

Registered number: 71805

PA (GI) Limited

(A member of the Resolution plc group)

Report and Financial Statements for the year ended 31 December 2006

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Report and financial statements for the year ended 31 December 2006

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Directors

Directors

Mr R Craine

Mr R E K Greenfield

Mr M R Kipling

Mr I G Maidens

Secretary

Resolution Secretariat Services Limited

Registered office

1 Wythall Green Way, Wythall, Birmingham B47 6WG

Auditors

Ernst & Young LLP

1 More London Place, London, SE1 2AF

Directors' report for the year ended 31 December 2006**Principal activities and review of business**

The principal activity of the Company is the transaction of general insurance business in the United Kingdom.

The Company is part of the Resolution group, whose ultimate owner and controller is Resolution plc, and its parent is Resolution Life Limited.

Corporate activity

On 31 December 2005, the long term business funds together with the majority of the shareholders funds of the Company were transferred to Phoenix Life Limited for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 31 October 2005.

During 2006 the authorisation of the Company to write life insurance business in the EEA has been voluntarily withdrawn. The Company will retain its authorisation as a general insurer.

The Company's Creditor business was transferred to Groupama Insurance Company Ltd for a net £nil consideration, in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 31 May 2006, as this business was fully reinsured to Royal & Sun Alliance Insurance plc.

Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 11 to 13.

Total dividends of **£2.6m** were paid in the year (2005: £303.0m) resulting in a transfer from retained profits of **£2.9m** (2005: £580.6m).

Principal risks

The principal risk exposures during the year related to the Marine, Aviation & transport, and Employer's liability general business of the Company which is wholly reassured to Royal & Sun Alliance Insurance plc and the associated credit risk on this reinsurance treaty.

Environmental matters

Environmental policies and practices are managed on a group basis and are set out in the report and financial statements of the ultimate parent undertaking, Resolution plc.

Employee information

Resolution group employees are contracted with Resolution Management Services Limited. Human resources policies are managed on a group basis and are set out, together with information on employees, in the report and financial statements of the ultimate parent undertaking, Resolution plc.

Future developments

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

Directors and their interests

Messrs A B Davidson and D G R Ferguson resigned as directors of the Company with effect from 9 March 2006. Messrs G L Singleton, M N Biggs and P A Thompson resigned as directors of the Company with effect from 18 July 2006.

The other directors, whose names appear on page 3, served throughout the year.

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

The interests of the directors in the ordinary shares of 5p each in Resolution plc, other than I G Maidens whose interests are disclosed in the financial statements of that company, are as follows:

Directors' interests in shares

	Ordinary shares held at 1 January 2006 <u>or on appointment</u>	Ordinary shares <u>acquired</u>	Ordinary shares <u>disposed</u>	Ordinary shares held at 31 December 2006 <u></u>
R Craine	28,452	4,190	-	32,642
M R Kipling	28,452	4,190	-	32,642

Mr R E K Greenfield was also a director of Resolution Life Limited (RLL), the Company's holding company, during the year and his interests in the ordinary shares of 5p each in Resolution plc are disclosed in the financial statements of RLL.

Directors' report for the year ended 31 December 2006**Directors' interests in share options**

The following directors held options to subscribe for Resolution plc ordinary shares of 5p each granted under the Resolution savings related (share save) and executive share option schemes as follows:

	Price at which option is exercisable in pence	Date from which exercisable	1 January 2006 or on appointment	Share save options at 31 December 2006	1 January 2006 or on appointment	Executive options at 31 December 2006
R Craine	454.76	01.06.2011	-	1,415	-	-
M R Kipling	454.76	01.06.2009	-	2,055	-	-

Directors' interests in long term incentive plans

The following directors have been made notional allocations of shares under the Resolution 2002 and Resolution 2006 long term incentive plans which are subject to the attainment of the performance conditions measured over a three year period.

