Tax attributable to the long-term business	11	27.4	(0.9)
Transfers (to)/from the fund for future appropriations	16	(35.7)	76.0
<b>Balance on the long-term business technical account</b>		<b>(10.2)</b>	<b>(427.6)</b>

# Profit and loss account

## Non-technical account

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
<b>Balance on the long-term business technical account</b>		<b>(10.2)</b>	<b>(427.6)</b>
Tax credit attributable to balance on long-term business technical account	11	(4.0)	(16.4)
<b>Shareholder's pre-tax loss from long-term business</b>		<b>(14.2)</b>	<b>(444.0)</b>
Investment income	3	(85.6)	8.7
Unrealised gains/ (losses) on investments	3	101.6	(66.5)
<b>Profit/(loss) on ordinary activities before tax</b>		<b>1.8</b>	<b>(501.8)</b>
Tax on (profit)/loss on ordinary activities	11	(1.7)	31.4
<b>Profit/(loss) for the financial year</b>	23	<b>0.1</b>	<b>(470.4)</b>

*All of the amounts above are in respect of continuing operations.*

*The accounting policies and notes on pages 18 to 51 form an integral part of these financial statements.*

# Balance sheet

As at 31 December 2009

## Assets

	Notes	2009 £m	2008 £m
<b>Investments</b>			
Land and buildings	13a	275.8	279.4
Investments in group undertakings	13b	297.4	279.1
Other financial investments	13c	8,153.7	7,949.3
<b>Assets held to cover linked liabilities</b>	15	8,043.9	7,148.3
<b>Reinsurers' share of technical provisions</b>			
Long-term business provision	16	653.3	660.2
Technical provision for linked liabilities	16	29.7	30.1
Claims outstanding	16	2.7	3.4
<b>Debtors</b>			
Debtors arising out of direct insurance operations		20.2	21.4
Debtors arising out of reinsurance operations		15.2	25.4
Other debtors	21	76.5	54.4
<b>Other assets</b>			
Cash at bank and in hand		52.4	4.7
<b>Prepayments and accrued income</b>			
Accrued interest and rent		154.7	150.9
Deferred acquisition costs		0.2	0.3
<b>Total assets</b>		<b>17,775.7</b>	<b>16,606.9</b>

# Balance sheet

As at 31 December 2009

## Liabilities

	Notes	2009 £m	2008 £m
<b>Capital and reserves</b>			
Called up share capital	22	262.9	262.9
Other reserve	23	32.7	32.7
Profit and loss account	23	(12.4)	(154.5)
<b>Total shareholders' funds</b>	<b>24</b>	<b>283.2</b>	<b>141.1</b>
<b>Fund for future appropriations</b>	<b>16</b>	<b>104.1</b>	<b>68.4</b>
<b>Technical provisions</b>			
Long-term business provision	16	8,444.4	8,331.0
Claims outstanding	16	62.4	64.7
<b>Technical provision for linked liabilities</b>	<b>16</b>	<b>8,065.7</b>	<b>7,156.7</b>
<b>Total fund for future appropriations and policyholder liabilities</b>		<b>16,676.6</b>	<b>15,620.8</b>
Present value of future profits on non-participating business written in the with-profits fund		(67.0)	(48.9)
		<b>16,609.6</b>	<b>15,571.9</b>
<b>Provisions for other risks</b>	<b>26</b>	<b>2.0</b>	<b>2.0</b>
<b>Deposits received from reinsurers</b>		<b>185.8</b>	<b>195.3</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		15.1	11.5
Creditors arising out of reinsurance operations		391.5	400.1
Other creditors including taxation and social security	27	288.5	285.0
<b>Total liabilities</b>		<b>17,775.7</b>	<b>16,606.9</b>

The financial statements were approved and signed on it's behalf by the Board of Directors on 29 March 2010.

Roger Craine

Director

*The accounting policies and notes on pages 18 to 51 form an integral part of these financial statements.*

# Notes to the financial statements

## 1. Accounting policies

### *a) Basis of presentation*

The financial statements have been prepared under the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("S12008/410") relating to insurance groups in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and as amended in December 2006.

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006 and applicable accounting standards. A summary of the Company's more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The Company is exempt from preparing a cash flow statement in accordance with Financial Reporting Standard 1 (revised 1996) as the ultimate parent company Swiss Reinsurance Company Ltd prepares a consolidated cash flow statement in which the results of the company are included. In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8, not to disclose details of transactions with other related companies as the Company is a wholly owned subsidiary.

### *b) Changes in accounting policies*

Regulations made under the Companies Act 2006 replace the previous requirements for insurers' accounts which were set out in Schedule 9A to the Companies Act 1985 ("CA85"). Other disclosure changes as a result of Companies Act 2006 include:-

- Disclosure of the nature, purpose and financial impact of any significant off balance sheet arrangements

The amendment to FRS29 'Financial Instruments: Disclosures' has been adopted in these financial statements for the first time and the disclosures it requires are for the current period only. The amendment introduces a three-level hierarchy for disclosure of financial instruments measured at fair value and requires some specific quantitative disclosures for financial instruments (both assets and liabilities) in the lowest level in the hierarchy. In addition there are enhancements for the disclosures of liquidity risk and a requirement for a maturity analysis of financial assets held for managing liquidity risk.

An amendment to FRS 8 'Related party transactions' is applicable for this accounting period. The definition of related party has been amended to be consistent with IAS 24.

An amendment to Urgent Issues Task Force 42 (UITF42) 'Reassessment of embedded derivatives' and FRS26 'Financial Instruments: Recognition and Measurement' is applicable for this accounting period. This clarifies the treatment of embedded derivatives when an entity reclassifies a financial asset out of the fair value through profit or loss category. This amendment has no impact on WLA.

### *c) Contract classification*

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts that have a discretionary participating feature are accounted for using accounting policies relevant to insurance contracts (see accounting policies (d) and (e)).

# Notes to the financial statements

## 1. Accounting policies (continued)

Under FRS 26 and the Fair Value Directive, investment contracts without a discretionary participating feature are measured at fair value. The financial liability in respect of investment contracts without a discretionary participating feature, whose value is linked to a specific pool of financial assets, is matched to the value of the financial assets at bid value. The majority of the Company's investment contracts without a discretionary participating feature are unit linked.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Amounts received under investment contracts (other than those with a discretionary participating feature) are treated as increases in investment contract liabilities. Similarly, amounts paid under investment contracts (other than those with a discretionary participating feature) are recorded as deductions from investment contract liabilities.

*Valuation of assets at fair value through the profit and loss account.*

The Company classifies on initial recognition, other financial investments into two classes specified by FRS 26: financial assets at fair value through profit or loss and loans and other receivables.

All financial investments are classified as fair value through profit or loss unless they fall into the category of loans and other receivables. The classification reflects the purpose for which investments were acquired or originated. Where the fair value category is used, this reflects the Company's strategy to manage its financial investments acquired to cover its long-term insurance contract liabilities. These financial investments are managed and their performance is evaluated by the Company on a fair value basis.

All regular way purchases and sales of financial investments are recognised on the trade date i.e. the date the Company commits to purchase or sell the investments. Regular way purchases or sales of financial investments are those under a contract whose terms require the delivery of assets within the time frame established generally by regulation or convention in the market place concerned.

Financial assets at fair value through profit or loss are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments are recorded in the profit and loss account. Financial assets at fair value through profit or loss include derivative financial instruments.

Fair values for other financial investments are based on quoted bid prices on the balance sheet date for listed instruments. Liquid investments are valued in accordance with note 1(h).

Loans and other receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method. Gains and losses are recognised in the profit and loss account when the investments are sold or impaired, as well as through the amortisation process.

### **d) Premiums**

Premiums, consideration for annuities and reinsurance premiums are accounted for when due for payment, except for unit-linked payments which are accounted for when units are created.

# Notes to the financial statements

## 1. Accounting policies (continued)

### *e) Claims*

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

Claims incurred include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

### *f) Fees*

Fees on unit-linked policies are recognised when units are created or when fees fall due for deduction from unit holders' accounts.

### *g) Bonuses*

Bonuses charged to the technical account for long-term business in a given year comprise:

- new reversionary bonuses declared in respect of that year which are provided within the calculation of the long-term business provision.
- terminal bonuses paid out to policyholders on termination of policy.

Terminal bonuses are included in the cost of claims.

### *h) Investments*

#### *Investment valuations*

All financial investments are classified as fair value through profit or loss unless they fall into the category of loans and other receivables, as described in accounting policy 1(c). Fair values for other financial investments are based on quoted bid prices on the balance sheet date for listed instruments, unlisted investments, mortgages and loans at directors' valuation and units held in unit trusts are valued at the lowest published price available.

Certain infrequently traded bond investments are valued using risk free market yields plus a suitable margin to reflect the manager's assessment of the credit quality of the issuer and the liquidity of the asset. Other assets such as private equity investments are carried at the manager's valuation.