	Date granted	Rights held under plan at 31 December 2005 or on appointment	Rights granted during 2006	Notional market price of each share on date of grant in pence	Rights lapsed during 2006	Rights released during 2006	Rights held under plan at 31 December 2006	Date of end of performance period
R Craine	10.04.2006	-	7,123	569	-	-	7,123	10.04.2009
M R Kipling	10.04.2006	-	6,332	569	-	-	6,332	10.04.2009
	23.10.2006	-	6,774	620	-	-	6,774	23.10.2009

Auditors

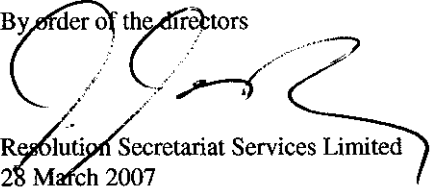
In the case of each of the persons who are directors of the Company at the date of approval of this report:

- So far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- Each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

By resolution of the members, an election was made under S.386 of the Companies Act 1985 to dispense with the obligation to appoint auditors on an annual basis. The auditors Ernst & Young LLP, will therefore, be deemed to have been reappointed.

By order of the directors


Resolution Secretariat Services Limited
28 March 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Independent auditor's report to the shareholders of PA (GI) Limited

We have audited the PA (GI) Limited financial statements for the year ended 31 December 2006 which comprise the profit and loss account, the movements in shareholders' funds, the balance sheet and the related notes 1 to 20 including the accounting policies and estimation techniques and uncertainties. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom generally accepted accounting practice) as set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion


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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP

Registered Auditor

London

3rd March 2007

Accounting Policies

Accounting and disclosure requirements

The principal accounting policies of the Company as set out below comply with Section 255 of and Schedule 9A to the Companies Act 1985, applicable UK accounting standards and with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers in December 2005 (amended in December 2006).

During 2006, the authorisation of the Company to write life insurance business in the EEA has been voluntary withdrawn. The Company will retain its authorisation as a general insurer.

Change in accounting policy

The Company adopted a policy of attributing all investment income and unrealised gains and losses on shareholder funds to the long term business technical account. The investment return on shareholder funds forms part of the shareholder result regardless of the performance of the Company's With Profit business. Accordingly, it is considered more appropriate to include investment return on shareholder funds in the non technical account without any attribution to the long term business technical account. The comparatives in the long term business technical account and the non technical account have been restated.

General insurance business

Underwriting results

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

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

Technical provisions

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

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

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

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the year end. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction. For monetary assets and liabilities within the long term funds, the resulting exchange adjustments are included within the technical account – long term business. For assets and liabilities held outside the long term funds, the resulting exchange adjustments are taken to the non-technical account.

Dividends

Dividends on equity shares are recognised when they become a legal liability. For dividends declared by equity holders, this is the date of declaration, and for dividends declared by directors this is on the date of payment.

Investment income

Income and realised and unrealised gains and losses on investments are reported in the long-term business technical account, and the Non-technical account together with the associated investment expenses and charges.

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

Accounting Policies

Taxation

Taxation in the non-technical account and long term business technical account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years.

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

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

Deferred tax balances that derive from undiscounted cash flows and for which the impact of discounting is material have been discounted using appropriate rates.

Investments

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

Unrealised gains and losses

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

(i) Realised gains and losses

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

(ii) Unrealised gains and losses

Net unrealised gains or losses are shown separately in the profit and loss account. Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or, in the case of investments purchased in the year, the cost of acquisition. 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.

Estimation techniques and uncertainties

Introduction

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

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company. For companies which undertake long term insurance business these provisions are held within the long term business provision. For companies that undertake general insurance business these provisions are held within outstanding claims and unearned premium reserves.

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

Estimation techniques

Long term business technical provisions are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each long term contract. General insurance business technical provisions have been computed using statistical or mathematical methods, which are estimated to adequately provide for the eventual liability, given the available information. The long-term computations are made by suitably qualified personnel, employed by Resolution plc. The general business computations are calculated by adequately qualified personnel, employed by Royal & Sun Alliance Insurance plc, who fully reinsure the Company's general insurance business liabilities. Computations are made on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in European law and by actuarial best practice in the United Kingdom. The methodology takes into account the risks and uncertainties of the particular classes of long term or general business written.