Land and buildings are valued at open market value as determined by independent professional advisers less a deduction for selling costs. Investments in subsidiary undertakings are valued at the cost of investment and the Directors review the valuation annually to ensure this is not less than the net assets held.

The investment in the ERIP Limited Partnership is valued at Directors valuation. In arriving at the valuation the Directors have given consideration to the fair value of the assets and liabilities of the Partnership at the balance sheet date.

Under the Companies Act 2006, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this conflicts with the requirements set out in SSAP 19, that no depreciation should be provided in respect of such investments. The Directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified. Owner occupied properties, or any parts of properties that are owner occupied, do not satisfy the definition of investment properties under SSAP 19 and are therefore valued at an open market existing use basis, based on vacant possession, as required by FRS 15.

# Notes to the financial statements

## 1. Accounting policies (continued)

### *i Investment income and expenses*

Investment income includes dividends, interest, rents and gains on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis. Investment income and expenses are shown in the investment return summary in note 3.

Long-term fund investment income and expenses are dealt with through the technical account, whilst shareholder fund investment income and expenses are dealt with through the non-technical account.

### *ii. Investment gains*

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return on investments relating to long-term business is recorded in the technical account. The investment return in relation to shareholder fund investments is recorded in the non-technical account.

### *i) Impairment of financial assets*

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

# Notes to the financial statements

## 1. Accounting policies (continued)

If there is objective evidence that an impairment loss has been incurred on loans and receivables or available for sale investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

### ***j) Long-term business provision and provision for linked liabilities***

The long-term business provision is determined by the Board of Directors having taken advice from the Company's Actuarial Function Holder following his annual investigation of the long-term business. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Prudential Sourcebooks (GENPRU and INSPRU) and the Interim Prudential Sourcebook for Insurers.

The long-term business provision for with-profits business has been calculated in accordance with FRS27. Full provision has been made for all future bonuses expected to be paid. An allowance has also been included for the cost of policy options and guarantees using a stochastic model calibrated to market conditions applying as at the valuation date. Risk-free rates are set equal to gilt yields increased by 10 bp. The assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience. A deduction has been made to the technical provisions in respect of future profits on the non-profit business written within the WPF, to the extent that the existence of those profits has resulted in an increase to the calculated liabilities.

Because the National Mutual With-Profits Fund (NMF) is being run so as to distribute all its assets over time to policies, the technical provision for with-profit policies incorporates an allowance for the full distribution of assets within the fund.

For the larger blocks of non-linked protection business, a prudent allowance for lapses is incorporated in the reserving methodology. Where such contracts have no minimum surrender value, the technical provision may be negative.

The technical provision for linked liabilities has been taken as:

- for contracts linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date;
- for contracts linked to internal funds, the value of the underlying assets as at the valuation date; and
- for index-linked annuities-in-payment, the value obtained by discounting future cash flows, projected using prudent assumptions about future experience, at a rate based on the yield on the assets that back them, less a deduction for default risk and investment expenses.

Further details of the valuation basis can be found in the annual regulatory returns.

# Notes to the financial statements

## 1. Accounting policies (continued)

### **Reinsurance**

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. The contracts are accounted for as insurance contracts, provided that the risk transfer is significant. Some contracts which provide for the transfer of significant risk are also structured to provide financing. Where, under such contracts, financing components are to be repaid in future accountings periods, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reinsurer and included in 'deposits received from reinsurers'. Contracts with the legal structure of reinsurance contracts which do not transfer significant insurance risk are classified as financial assets.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability including market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

### **k) Allocation of surpluses and the fund for future appropriations**

The surpluses arising from participating, non-participating and linked long-term business, as a result of the annual actuarial valuation of the Company's assets and liabilities, are appropriated by the Directors:

- to participating policyholders by way of bonuses; and
- to shareholders by way of transfers to the non-technical account.

The amount of appropriated surplus released to the non-technical account is determined by the Directors in accordance with the Articles of Association and the Principles and Practices of Financial Management (PPFM). Currently 1/9<sup>th</sup> of the bonus declared and paid in the year on the element of the WPF outside the Defined Book is allocated to the NPF. It is then available for subsequent transfer to Shareholders. There is an identifiable account (the Defined Book) within the WPF, comprising most of the non-participating business in the WPF. The surplus arising in this account is allocated 84.25% to Shareholders, with 15.75% remaining in the WPF. Any unappropriated surplus in the WPF is carried forward in the FFA.

The NMF is a 100:0 fund. As such, all the surplus arising in the NMF is retained for future allocations to policyholders.

### **l) Deferred acquisition costs**

The costs of acquiring new insurance contracts which are incurred during a financial year but which relate to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and are determined explicitly.

The rate of amortisation of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force.

# Notes to the financial statements

## 1. Accounting policies (continued)

### *m) Taxation*

Tax is charged on all profit and income earned to date less reliefs.

Provision is made for deferred tax assets and liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments.

Deferred tax is recognised in the profit and loss account for the period. Deferred tax assets are recognised where it is considered more likely than not, that there is expected to be adequate taxable income in the foreseeable future against which the deferred assets may be recovered.

The transfer of the balance on the long-term business account to the non-technical account is grossed up by attributable tax, using the effective rate of tax applicable.

### *n) Monetary assets and liabilities*

Assets and liabilities in overseas currencies are included in the accounts on the basis of exchange rates ruling at the year end. Exchange gains or losses arising during the year are reflected in the profit and loss account. Transactions during the year are translated at the rate ruling at that time. Share capital denominated in US dollars is translated at historic rates applicable when the capital was issued.

### *o) Finance leases*

Assets financed by leasing arrangements which give rights equivalent to ownership ("finance leases") are treated as if they had been purchased at their fair value at the inception of the lease (plus any subsequent additional capital payments) and the corresponding liability to the leasing company is established as a lease obligation. Such assets if acquired as investments are revalued as for other comparable investments and the corresponding gains and losses are reported in the profit and loss account.

### *p) Operating leases*

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term. For empty or sub-let properties any anticipated shortfall, between projected rent expense and income, is provided for in full at appropriate discounted rates and the provision is released as this expense is incurred.

### *q) Segmental reporting*

In the opinion of the Directors, the Company operates in a single business segment being that of long-term insurance business in the United Kingdom.

# Notes to the financial statements

## 1. Accounting policies (continued)

### *r) Derivative financial instruments*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

# Notes to the financial statements

## 2. Segmental analysis

### a) Gross premiums written

	2009 £m	2008 £m
Gross premium income is made up of:		
Direct assurance	236.6	246.6
Reinsurance inwards	125.2	122.5
<b>Gross premiums written</b>	<b>361.8</b>	<b>369.1</b>

	Gross direct premiums written			
	Regular premiums		Single premiums	
	2009 £m	2008 £m	2009 £m	2008 £m
Non-participating				
Life	42.2	46.9	-	0.3
Pension	25.6	4.5	73.9	97.0
Participating				
Life	4.3	5.9	0.2	0.1
Pension	25.3	40.6	28.2	10.6
Linked				
Life	36.9	40.7	-	-
<b>Total direct gross premiums</b>	<b>134.3</b>	<b>138.6</b>	<b>102.3</b>	<b>108.0</b>
Comprising individual business	134.3	138.6	102.3	108.0

### b) Gross annualised new business premiums

	2009 £m	2008 £m
Direct assurance	155.7	108.0

	New business (direct)			
	Regular premiums		Single premiums	
	2009 £m	2008 £m	2009 £m	2008 £m
Regular premiums				
Non-participating				
Life	-	-	-	0.3
Pension	53.4	-	73.9	97.0
Participating				
Life	-	-	0.2	0.1
Pension	-	-	28.2	10.6
<b>Total gross new business</b>	<b>53.4</b>	<b>-</b>	<b>102.3</b>	<b>108.0</b>
Comprising individual business	53.4	-	102.3	108.0

In classifying new business premiums the following basis of recognition is adopted:

- pensions vested into annuity contracts during the year are included in new pension single premium business at the annuity purchase price;
- products substituted due to the exercise of standard contract terms are not included in the new business statistics.

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

# Notes to the financial statements

## 2. Segmental analysis *c) Reinsurance balance* (continued)

The reinsurance balance amounted to a credit to the long-term business technical account at 31 December 2009 of £7.0m (2008: £52.8m).

3. Investment return summary	2009 £m	2008 £m
<b>Long-term insurance business</b>		
Investment income		
Income from land and buildings	36.7	46.6
Income from other investments	668.3	754.7
Net gains on the realisation of investments	-	224.2
Investment expenses and charges		
Investment management expenses including interest	(27.8)	(41.2)
Net unrealised gains/(losses) on investments	1,957.0	(2,954.5)
Losses on the realisation of investments	(573.0)	-
Net investment return less interest expense included in the long-term business technical account	2,061.2	(1,970.2)
<b>Shareholders' interest</b>		
Investment income		
Income from investments	5.5	22.0
Net unrealised gains on investments	101.6	-
Losses on the realisation of investments	(91.1)	(13.3)
Net unrealised losses on investments	-	(66.5)
Net investment return included in the non-technical account	16.0	(57.8)
<b>Total investment return</b>	<b>2,077.2</b>	<b>(2,028.0)</b>

All net gains and losses on financial assets at fair value through profit or loss arise on assets designated upon initial recognition.

4. Net operating expenses	2009 £m	2008 £m
Acquisition costs	0.1	0.1
Change in deferred acquisition costs	0.1	0.1
Administrative expenses	40.6	46.3
Reinsurance commissions	-	0.1
	<b>40.8</b>	<b>46.6</b>

# Notes to the financial statements

5. Profit/(loss) on ordinary activities before tax	2009 £m	2008 £m
<b>Profit/(loss) on ordinary activities before tax is stated after charging:</b>		
Auditors' remuneration and expenses (exclusive of VAT)		
Fees payable to the Company's auditor for the statutory audit of the Company's annual financial statements	0.3	0.2
Other services supplied pursuant to legislation; specifically the audit of the regulatory return and returns to Swiss Re Group	0.5	0.5
Commissions	4.4	8.2
Operating lease rental charges in the year (other)	0.1	0.1

In addition operating lease rentals of £0.1m (2008:£0.3m) have been charged against the property leases provision.

6. Interest payable	2009 £m	2008 £m
Interest payable on:		
Deposits received from reinsurers	8.7	9.1
Loan from ERIP Limited Partnership	3.7	14.6
	<b>12.4</b>	<b>23.7</b>

Interest costs are included within investment expenses and charges.

**7. Staff costs** Employees' contracts of employment are with the immediate holding company, ARUK.

As noted in the Directors' report, from 1 January 2008 the MSA was implemented which has resulted in the staff costs now being incorporated within the service charges from ARUK and as such no separate presentation of costs are included.

**8. Directors' emoluments** The aggregate emoluments of 5 directors remunerated through the MSA are shown in the table below. All other directors are remunerated by other Swiss Re undertakings.

	2009 £m	2008 £m
Emoluments	0.5	0.6
Pension contributions	0.1	0.1
Compensation for loss of office	0.3	-

Retirement benefits accrued to 1 ex- director (2008: 1) under a defined benefit scheme during the year. In addition 1 ex-director (2008: 1) also accrued contributions to an Unfunded Unapproved Retirement Benefit Scheme ("UURBS").

Accrued pension for the highest paid director at 31 December 2009 is £0.1m (2008: £0.1m) and accrued lump sum at 31 December 2009 is £0.2m (2008: £0.2m) based on his service with the Group.

	2009 £m	2008 £m
Highest paid director:		
Emoluments	0.3	0.6
Pension contributions	0.1	0.1
Compensation for loss of office	0.3	-

# Notes to the financial statements

## 9. Pension costs

The Company's parent undertaking, ARUK, operates the Admin Re Staff Pension Scheme (formerly Windsor Pension and Life Assurance Scheme), a funded defined benefit scheme, for staff employed by ARUK and prior to the MSA on 1 January 2008 recharged to the Company, the assets of which are held in a separate trustee-administered fund. This was closed to new members on 1 October 2000 and became contributory. For the remaining staff ARUK arranged for a defined contribution Group Personal Pension Scheme to be created.

Pension costs are incorporated in service charges made under the MSA with ARUK operational from 1 January 2008.

## 10. Other technical income and charges, net of reinsurance

	2009 £m	2008 £m
<b>Technical income</b>		
Fees receivable	88.6	83.1
Other income	-	6.7
Change in deduction against subtotal of FFA and policyholder liabilities	18.0	-
<b>Total</b>	<b>106.6</b>	<b>89.8</b>
<b>Technical charges</b>		
Change in deduction against subtotal of FFA and policyholder liabilities	-	(24.6)

The deduction against subtotal of FFA and policyholder liabilities is made to reflect the fact that the present value of future profits on non-participating business written in the with-profits fund cannot be recognised in the balance sheet.

## 11. Taxation

### a) Tax charge

	2009 £m	2008 £m
<b>Long-term business technical account</b>		
UK Corporation tax	16.0	19.2
Adjustments in respect of prior years	10.7	3.2
Foreign Tax - Current tax on income for the period	(1.5)	-
Deferred tax:		
Origination and reversal of timing differences	2.2	(27.0)
Decrease in discount		3.7
<b>Tax credit/(charge) for the year</b>	<b>27.4</b>	<b>(0.9)</b>
<b>Non-technical account</b>		
UK Corporation tax	(5.4)	2.1
Adjustments in respect of prior years	(0.3)	-
Group relief	-	12.9
Tax charge attributable to balance on the long-term business technical account	4.0	16.4
<b>Tax (charge)/credit for the year</b>	<b>(1.7)</b>	<b>31.4</b>

The UK Corporation tax credit of £16.0m in 2009 (2008: £19.2m) is a consequence of the surrender of life assurance trading losses to other group companies.

# Notes to the financial statements

## 11. Taxation (continued)      b) Factors affecting the tax charge for the period

The balance on the technical account has been grossed up at an effective rate of 28% in accordance with the rates applicable to the long-term business fund of a life assurance company (2008: 28.5%). Corporation tax in the non-technical account has been calculated at 28% (2008: 28.5%).

During 2009, the UK effective rate of tax changed from 28.5% to 28%.

The tax assessed for the period is higher (2008:lower) than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2009 £m	2008 £m
Profit/(loss) on ordinary activities before tax	1.8	(501.8)
Profit/(loss) on ordinary activities at 28% (2008:28.5%)	0.5	(143.0)
Unrealised capital loss	0.9	1.4
Impact of UK tax rate change	-	(0.7)
Unrecognised deferred tax asset	-	110.9
Adjustments in respect of prior years	0.3	-
<b>Tax charge/(credit) for the year</b>	<b>1.7</b>	<b>(31.4)</b>

## 12. Dividends

	2009 £m	2008 £m
<i>Ordinary shares</i>		
2007 interim (81.71p per share)	-	215.0

The directors do not propose an interim (2008:nil) or final dividend (2008:nil) in respect of the financial year ended 31 December 2009.

As the Company has no distributable reserves no dividend was paid on the preference shares during the year. The preference shares are non cumulative so no dividend for 2009 will now be paid.

## 13. Investments

### a) Land and buildings

	Carrying value £m	Cost £m
Freehold land and buildings		
At 1 January 2009	279.4	228.9
Additions	0.4	0.4
Disposals	(9.3)	(9.3)
Net surplus on revaluation	5.3	-
<b>At 31 December 2009</b>	<b>275.8</b>	<b>220.0</b>

Land and buildings were valued at 31 December 2009 on an open market existing use basis (and at market value based on vacant possession for owner occupied properties) by CB Richard Ellis Ltd and Knight Frank LLP, firms of independent Chartered Surveyors.

Included within land and buildings above is the Company's head office building, Windsor House, at a current carrying value of £6.1m (2008: £9.0m).

# Notes to the financial statements

## 13. Investments (continued) b) Investments in group undertakings and partnerships

### Group Undertakings

The Company owns 100% of the share capital of the following companies incorporated in the United Kingdom.

	2009	2008
	£m	£m
Shares in subsidiary undertakings :		
Gresham Life Assurance Society Limited	0.1	0.1
NM Life Residential Limited	4.2	4.2
Namulas Pension Trustees Limited	4.9	4.9
<b>Total</b>	<b>9.2</b>	<b>9.2</b>

In the opinion of the Directors the value of the subsidiaries are not less than the amount at which the assets are shown in the balance sheet.

### Partnerships

	2009	2008
	£m	£m
ERIP Limited Partnership	288.2	269.9

During 2007, the Company introduced £1,000 of permanent capital into ERIP Limited Partnership (ELP), a property management partnership registered in the United Kingdom. This represents 50% of the permanent capital of the partnership. The Company also transferred into the ELP property assets of £349.8m, and as a result under the partnership agreement it is entitled to 99.5% of the partnership's profits and losses.