Uncertainties

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

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

Profit and loss account
for the year ended 31 December 2006

Technical account - general business

	Notes	2006 £m	2005 (restated) £m
Earned premiums, net of reinsurance			
Gross premiums written	1c	-	2.1
Outward reinsurance premiums		-	(2.1)
		-	-
Change in the gross provision for unearned premiums		3.2	0.3
Change in the provision for unearned premiums, Reinsurers' share		(3.2)	(0.3)
		-	-
Net earned premium		-	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(7.3)	(5.5)
Reinsurers' share		7.3	5.5
		-	-
Change in the provision for claims			
Gross amount	4b	15.6	1.6
Reinsurers' share		(15.6)	(1.6)
		-	-
Net claims incurred		-	-
Balance on the technical account – general business		-	-

All figures relate to discontinued operations.

The notes on pages 15 to 22 form part of these financial statements.

Profit and loss account

for the year ended 31 December 2006

Technical account - long term business

	Notes	2006 £m	2005 (Restated) £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	-	65.0
Outward reinsurance premiums	1a	-	(4.7)
Net earned premiums		-	60.3
Investment income	7	-	103.2
Unrealised gains on investments	7	-	52.3
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		-	(139.1)
Reinsurers' share		-	8.4
		-	(130.7)
Change in the provision for claims			
Gross amount		-	0.6
Reinsurers' share		-	-
		-	0.6
Net claims incurred		-	(130.1)
Changes in other technical provisions, net of reinsurance			
Long term business provision	10		
Gross amount		-	7.7
Reinsurers' share		-	0.3
		-	8.0
Technical provision for linked liabilities			
Gross amount		-	(3.9)
Reinsurers' share		-	1.2
		-	(2.7)
Net changes in other technical provisions		-	5.3
Net operating expenses	3	-	(23.9)
Investment expenses and charges	7	-	(2.9)
Reorganisation release/(charge)		-	0.3
Taxation attributable to long term business	5	-	(6.1)
Transfers to the fund for future appropriations		-	(32.2)
Balance on technical account - long term business		-	26.2

The figures relate to discontinued operations.

The notes on pages 15 to 22 form part of these financial statements.

Profit and loss account
for the year ended 31 December 2006
Non-technical account

	Notes	2006 £m	2005 (restated) £m
Balance on the general business technical account		-	-
Balance on the long term business technical account		-	26.2
Tax credit attributable to balance on the long term business technical account		-	11.2
		-	37.4
Investment Income	7	0.1	5.6
Unrealised gains on investments	7	0.2	0.8
Dividend from subsidiary undertakings		-	11.1
Investment expenses and charges	7	(0.7)	(0.1)
(Loss)/profit on ordinary activities before exceptional items and taxation		(0.4)	54.8
Loss arising on the Part VII transfer	2	-	(319.3)
Loss on ordinary activities before taxation		(0.4)	(264.5)
Taxation on profit on ordinary activities	5	0.1	(13.1)
Loss on ordinary activities after taxation		(0.3)	(277.6)

The figures relate to discontinued operations.

There have been no recognised gains or losses in either reporting year other than those reported in the profit and loss account, and accordingly a statement of total recognised gains and losses has not been presented.

Movements in shareholders' funds
for the year ended 31 December 2006

	Share capital £m	Capital Reserve £m	Profit & loss account £m	Total 2006 £m	Total 2005 £m
Shareholders' funds at 1 January	3.0	-	3.2	6.2	586.8
Shareholders' recognised losses relating to the year	-	-	(0.3)	(0.3)	(277.6)
Capital contribution (see note 9)	-	3.0	-	3.0	-
Transfer to reserves	-	(3.0)	3.0	-	-
Dividends	-	-	(2.6)	(2.6)	(303.0)
Shareholders' funds at 31 December	3.0	-	3.3	6.3	6.2

The profit and loss account includes **£3.3m** (2005: £3.2m) which is distributable.

The notes on pages 15 to 22 form part of these financial statements.