In arriving at the valuation of the investment in ELP, the Directors have made reference to the value of the assets and liabilities as reflected in ELP's financial statements at the balance sheet date and the accounting policies used in arriving at those values. These assets and liabilities are summarised as follows:

	2009	2008
	£m	£m
Total assets of ELP	561.4	554.4
Total liabilities of ELP	(196.9)	(199.4)
<b>Net assets of ELP</b>	<b>364.5</b>	<b>355.0</b>

Part of the investment in ELP backs index linked equity release income policies and as such this part of the investment has been allocated to assets held to cover linked liabilities. Therefore the total investment in ELP is split on the balance sheet as follows:

	2009	2008
	£m	£m
Investment in group undertakings	288.2	269.9
Assets held to cover linked liabilities	76.3	85.1
<b>Directors' valuation of investment in ELP</b>	<b>364.5</b>	<b>355.0</b>
Amounts due to ELP	(252.0)	(248.0)
<b>Net interest in ELP</b>	<b>112.5</b>	<b>107.0</b>

# Notes to the financial statements

## 13. Investments (continued) c) Financial assets

	Carrying value 2009 £m	Carrying value 2008 £m	Cost 2009 £m	Cost 2008 £m
Financial assets at fair value through profit and loss				
Designated upon initial recognition	15,929.3	14,932.0	14,579.4	15,177.2
Loans and receivables, at amortised cost	268.3	165.6	268.3	165.6
<b>Total financial assets</b>	<b>16,197.6</b>	<b>15,097.6</b>	<b>14,847.7</b>	<b>15,342.8</b>
Included in balance sheet as follows:				
<b>Other financial investments</b>				
Listed investments				
Shares and other variable yield securities	596.3	528.7	635.7	646.1
Debt securities and other fixed income securities	7,141.8	7,127.3	6,730.8	7,195.9
<b>Total listed</b>	<b>7,738.1</b>	<b>7,656.0</b>	<b>7,366.5</b>	<b>7,842.0</b>
Unlisted investments				
Units in Unit Trusts	147.3	127.7	128.2	147.9
Loans secured by mortgages	1.6	1.9	1.6	1.9
Other loans (secured on policies)	12.8	14.6	12.8	14.6
Deposits with credit institutions	253.9	149.1	253.9	149.1
<b>Total unlisted</b>	<b>415.6</b>	<b>293.3</b>	<b>396.5</b>	<b>313.5</b>
<b>Total other financial investments</b>	<b>8,153.7</b>	<b>7,949.3</b>	<b>7,763.0</b>	<b>8,155.5</b>
Assets held to cover linked liabilities (note 15)	8,043.9	7,148.3	7,084.7	7,187.3
<b>Total financial assets</b>	<b>16,197.6</b>	<b>15,097.6</b>	<b>14,847.7</b>	<b>15,342.8</b>

# Notes to the financial statements

**14. Assets attributable to the long-term business fund** Of the total amount of assets shown on page 16, £17,418.0m (2008: £16,275.6m) is attributable to the long-term business fund.

15. Assets held to cover linked liabilities	Carrying value	Carrying value	Cost	Cost
	2009 £m	2008 £m	2009 £m	2008 £m
Assets held to cover unit-linked insurance contracts	1,485.0	1,305.4	1,307.8	1,312.4
Assets held to cover unit-linked investment contracts	6,558.9	5,842.9	5,776.9	5,874.9
<b>Total</b>	<b>8,043.9</b>	<b>7,148.3</b>	<b>7,084.7</b>	<b>7,187.3</b>

Included in carrying value of assets held to cover unit-linked insurance contracts above are index linked assets of £725.3m (2008:£611.7m)

## 16. Policyholder liabilities and fund for future appropriations

	Claims outstanding £m	Long-term business provision £m	Technical provisions for linked liabilities		Fund for future appropriations
			Investment contracts £m	Insurance contracts £m	
At 1 January 2009	64.7	8,331.0	5,849.7	1,307.0	68.4
Movement in the year	(2.3)	113.4	726.9	182.1	35.7
Balance at 31 December 2009	62.4	8,444.4	6,576.6	1,489.1	104.1
<b>At 31 December 2009 net of reinsurance</b>					
Gross provision liability	62.4	8,444.4	6,576.6	1,489.1	104.1
Recoverable from reinsurers	(2.7)	(653.3)	-	(29.7)	-
<b>Net total</b>	<b>59.7</b>	<b>7,791.1</b>	<b>6,576.6</b>	<b>1,459.4</b>	<b>104.1</b>
<b>At 31 December 2008</b>					
Gross provision liability	64.7	8,331.0	5,849.7	1,307.0	68.4
Recoverable from reinsurers	(3.4)	(660.2)	-	(30.1)	-
<b>Net total</b>	<b>61.3</b>	<b>7,670.8</b>	<b>5,849.7</b>	<b>1,276.9</b>	<b>68.4</b>

Included within the long-term business provision is £992.4m (2008: £1,025.4m) of insurance contracts with discretionary participating features (DPF) and £962.6m (2008: £852.7m) of investment contracts with DPF.

# Notes to the financial statements

## 17. Long-term business provision

The long-term business provision is determined by the Board of Directors having taken advice from the Company's Actuarial Function Holder who is a Fellow of the Institute of Actuaries.

The long-term business provision for with-profit policies has been calculated in accordance with FRS27. Full provision has been made for all future bonuses expected to be paid. An allowance has also been included for the cost of policy options and guarantees using a stochastic model calibrated to market conditions applying as at the valuation date. Risk-free rates are set equal to gilt yields increased by 10 bp. The assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience. The liabilities in the NMF allow for the full distribution of the assets in the fund.

The technical provisions for non-profit policies are calculated by discounting the projected future cash flows at a rate based on the yield on the assets that back them, with a deduction for default and reinvestment risk. The deduction for default risk for the bond portfolios was set to 40% of the credit spreads prevailing as at 30 September 2009. This was converted to equivalent risk deductions, varying according to the credit rating of each bond, as shown in the table below.

	Default risk deduction
Gilts	0.00%
AAA	0.20%
AA	0.70%
A	1.00%
BBB	1.50%

Based on the distribution by credit rating of the bonds in the Non-Profit Fund, these deductions are equivalent to an overall allowance of 0.54% as at 31 December 2009. This compares to an allowance of 0.58% as at 31 December 2008.

For annuities in payment, the mortality assumption is based on the PMA00 table for males and the PFA00 table for females, adjusted to reflect the historic experience of the business concerned. The mortality rates for male non-smokers are assumed to improve going forward in line with either 70% of the Long Cohort factors or the average of the Medium and Long Cohort factors, dependent on the portfolio, in both cases subject to a minimum improvement of 2.0% each year. For females and smokers, the improvement is set to 75% of the above factors, while the floor is set to 1.75% each year. For annuities written on enhanced terms, the mortality rates are adjusted to allow for the pattern of additional mortality the lives concerned are expected to exhibit, according to the circumstances that gave rise to the enhancement.

The technical provisions for linked liabilities have been taken as:

- for contracts linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date;
- for contracts linked to internal funds, the value of the underlying assets as at the valuation date; and
- for index-linked annuities-in-payment, the value obtained by projecting future cash flows using the same assumptions as for similar conventional annuities, discounted back to the valuation date at a rate based on the real yield on the assets that back them, less a deduction for default risk and investment expenses.

The Company has entered into a MSA with ARUK, where ARUK performs the policy administration on behalf of the Company in return for a pre-determined fee, varying according to the type of policy. The administration expense assumptions used for the calculation of the technical provisions have been set to the fees expected to be paid under the MSA.

# Notes to the financial statements

## 17. Long-term business provision (continued)

The principal interest rate and mortality assumptions used to calculate the long-term business provision are summarised in the table below:

	2009	2008
<b>Discount rates (p.a.)</b>		
<b>Non-profit business</b>		
Annuities-in-payment (ZAL)	4.51%	4.76%
Annuities-in-payment (NML)	4.51%	4.86%
Annuities-in-payment (WLA)	4.51%	3.61%
Annuities-in-payment (WPF)	4.64%	5.01%
Mortality swap	3.77%	3.31%
<b>With-profit business</b>		
Risk free rate	Gilt yields plus 10bp	Gilt yields plus 10bp
UK equity volatility	Market consistent	Market consistent
Property volatility	15%	15%
<b>Mortality tables</b>		
<b>Non-profit business</b>		
	92% PNMA00	94.1% PNMA00
Annuities-in-payment (ZAL)	98% PNFA00 <sup>1</sup>	98.9% PNFA00 <sup>1</sup>
	Modified PMA00	Modified PMA00
Annuities-in-payment (NML)	Modified PFA00 <sup>3</sup>	Modified PFA00 <sup>3</sup>
	76% PNMA00	75% PNMA00
Annuities-in-payment (NMP)	76% PNFA00 <sup>3</sup>	80% PNFA00 <sup>3</sup>
	90% PNMA00	92% PNMA00
Annuities-in-payment (WLA)	90% PNFA00 <sup>2</sup>	92% PNFA00 <sup>2</sup>
	75.2% PNMA00	75.2% PNMA00
Mortality swap	75.2%PNFA00 <sup>2 4</sup>	75.2%PNFA00 <sup>4 5</sup>

### Notes

<sup>1</sup> Future mortality improvements from 2009 for males are in line with the average of the Long and Medium Cohort factors, subject to a floor of 2.0% p.a. (2008: 1.5% p.a.), using 75% of the improvement factors and a 1.75% p.a. (2008: 1.125% p.a.) floor for females.

<sup>2</sup> Future mortality improvements from 2009 for males are in line with 70% of the Long Cohort factors, subject to a floor of 2% p.a. (2008: 1.5% p.a.), using 75% of the factors and a 1.75% p.a. (2008: 1.125% p.a.) floor for females.

<sup>3</sup> Future mortality improvements from 2009 for male non-smokers are in line with 70% of the Long Cohort factors from 2009, subject to a floor of 2.0% p.a. (2008: 1.5% p.a.), using 75% of the factors and a 1.75% p.a. (2008: 1.125% p.a.) floor for females and smokers.