PA (GI) Limited

Balance sheet at 31 December 2006

	Notes	2006 £m	2005 (Restated) £m
Assets			
Investments			
Other financial investments	7	6.2	6.2
Reinsurers' share of technical provisions			
Provision for unearned premium		-	3.2
Claims outstanding	4a	139.9	155.5
		139.9	158.7
Debtors			
Other debtors		0.1	-
Other assets			
Cash at bank and in hand		0.9	0.9
Total assets		147.1	165.8
Liabilities			
Capital and reserves (see page 13)			
Called up share capital	8	3.0	3.0
Profit and loss account		3.3	3.2
Shareholders' funds		6.3	6.2
Technical provisions			
Provision for unearned premium		-	3.2
Claims outstanding	4a	139.9	155.5
		139.9	158.7
Creditors			
Other creditors including taxation and social security	11	0.9	0.9
Total liabilities		147.1	165.8

The notes on pages 15 to 22 form part of these financial statements.

The financial statements on pages 8 to 22 were approved by the directors on 28 March 2007 and were signed on their behalf by:



R Craine
Finance Director
28 March 2007

Notes on the financial statements
1. Segmental information
Long term business

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

1a Premiums written

	Gross £m	2006 Reinsurance ceded £m	Net £m	Gross £m	2005 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked with profits	-	-	-	1.0	-	1.0
Non linked without profits	-	-	-	53.6	(4.7)	48.9
Linked without profits	-	-	-	0.5	-	0.5
Group						
Non linked without profits	-	-	-	-	0.2	0.2
Pensions						
Individual						
Non linked without profits	-	-	-	3.6	(0.2)	3.4
Group						
Non linked with profits	-	-	-	3.1	-	3.1
Annuity	-	-	-	3.2	-	3.2
Total premiums written	-	-	-	65.0	(4.7)	60.3
Periodic premiums	-	-	-	61.7	(4.7)	57.0
Single premiums	-	-	-	3.3	-	3.3
Total premiums written	-	-	-	65.0	(4.7)	60.3

The gross figures above include the following inward reinsurance premiums:

	2006 £m	2005 £m
Life Individual		
Non linked with profits	-	0.7
Non linked without profits	-	43.1
Pensions Individual - non linked without profits	-	2.3
Pensions Group – non linked without profits	-	3.0
Total	-	49.1

Notes on the financial statements

1b New business premiums

	2006			2005		
	Gross £m	Reinsurance ceded £m	Net £m	Gross £m	Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked without profits	-	-	-	0.0	-	0.0
Pensions						
Individual						
Non linked without profits						
Annuity	-	-	-	3.3	-	3.3
Total new business annualised premiums	-	-	-	3.3	-	3.3
Periodic premiums	-	-	-	0.0	-	0.0
Single premiums	-	-	-	3.3	-	3.3
Total new business annualised premiums	-	-	-	3.3	-	3.3

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

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

1c. General Business

Segmental analysis of business by geographical area

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

2006	Marine aviation & transport £m	Misc & pecuniary loss £m	Total £m
Gross premiums written	-	-	-
Gross premiums earned	-	3.2	3.2
Gross claims incurred	8.2	0.1	8.3
Gross operating expenses	-	-	-
Gross technical result	8.2	3.3	11.5
Reinsurance balance	(8.2)	(3.3)	(11.5)
Net technical result	-	-	-
2005 (restated)	Marine aviation & transport £m	Misc & pecuniary loss £m	Total £m
Gross premiums written	(0.2)	2.3	2.1
Gross premiums earned	-	2.4	2.4
Gross claims incurred	(3.4)	(0.5)	(3.9)
Gross operating expenses	-	-	-
Gross technical result	(3.4)	1.9	(1.5)
Reinsurance balance	3.4	(1.9)	1.5
Net technical result	-	-	-

Notes on the financial statements**2. Long term insurance and shareholders' funds transfer**

As noted in the directors' report, on 31 December 2005, the long term business together with the majority of the shareholders funds of the Company were transferred to Phoenix Life Limited (formerly Royal & Sun Alliance Linked Insurances Limited) for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 31 October 2005. The assets and liabilities transferred and the loss arising are set out below:

Assets	£m
Investments	1,232.6
Assets held to cover linked liabilities	21.1
Reinsurers' share of technical provisions	54.2
Debtors	173.7
Other assets	40.8
Prepayments and accrued income	51.4
	1,573.8
Liabilities	
Funds for future appropriations	219.8
Technical provisions	914.3
Technical provisions for linked liabilities	66.4
Provision for other risks and changes	3.3
Creditors	50.4
Accruals and deferred income	0.3
	1,254.5
Net assets transferred	319.3
Consideration	-
Loss on transfer of net assets	319.3