<sup>4</sup> The percentage of the base table rises linearly to 94% between the ages of 86 and 95.

Further details of the valuation basis can be found in the annual regulatory returns.

# Notes to the financial statements

## 18. Capital position statement

### *Company structure*

The Company's long-term insurance business is divided into three sub-funds: the NMF, the WPF and the NPF. The NMF contains some of the business from the National Mutual Life Assurance Society when the latter demutualised in April 2002, predominantly with-profit policies and a small amount of non-profit business. It is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its assets over time as the policies in the Fund mature or otherwise discontinue. The WPF contains a mix of with-profit, non-profit and unit-linked business. The NPF contains a mix of unit-linked and non-profit business.

There is an identifiable account (the Defined Book) within the WPF, comprising most of the non-participating business in the WPF. The surplus arising in this account is allocated 84.25% to Shareholders, with 15.75% remaining in the WPF. The account is operated in accordance with the terms of a Scheme entered into when the business of NM Pensions Limited and NM Life Limited was transferred to the Company on 31 December 2007.

The Company is subject to a number of regulatory capital tests. In reporting financial strength, capital is measured and solvency is assessed using rules prescribed by the Financial Services Authority (FSA). These regulatory capital tests set required levels of solvency capital, along with prudent assumptions in respect of each type of business written by the Company. The Company covered its regulatory capital resources requirement at all times during the year.

£m	2009				2008			
	NMF	WPF	NPF	Total	NMF	WPF	NPF	Total
Total shareholders funds	-	-	283.2	283.2	-	-	141.1	141.1
Fund for future appropriation	-	104.0	-	104.0	-	68.4	-	68.4
Adjustments on to a regulatory basis	-	(23.2)	268.4	245.2	-	12.8	333.4	346.2
<b>Capital resources available</b>	-	<b>80.8</b>	<b>551.6</b>	<b>632.4</b>	-	<b>81.2</b>	<b>474.5</b>	<b>555.7</b>
Capital resources required	-	18.7	291.6	310.3	-	18.1	288.1	306.2
<b>Excess regulatory capital</b>	-	<b>62.1</b>	<b>260.0</b>	<b>322.1</b>	-	<b>63.1</b>	<b>186.4</b>	<b>249.5</b>

Adjustments on to a regulatory basis entail: (i) removing any inadmissible assets; (ii) altering the recognition of certain items of income and outgo including amounts payable from future surplus under IGR arrangements; and (iii) moving from a realistic basis to a regulatory basis when assessing the liabilities under the with-profit policies in the WPF.

The regulatory capital has been calculated using the 'twin peaks' approach set out in the Prudential Sourcebook for Insurers. Under this, the capital available in the Company must be sufficient to cover the greater of the 'regulatory' and 'realistic' liabilities (with appropriate margins). The capital of the company must also be sufficient to cover the respectability capital requirement. WLA maintain the level of respectability capital set annually by its board at all times, a test that has been agreed with the FSA during the year. The requirement currently stands at £180m. For the NMF, the 'realistic peak' applies. This makes full provision for all future bonuses expected to be paid under with-profit policies. It also includes an allowance for the cost of policy options and guarantees using a stochastic model calibrated to market conditions applying as at the valuation date. Assets are held at market value. Risk-free rates are set equal to gilt yields increased by 10bp. Assumptions for mortality, persistency and the take-up rate of guarantees are realistic best estimate, based on own and industry experience. The NMF liabilities are calculated allowing for the full distribution of the assets in the fund.

For the WPF the 'regulatory peak' applies. This projects the guaranteed policy cash flows on prudent assumptions and discounts them back to the valuation date using an appropriate rate of interest. Assets are held at 'admissible' value, as defined by the General Prudential Sourcebook.

# Notes to the financial statements

## 18. Capital position statement (continued)

The non-participating policies in the NMF and WPF, and all the policies in the NPF (which has no with-profits business) are not subject to the realistic framework set out in the Prudential Sourcebook for Insurers. Instead, the liabilities are calculated by discounting the projected future cash flows at a rate based on the yield on the assets that back them, with a deduction for default and reinvestment risk. The cash flows are projected using prudent assumptions about future experience. Assets are held at 'admissible' value.

### Analysis of technical provisions (net of reinsurance)

£m	2009				2008			
	NMF	WPF	NPF	Total	NMF	WPF	NPF	Total
With profits	1,597.1	352.1	-	1,949.2	1,511.4	360.3	-	1,871.7
Linked	-	5,450.4	2,585.7	8,036.1	-	4,688.0	2,438.7	7,126.7
Other life assurance	41.9	595.5	5,204.4	5,841.8	43.9	596.1	5,159.1	5,799.1
<b>Total</b>	<b>1,639.0</b>	<b>6,398.0</b>	<b>7,790.1</b>	<b>15,827.1</b>	<b>1,555.3</b>	<b>5,644.4</b>	<b>7,597.8</b>	<b>14,797.5</b>

### Movements in capital

An analysis of the movement in capital is set out in the table below.

£m	2009				
	NMF	WPF	NPF	SHF	Total
<b>Capital at 1 January</b>	-	81.2	146.5	328.0	555.7
Changes in assumptions	-	(37.0)	(152.0)	-	(189.0)
Investment related	-	39.0	57.0	16.0	112.0
Fund transfers	-	(4.0)	134.0	(130.0)	-
Intra-group reinsurance	-	-	(53.0)	-	(53.0)
Capital injection	-	-	-	141.0	141.0
Dividends	-	-	-	-	-
Other factors	-	1.6	68.6	(4.6)	65.6
<b>Capital at 31 December</b>	-	80.8	201.1	350.4	632.3

£m	2008				
	NMF	WPF	NPF	SHF	Total
<b>Capital at 1 January</b>	-	141.0	40.5	600.7	782.2
Changes in assumptions	-	(21.0)	(351.0)	-	(372.0)
Fund transfers	-	10.4	145.8	(156.2)	-
Intra-group reinsurance	-	-	390.0	-	390.0
Capital injection	-	-	-	141.0	141.0
Dividends	-	-	-	(215.0)	(215.0)
Other factors	-	(49.2)	(78.8)	(42.5)	(170.5)
<b>Capital at 31 December</b>	-	81.2	146.5	328.0	555.7

The excess regulatory capital in the NMF was unchanged during the year, because the fund is being run so that any surplus assets are distributed over time to policies. As such, they are recognised as a liability. Movements in the value of the surplus assets are therefore offset by movements in the value of this liability. The excess regulatory capital in the WPF remained stable during the year. The impact of the favourable investment conditions that prevailed during 2009 was largely offset by the cost of strengthening the mortality assumptions under the structured settlements and other annuity liabilities in the fund. The rise in the excess regulatory capital in the NPF was due largely to the capital injections made during the year. The cost of strengthening the reserving basis was more than covered by the combination of the capital contribution made to the Company and the surplus generated by ongoing activities.

# Notes to the financial statements

## 18. Capital position statement (continued)

### *Sensitivity analysis*

The sensitivity of the capital position of the Company is set out in the table below. Five scenarios are considered: (i) a worldwide fall of 20% (2008: 20%) in equity markets (Scenario 1); (ii) a uniform fall of 78 bp (2008: 65bp) in fixed-interest yields (Scenario 2) (a fall has a more adverse impact on the Company than a rise); (iii) a uniform rise of 78bp (2008: 65bp) in fixed-interest yields (Scenario 3) (iv) a uniform rise of 20 bp (2008: 12.5bp) in the allowance for default risk under corporate bonds (Scenario 4); and (v) a reduction of 5% (2008: 5%) in the base mortality rate used to value annuities-in-payment (Scenario 5).

£m	2009					
	Base	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Total shareholders funds	283	283	283	283	283	283
Fund for future appropriation	104	99	97	108	104	104
Adjustments on to a regulatory basis	245	243	301	222	199	176
<b>Capital resources available</b>	<b>632</b>	<b>625</b>	<b>681</b>	<b>613</b>	<b>586</b>	<b>563</b>
Capital resources required	310	309	327	294	312	313
<b>Excess regulatory capital</b>	<b>322</b>	<b>316</b>	<b>354</b>	<b>319</b>	<b>274</b>	<b>250</b>

£m	2008					
	Base	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Total shareholders funds	141	141	132	146	105	66
Fund for future appropriation	69	63	63	69	66	71
Adjustments on to a regulatory basis	346	334	355	343	345	343
<b>Capital resources available</b>	<b>556</b>	<b>538</b>	<b>550</b>	<b>558</b>	<b>516</b>	<b>480</b>
Capital resources required	306	306	321	292	302	309
<b>Excess regulatory capital</b>	<b>250</b>	<b>232</b>	<b>229</b>	<b>266</b>	<b>214</b>	<b>171</b>

The relative insensitivity of the capital position of the NMF in each scenario arises because any surplus in the fund is added back to the policy liabilities. Fluctuations in this surplus are therefore met by offsetting fluctuations in the policy liabilities, leaving the net position broadly unaltered. The capital position of the WPF weakens on a fall in equity markets or in fixed-interest yields, due largely to the impact such movements have on the cost of the guarantees under the with-profit policies in the fund. It is less exposed to credit risk or to a lightening in mortality. The capital position of the NPF in contrast weakens on a rise in the allowance for credit risk or on a lightening in mortality. This reflects its relatively high exposure to annuities-in-payment that are backed by corporate bonds. It is less affected by movements in equity markets or in fixed-interest yields, as the assets and liabilities move largely in tandem.

### **Financial guarantees**

The with-profit policies in the NMF and WPF benefit from two types of guarantee. Most policies have a guaranteed minimum cash value at their maturity date (the WPF contains a number of with-profit annuities-in-payment which have guaranteed minimum payments each year). The level of the guarantee depends on the type of policy and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate.

A number of pension policies benefit from an annuity guarantee. In most cases, this takes the form of a guaranteed minimum annuity rate to convert the fund at retirement to pension (at a level substantially in excess of those currently available in the market). For some policies, it takes the form of a guaranteed minimum level for the annuity payable at retirement.

# Notes to the financial statements

## 18. Capital position statement (continued)

The cost of the annuity guarantees in the NMF is £84.8m (2008:£124.7m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates are assumed to be unchanged. The asset mix is maintained at its approved weightings at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of smoothing and guarantees. Allowance is made for policyholder behaviour in determining the take-up rate of the guarantees.

The cost of the guarantee in the WPF is £16.0m (2008:£22.5m). This is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. Annual bonus rates vary according to the economic scenario being modelled in line with the approach set out in the PPFM. The asset mix is maintained at its approved weightings at the start of the projection. Pay-outs are assumed to move in line with the underlying asset share.

The cost of the cash guarantees under the with-profit policies in both funds ((NMF: £16.1m (2008: £41.0m), WPF: £39.9m (2008:£46.3m)) is also calculated using a market-consistent stochastic approach, similar to that described for calculating the cost of annuity guarantees.

The capital position of the WPF is currently set by reference to the 'regulatory peak' It is however subject to a comparison with the position in the 'realistic peak' where the cost of the guarantees is assessed as described above.

The Company's unit-linked policies in general have no guarantees of significance, although a small number of policies benefit from a guaranteed minimum annuity rate at retirement. The cost of this is calculated using a similar approach as for the with-profit policies. Non-profit policies have fixed guaranteed benefits, in the form either of a payment at or from a specified date in the future or a series of regular payments throughout life.

### ***Risk management policy***

Windsor Life has a documented Risk Management Policy. This starts with the risk appetite statement for the Company, as approved by the Board. It then sets out the processes for identifying, monitoring, measuring and controlling risk, allowing for each of the categories listed in the Prudential Sourcebook for Insurers (credit, market, liquidity, operational, insurance and group). The maintenance of the Policy is the overall responsibility of the Risk Committee, but with assistance from various other committees and named individuals.

The Risk Policy is supported by an Individual Capital Assessment (ICA), performed at least annually. This subjects the assets and liabilities of each of the NMF, WPF and NPF (assessed on a realistic, market-consistent basis) to a series of stresses. The impact of each stress on the realistic capital position of the fund is then aggregated into a single capital requirement, allowing for diversification benefits and interaction between risks. This supplements the regulatory capital requirement. It provides a link between the level of capital required to support the business and the risk exposures being run.

The overall aim of the Company's capital and risk management policy is; (i) to control the risks to which each fund is exposed to a level that can be supported by the capital available, given the agreed risk appetite statement; and (ii) within that constraint, to allocate capital so as to maximise the profitability of the business, given the agreed strategy.

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. The principal financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from the insurance policies and investment contracts as they fall due. The most important components of this risk are market risk (including interest rate and equity price risk), credit risk and insurance risk. The management of the market and credit risks is discussed in note 20.

# Notes to the financial statements

**19. Options and guarantees** The with-profit policies in the NMF and WPF benefit from two types of guarantee. Most policies have a guaranteed minimum cash value at their maturity date (the WPF contains a number of with-profit annuities-in-payment which have guaranteed minimum payments each year). The level of the guarantee depends on the type of policy and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate.

A number of pension policies benefit from an annuity guarantee. In most cases, this takes the form of a guaranteed minimum annuity rate to convert the fund at retirement to pension (at a level substantially in excess of those currently available in the market). For some policies, it takes the form of a guaranteed minimum level for the annuity payable at retirement.

The cost of the guarantees (as shown in note 18) is calculated using a market-consistent stochastic valuation, with best-estimate assumptions for the other elements of the basis. For the NMF, annual bonus rates are assumed to be unchanged, while, for the WPF, they vary depending upon the investment conditions being modelled. The asset mix is reset each year to the weightings assumed at the start of the projection. Pay-outs are assumed to move in line with underlying asset shares, before taking into account the impact of smoothing and guarantees. For the NMF allowance is made for policyholder behaviour in determining the take-up rate of the guarantees.

The Company's unit-linked policies in general have no guarantees of significance, although a small number of policies benefit from a guaranteed minimum annuity rate at retirement, the cost of which is calculated using a similar approach as for the with-profit policies.

## **20. Management of financial risk**

The Company is exposed to financial risk through its issue of insurance and investment contracts. The most significant risks are credit, market and liquidity risk.

### ***Credit risk***

Credit risk is the risk that the Company will suffer loss from the failure of a third party to discharge its obligations. In addition, the solvency of the Company may be impacted by a widening in credit spreads or by credit downgrades under its portfolio of fixed-interest securities and money-market deposits. Credit risk is measured by considering the exposure of the Company to each counterparty. The Board determines the risk appetite for the business. The risk is controlled by setting appropriate limits for counterparty exposures and communicating them to those who are responsible for complying with them. The principal financial instruments that give rise to an exposure to credit risk are fixed-interest securities and money-market deposits.

### ***Fixed interest securities***

The Company manages the credit risk arising from fixed-interest securities by placing limits on the exposure to a single counterparty and to any particular industry or geographical segment. Operating within guidelines set by the Investment Committee and approved by the Board, the investment managers have regard to ratings by external credit agencies when constructing the bond portfolio. For bonds that do not carry an external rating the investment manager has a rigorous process to provide an internal rating. If there is a significant fall in the price of the security or there is a possible credit rating downgrade, then the security is examined on a qualitative basis to determine whether it should be sold in order to reduce credit risk.

# Notes to the financial statements

## 20. Management of financial risk (continued)

An analysis of the credit quality of the Company's fixed-interest security portfolio is set out in the table below:

2009

Asset type	AAA	AA	A	BBB	Non investment grade	Total
	£m	£m	£m	£m	£m	£m
Government securities	2,763.2	77.6	79.8	60.4	-	2,981.0
Corporate bonds	125.6	535.7	1,864.3	1,201.9	184.7	3,912.2
Mortgage backed securities	82.3	71.1	60.3	27.5	7.4	248.6
<b>Total</b>	<b>2,971.1</b>	<b>684.4</b>	<b>2,004.4</b>	<b>1,289.8</b>	<b>192.1</b>	<b>7,141.8</b>

2008

Asset type	AAA	AA	A	BBB	Non investment grade	Total
	£m	£m	£m	£m	£m	£m
Government securities	3,085.6	48.0	118.8	8.0	129.6	3,390.0
Corporate bonds	195.4	661.7	1,714.3	584.0	309.3	3,464.7
Mortgage backed securities	186.9	48.8	18.2	14.4	4.3	272.6
<b>Total</b>	<b>3,467.9</b>	<b>758.5</b>	<b>1,851.3</b>	<b>606.4</b>	<b>443.2</b>	<b>7,127.3</b>

Management consider the majority of the unrated bonds to be of at least BBB- rating as they must be considered of investment grade (BBB or higher) at the point of purchase.

The solvency of the Company can be impacted by changes in bond credit spreads and the sensitivity to this is shown in note 18.

Losses incurred as a result of defaults during the year have been small.

### **Money market deposits and UCITS money market funds**

The Company holds money-market deposits with approved counterparties and sets limits on counterparty exposure on an individual and aggregate counterparty basis. Credit risk is determined and monitored on a daily basis using short-term credit agency ratings. The performance and maturity of the money-market deposits and UCITS money-market funds are reviewed quarterly by the Investment Committee.

### **Liquidity risk**

Liquidity risk is the risk that the Company may not be able to realise its assets as liabilities fall due, or that in realising them it is not able to obtain fair value as represented in the Balance Sheet. The Company monitors its cash position continuously to ensure that there is sufficient liquidity for its operations. It aims to match the projected cash outflows associated with its liabilities with financial assets displaying similar projected cash flows. The liabilities of the non-linked portfolio are predominantly annuity liabilities. Annuity liabilities arise in a generally predictable manner and cannot be accelerated by policyholders. They can therefore be matched to income payments from fixed income investments so substantially reducing any liquidity risk. A substantial proportion of the investments the Company holds backing its non linked portfolio are Government Gilts and corporate bonds that are traded on listed markets. These are considered to be liquid assets which can normally be realised quickly. Exceptional measures open to the company in terms of market uncertainty and potentially poor liquidity in relation to with profits and unit linked contracts are outlined below.