3. Net operating expenses

	2006	2005
	£m	£m
Acquisition costs	-	(0.2)
Change in deferred acquisition costs	-	(3.0)
Administrative expenses	-	(20.8)
Reinsurance commissions and profit participation	-	0.1
Net operating expenses	-	(23.9)

All operating expenses were recharged from fellow group companies, Resolution Life Services Limited and Phoenix Life Insurance Services Limited (formerly Royal & SunAlliance Life Insurance Services Limited).

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to **£nil** (2005: £0.5m). Total reinsurance commissions and profit participation accounted for by the Company during the year amounted to net expenditure of **£nil** (2005: £2.8m).

4a Outstanding Claims

A review in 2006 of the technical provision of the Company's general insurance business revealed that the provision for outstanding claims at 31 December 2005 was understated by £71.9m gross, £nil net of reinsurance. The previous year's figures have been restated to rectify this. This adjustment has no impact on profit for 2005 and 2006

4b Transfer of General Insurance Group Creditor business

The Company's Creditor business was transferred to Groupama Insurance Company Ltd for a net £nil consideration, in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 approved by the High Court on 31 May 2006, as this business was fully reinsured to Royal & Sun Alliance Insurance plc.

Notes on the financial statements

4b Transfer of General Insurance Group Creditor business (cont)

The assets and liabilities transferred are as follows :

	£m
Assets	
Reinsurers' share of technical provisions	
Provision for unearned premium	3.2
Claims outstanding	0.7
	<u>3.9</u>
Liabilities	
Technical provisions	
Provision for unearned premium	3.2
Claims outstanding	0.7
	<u>3.9</u>
Net assets transferred	-
Consideration	-
Profit/(Loss) on transfer of net assets	<u>-</u>

5. Taxation

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

	Long term technical account		Non-technical account	
	2006	2005 (restated)	2006	2005 (restated)
	£m	£m	£m	£m
Current tax:				
UK corporation tax	-	(8.7)	0.1	(1.9)
Overseas taxation	-	(0.1)	-	-
(Under)/over provision in respect of prior year	-	1.3	-	-
Total current tax	-	(7.5)	0.1	(1.9)
Tax attributable to balance on the long term technical account			-	(11.2)
Deferred tax (see note 15)				
Timing differences		1.4	-	-
Total tax charge	-	(6.1)	0.1	(13.1)

The tax charge for UK corporation tax in the technical account – long term business is provided at rates between **20%** and **30%** (2005 between 20% and 30%) computed in accordance with the rules applicable to life insurance companies.

UK Corporation tax for the current year is at the standard rate of **30%** (2005 was less than the standard rate 30% due to the items set out in the reconciliation below).

	2006	2005 (restated)
	£m	£m
(Loss)/profit on ordinary activities before taxation	(0.4)	(264.5)
Tax charge at 30%	0.1	79.3
Factors affecting charge		
UK Tax bases of Insurance profits	-	11.2
Subsidiary undertaking dividend not taxable	-	3.3
Part VII transfer not taxable	-	(95.7)
Current tax charge for the year	<u>0.1</u>	<u>(1.9)</u>

Notes on the financial statements

5. Taxation (cont)

The deferred taxation on the balance sheet comprises:

	2006 £m	2005 £m
Unrealised investment gains	-	10.8
Other timing differences	-	(7.6)
	-	3.2
Part VII Transfer	-	(3.0)
Discount	-	(0.2)
Deferred taxation provided (see note 15)	-	-

Deferred tax assets and liabilities are discounted at rates reflecting post-tax yields to maturity that can be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets and liabilities.

6. Bonuses

The total amount of bonuses attributable to policyholders for the year is **£nil** (2005: **£11.1m**).