With-profits contracts can be surrendered before maturity for a cash surrender value. The Company has discretion to impose market value adjusters (MVAs) on early surrender of with-profits policies which reduce the amount payable on surrender. These MVAs contribute to managing the liquidity risk of the with-profits fund and ensuring equity of treatment between policyholders surrendering their policies and those remaining invested in the with-profits fund.

## Notes to the financial statements

### 20. Management of financial risk (continued)

Amounts under unit-linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested

The least liquid investment held by the Company within the unit-linked funds is commercial property. This constitutes only a limited percentage of the overall investment portfolio. In addition, the Company has the ability under the terms of the relevant policy documents for its linked business to defer for a period the encashment of units invested partly or entirely in property, should it be necessary to protect the interests of the remaining investors.

The table below shows the cash flows arising from the financial assets of the company, excluding assets held within the unit linked funds. As noted above the fixed income portfolio is held mainly to cover the liabilities arising from the annuity business and is matched by mean duration to the liabilities that arise from that business. All amounts disclosed represent undiscounted cash flows.

Financial assets	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
<b>At 31 December 2009</b>						
Shares and other variable yield securities and units in unit trusts	743.6	-	-	-	743.6	743.6
Debt securities and other fixed-income securities	0.9	610.0	2,731.0	10,863.0	14,204.9	7,725.9
Deposits with credit institutions	-	253.9	-	-	253.9	253.9
Secured and unsecured loans	14.4	-	-	-	14.4	14.4
Cash at bank and in hand	52.4	-	-	-	52.4	52.4
<b>Financial assets</b>	<b>811.3</b>	<b>863.9</b>	<b>2,731.0</b>	<b>10,863.0</b>	<b>15269.2</b>	<b>8790.2</b>

The table below shows the financial liabilities of the Company which relate to the Company's investment contracts. The Company's investment contracts are predominantly unit linked ones. The Company does not bear the investment risk on unit linked contracts but is required to be able to return the unit value to the policyholder or other provider on demand. As a result the company generally holds assets that are readily liquid in order that they are able to meet liabilities as they arise. This analysis of investment contracts is based on the projected settlement date. A maturity analysis based on the earliest contractual repayment date would present all such liabilities as due within 1 year because, as described above, the contractual terms provide for surrender by policyholders on demand.

Financial liabilities	No contractual maturity date	< 1Year	Between 1 year and 5 years	> 5 Years	Total	Carrying value
	£m	£m	£m	£m	£m	£m
<b>At 31 December 2009</b>						
Financial liabilities under unit linked insurance contracts	-	121.0	774.8	5,680.8	6,576.6	6,576.6
Financial liabilities under non profit investment	-	21.3	-	-	21.3	21.3
Financial liabilities under insurance contracts	-	20.2	215.6	726.8	962.6	962.6
Claims outstanding	62.4	-	-	-	62.4	62.4
Deposits received from reinsurers	-	16.5	57.5	235.4	309.4	185.8
<b>Financial liabilities</b>	<b>62.4</b>	<b>179.0</b>	<b>1,047.9</b>	<b>6,643.0</b>	<b>7,932.3</b>	<b>7,808.7</b>

# Notes to the financial statements

## 20. Management of financial risk (continued)

### *Property*

The Investment Committee sets the guidelines to be followed by the property investment managers. Limits are set on the exposure to any one area of the commercial property market by setting parameters for holdings by sector, geographical location, lot size, lease type and expiry schedule. The credit risk of each tenant is reviewed by the investment managers, having regard to published financial data and independent credit rating assessments, where available.

### *Financial liabilities*

The technical provisions relating to investment contracts have a similar profile of cash outflows to the financial instruments. The expected timing of the cash outflows is set out below, although many contracts may be surrendered at an earlier date:

	2009 £m	2008 £m
Due in 1 year or less	162.5	302.4
Due after 1 year but less than 5 years	990.4	904.4
Due after 5 years but less than 10 years	1,333.3	1,177.6
Due after 10 years	3,239.2	2,666.5
Due after 20 years	1,835.1	1,674.1
<b>Total</b>	<b>7,560.5</b>	<b>6,725.0</b>

The above total of £7,560.5m does not include claims outstanding of £62.4m and deposits received from reinsurers of £185.8m.

### *Market risk*

The Company is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market conditions. The main risks arise from movements in market interest rates, equity prices and foreign exchange rates whether due to factors specific to the individual instrument or its issuer or to factors affecting all similar financial instruments in the market.

#### *i) Interest rate risk*

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Non-profit insurance and investment contracts have benefit payments that are fixed at the inception of the contract. The Company's primary financial risk on these contracts is that the interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the policy benefits payable.

Movements in market interest rates affect the liabilities of the Company as well as the assets. Investment policy is designed to limit the amount of any mismatch between the two, when interest rates fluctuate. The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and the associated liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in interest rates. The gap between the mean duration of the assets and that of the liabilities is subject to limits set by the Investment Committee.

As at 31 December 2009, the overall mean duration of the principal conventional annuity portfolios (based on statutory cash flows) was 9.2 years (2008:9.5 years). This compares with a mean duration of the fixed interest securities backing them of 9.3 years (2008:9.1 years).

# Notes to the financial statements

## 20. Management of financial risk (continued)

### ii) Equity price risk

The Company is exposed to equity price risk through its holdings of equity investments, classified as financial assets at fair value through profit or loss. The Company has no exposure to equity price risk in its unit-linked funds due to the policyholder retaining the investment risk. As a result, the value of the Company's liabilities is nearly matched to the value of its assets.

The Company is exposed to equity price risk in the NMF and WPF through its holdings in equity investments, to the extent that they are not matched by liabilities to policyholders. Exposures to individual companies and to equity shares in aggregate are monitored by the Investment Committee in order to ensure compliance with the relevant regulatory limits for solvency purposes. Equities listed and traded in the UK are benchmarked against the FTSE All Share Index. Those listed overseas are benchmarked against appropriate overseas indices.

### iii) Sensitivity analysis

The effects of movements in market prices is set out in the table below:

	2009 (Rise)	2009 (Fall)
Effects of 78bps movement in interest rates on:		
Investments	(466.7)	529.7
Technical provision	(458.3)	525.3
<b>Net effect</b>	<b>(8.4)</b>	<b>4.4</b>
	2009 (Rise)	2009 (Fall)
Effects of a 20% movement in equities on:		
Investments	852.8	(852.8)
Technical provision	851.2	(850.6)
<b>Net effect</b>	<b>1.6</b>	<b>(2.2)</b>
	2008 (Rise)	2008 (Fall)
Effects of 65bps movement in interest rates on:		
Investments	(443.0)	497.7
Technical provision	(458.5)	521.7
<b>Net effect</b>	<b>15.5</b>	<b>(24.0)</b>
	2008 (Rise)	2008 (Fall)
Effects of a 20% movement in equities on:		
Investments	823.8	(823.8)
Technical provision	821.3	(822.1)
<b>Net effect</b>	<b>2.5</b>	<b>(1.7)</b>

The assumptions provide an indication of the effects that could reasonably occur. The estimates are calculated on a portfolio basis. Actual experience may differ due to changes in the investment portfolio mix and to management actions. The technical provision sensitivities shown cover both investment and insurance contracts as the exposure is monitored on an aggregate basis.

### Foreign exchange risk

The Company is exposed to the risk of loss from the movement of foreign exchange rates where it holds investments denominated in foreign currencies. The Company is not exposed to foreign exchange risk on unit-linked products as this risk resides with policyholders.

Outside the unit-linked funds the Company has foreign currency denominated investments in US dollars of £61.3m (2008: £700.1m) and EUR of £77.8m (2008:£604.1), representing 3.5% and 4.5% of its portfolio. As a result it is not exposed to any significant risk in this area.

# Notes to the financial statements

## 20. Management of financial risk (continued)

### **Reinvestment risk**

Due to the long-term nature of its liabilities the Company may not hold assets with a sufficiently long maturity profile to match the expected duration of its liabilities. If so, then it will have to reinvest the proceeds of maturing investments in the future. In such circumstances, it faces the risk that it will be unable to purchase appropriate investments at a reasonable cost when required. The risk is mitigated to some extent because maturities take place over an extended time span, reducing the likelihood of a large reinvestment requirement occurring at a particular point in time. In addition, the valuation interest rate is reduced where appropriate to reflect this risk.

### **Fair value disclosures**

As of 1 January 2009, the Company adopted the amendment to FRS 29. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the company has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (e.g. markets which have few transactions and prices that are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk and default rates); and (iv) inputs that are derived from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs. These inputs reflect the company's own assumptions about market pricing using the best internal and external information available.

The following tables present the Company's assets and liabilities measured at fair value at 31 December 2009.

<b>Assets</b>	Level 1	Level 2	Level 3	Total balance
	£m	£m	£m	£m
Financial assets at fair value through profit or loss:				
- shares and other variable-yield securities and units in unit trusts	736.7	0.3	6.6	743.6
- debt securities and other fixed income securities	1.3	7,030.7	109.8	7,141.8
Assets held to cover linked liabilities *	5,687.4	2,038.1	-	7,725.5
	<b>6,425.4</b>	<b>9,069.1</b>	<b>116.4</b>	<b>15,610.9</b>

\* Property assets (£242.1m) and ERIP (£76.3m) are not included above.

<b>Liabilities</b>	Level 1	Level 2	Level 3	Total balance
	£m	£m	£m	£m
Investment contracts at fair value through profit or loss	7,560.5	-	-	7,560.5
Derivative financial instruments	-	1.7	-	1.7
	<b>7,560.5</b>	<b>1.7</b>	<b>-</b>	<b>7562.2</b>

The types of instruments valued based on quoted market prices in active markets include active listed equities. Such instruments are generally classified within level 1 of the fair value hierarchy.

## Notes to the financial statements

### 20. Management of financial risk (continued)

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most government agency securities, investment-grade corporate bonds, certain mortgage and asset-backed products, state and municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain financial instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity and less liquid corporate debt securities. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The following tables present the changes in Level 3 instruments for the year ended 31 December 2009.

	<b>Assets</b>
	£m
Opening balance	62.4
Disposed during the year	(357.6)
Transfer into Level 3	57.5
Purchases	311.2
Gains recognised in the profit and loss	42.9
<b>Closing balance</b>	<b>116.4</b>
Total gains for the period included in profit or loss for assets held at the end of the reporting period	42.9

The sensitivity of Level 3 instruments is set out in the table below. The prices are sensitive to credit spreads on government bonds, therefore the two scenarios considered are: (i) rise in 50 bps; (ii) fall in 50 bps

	Base	Scenario1	Scenario2
	£m	£m	£m
Level 3 assets	116.4	113.0	109.9

# Notes to the financial statements

21. Other debtors	2009 £m	2008 £m
Tax recoverable and other debtors	51.1	38.9
Amounts owed by group undertakings	25.4	15.5
	<b>76.5</b>	<b>54.4</b>

## 22. Called up share capital

	2009			2008		
	Number (m)		£m	Number (m)		£m
	US\$0.01	£1 each		US\$0.01	£1 each	
<i>Authorised</i>						
Ordinary shares	2.9	10.0	10.0	2.9	10.0	10.0
Redeemable preference shares (i)	-	260.0	260.0	-	260.0	260.0
<i>Issued and fully paid</i>						
Ordinary shares	2.9	2.9	2.9	2.9	2.9	2.9
Redeemable preference shares (i)	-	260.0	260.0	-	260.0	260.0
			<b>262.9</b>			<b>262.9</b>

(i) The redeemable preference shares entitle the holder to:

- a non-cumulative preferential dividend at a rate of 5.87% per annum on the principal amount which will be payable annually in arrears in sterling on the anniversary date of issue in each year
- it will be redeemable at par at the option of the Company at any time after the 5<sup>th</sup> anniversary of the issue (issue date 21 December 2007)
- a preferential return on capital on winding up of the Company
- the right to cast votes at general meetings
  - a) if a resolution is proposed at the general meeting, or
  - b) in relation to the winding-up of the Company, or
  - c) for the varying, altering or abrogating of rights, privileges, limitations or restrictions attached to the redeemable preference shares.

# Notes to the financial statements

## 23. Reserves

The reserves of the company are:

	Distributable £m	Other £m
At 1 January 2009	(154.5)	32.7
Profit for the financial year	0.1	-
Capital contribution from Parent	142.0	-
<b>At 31 December 2009</b>	<b>(12.4)</b>	<b>32.7</b>

ARUK made capital contributions of £37m in May 2009 and £105m to the Company in December 2009 (as described in the Directors' Report).

The other reserve arose following the transfer to the Company of investments by the Company's parent undertaking. No payment was required to be made for the contribution.

## 24. Reconciliation of movement in shareholders' funds

	2009 £m	2009 £m	2008 £m	2008 £m
Opening shareholders' funds at 1 January		141.1		685.5
Profit/(loss) after tax	0.1		(470.4)	
Dividends	-		(215.0)	
Capital injection	142.0		141.0	
Net increase/(decrease) in equity shareholders' funds		142.1		(544.4)
Closing total shareholders' funds (page 17)		<b>283.2</b>		<b>141.1</b>

## 25. Total bonuses attributable to the accounting period

The total of bonuses attributable to the accounting year, being amounts representing an allocation of surplus for the period, were £59.1m (2008: £85.2m) in terminal and interim bonuses and £1.0m (2008:£2.5m) in reversionary bonuses. Terminal and interim bonuses are reported as part of claims incurred and reversionary bonuses included as part of the changes in the long-term business provision.

# Notes to the financial statements

## 26. Provisions for other risks and charges

	Property leases 2009 £m	Other 2009 £m	Total 2009 £m
At 1 January 2009	0.6	1.4	2.0
Additional provision	0.1	-	0.1
Utilised in year	(0.1)	-	(0.1)
<b>At 31 December 2009</b>	<b>0.6</b>	<b>1.4</b>	<b>2.0</b>

i) Property leases relate to the estimated net cost of empty leased properties during the time until they reach a break point in the lease or are expected to be sub-let. The timing and amount depends on the property and the circumstances of any lease. All provisions are discounted at 2.94% (2008: 2.56%)

ii) Other provisions relate to legal and complaint cases, an estimate being made of the likely outcome of each case to determine the amount or timing of any settlement and any associated costs.

## 27. Creditors

	2009 £m	2008 £m
Other creditors including taxation and social security	33.4	21.1
Deferred tax (see note 28)	-	2.3
Amounts owed to group undertakings	255.1	261.6
	<b>288.5</b>	<b>285.0</b>

Included within 'amounts owed to group undertakings' is an amount of £234m relating to the loan with ERIP Limited Partnership (as included in note 13b) which is undated for repayment. The Company has the right but not the obligation, to repay the principal amount subject to a maximum annual limit determined by the value of the property sales made by the ELP during the year. The loan attracts a commercial rate of interest based on LIBOR and it is unsecured.

# Notes to the financial statements

## 28. Deferred tax

### (a) Net deferred tax analysis

	Tax losses	Short-term timing differences	Deferred tax asset/(liability)	Discounting	Net asset/(liability)
	2009	2009	2009	2009	2009
	£m	£m	£m	£m	£m
At 1 January 2009	4.4	(6.6)	(2.2)	(0.1)	(2.3)
Amount charged to the profit and loss account	(4.4)	6.6	2.2	0.1	2.3
<b>At 31 December 2009</b>	-	-	-	-	-

Deferred tax assets are recognised only when projections indicate that it is more likely than not that timing differences will reverse or losses will be relieved.

There is an unrecognised deferred tax asset of £52m (2008:£57m) in respect of gross roll up business losses which is not expected to be recoverable.

There is an unrecognised deferred tax asset of £53m (2008:£49m) in respect of life assurance trading losses which is not expected to be recoverable.

There is an unrecognised deferred tax asset of £91m (2008:£96m) in respect of unrealised accelerated claim recovery arising from a reinsurance agreement with Swiss Re Europe SA, UK branch.

### (b) Movement on net deferred tax

	2009	2008
	£m	£m
Opening net deferred tax balance	(2.3)	21.0
Charged (credited) to the profit and loss account in the year	2.3	(23.3)
<b>Closing net deferred tax balance</b>	-	<b>(2.3)</b>

## 29. Finance lease liabilities

	2009	2008
	£m	£m
Finance lease liabilities	0.4	0.4
The amounts fall due in		
- one year or less	0.1	0.1
- between one and five years	0.3	0.2
- after five years	-	0.1

## 30. Lease commitments

Annual commitments in respect of non-cancellable leases of the Company are as follows:

	Land and buildings		Other	
	2009	2008	2009	2008
	£m	£m	£m	£m
Operating leases which expire:				
- within one year	0.1	-	-	-
- between one and five years	0.1	0.2	0.1	0.1
- after five years	-	0.1	-	-
	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>

# Notes to the financial statements

**31. Contingent liabilities** Liabilities may arise in respect of claims that are contingent on factors such as the interpretation of contracts, regulatory action or Ombudsman rulings. It is not possible to predict the incidence, timing or financial impact of these events with any certainty, but the Company is not aware of any significant liabilities in this regard.

**32. Ultimate parent undertaking** The smallest and largest group in which the results of the Company are consolidated is that of Swiss Reinsurance Company Ltd which is the ultimate parent undertaking. The consolidated accounts of Swiss Reinsurance Company Ltd may be obtained from its registered office at Mythenquai 50/60, PO Box 8022, Zurich, Switzerland.

The immediate parent company is Admin Re UK Limited, incorporated in England and Wales.