7. Investment return

	Long term technical account		Non-technical account	
	2006	2005 (restated)	2006	2005 (restated)
	£m	£m	£m	£m
Attributable to long term business				
Income from investments				
Income from land and buildings	-	1.7	-	-
Income from other investments	-	53.8	0.1	5.6
Gains on the realisation of investments	-	47.7	-	-
Total investment income	-	103.2	0.1	5.6
Investment expenses and charges				
Investment management charges	-	(2.9)	-	-
Losses on the realisation of investments	-	-	(0.7)	(0.1)
	-	100.3	(0.6)	5.5
Unrealised gains on investments	-	52.3	0.2	0.8
Investment return attributable to long term business	-	152.6	(0.4)	6.3

	2006 £m	2005 £m
Other financial investments		
Shares and other variable yield securities and units in unit trusts	3.2	2.7
Debt securities and other fixed income securities		
Other government securities	3.0	3.5
Total other financial investments	6.2	6.2

The historical cost of investments is **£6.3m** (2005: **£6.5m**).

Included with shares and other variable yield securities and units in unit trusts are money market funds with a value of **£3.2m** (2005: **£2.6 m**).

Notes on the financial statements**7. Investment return (cont)**

Listed investments included in the total investments are as follows:

	2006 £m	2005 £m
Shares and other variable yield securities and units in unit trusts	3.2	2.6
Debt securities and other fixed income securities	3.0	3.5
	6.2	6.1

8. Share capital

	2006 £m	2005 £m
Authorised		
60,000,000 (2005: 60,000,000) ordinary shares of 1p each	0.6	0.6
9,600,000 (2005: 9,600,000) deferred shares of 25p each	2.4	2.4
	3.0	3.0
Issued and fully paid		
60,000,000 (2005: 60,000,000) ordinary shares of 1p each	0.6	0.6
9,600,000 (2005: 9,600,000) deferred shares of 25p each	2.4	2.4
	3.0	3.0

The deferred shares do not entitle the holders to receive any dividend in respect of any accounting reference period of the Company unless, and until, there has been declared, and paid in respect of that period, a dividend of not less than £5 per ordinary share. Thereafter the holders of the deferred shares shall participate equally with the holders of such ordinary shares in the profits of the Company. The deferred shares do not entitle any holders to receive notice of, attend or vote at any general meeting of the Company.

On a return of assets on liquidation or otherwise, the assets to be returned shall be applied to the holders of deferred shares, after paying to the holders of the ordinary shares £5,000 per share. In paying to the holders of the deferred shares the amounts paid up thereon, and the balance of such assets shall belong to and be distributed among the holders of the ordinary shares in proportion to the amounts paid up on the ordinary shares held by them respectively.

9. Capital contribution

In December 2006 the company's parent company, Resolution Life Limited, injected £3m of funds into the company by capital injection to support the statutory solvency valuation of the company following a review of the General Insurance business outstanding claims (see note 3, page 17).

10. Long term business provision

Following the transfer of the Company's long term fund to that of Phoenix Life Limited, as part of the Part VII transfer Scheme, there is no long term business provision from 31 December 2005.

11. Creditors

	2006 £m	2005 £m
Other creditors including taxation and social security		
Amounts due to group companies	-	0.4
Other	0.9	0.5
	0.9	0.9

Notes on the financial statements**12. Directors' emoluments**

All the directors of the Company received remuneration from the service company, Resolution management Services Limited, as employees of that company. The directors received no emoluments in respect of their services to the Company.

In 2005 the directors' emoluments were as follows:

The total remuneration of the directors of the Company was £14,770,998. Of this total £2,738,776 was allocated to the Company. The emoluments of the highest paid director were £4,230,444. At 31 December 2005 the highest paid director had not accrued annual pension entitlements. Retirement benefits are accruing for 6 other directors under defined contribution schemes.

13. Auditors' remuneration

The remuneration receivable by the Company's auditors for auditing the 2006 accounts was paid by another group company (2005 £101,054). The remuneration of the auditors for other services provided to the Company is included in the disclosures given in the consolidated financial statements of Resolution plc.

14. Pension costs and other post-retirement benefits

All of the staff are employed by Resolution Management Services Limited and are members of either a defined benefit pension scheme or one of the defined contribution pension schemes, details of which are disclosed in the Resolution plc accounts.

15. Provision for other risks and charges

	Complaints and Litigation Costs		Reorganisation Costs		Deferred taxation	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January, as restated	-	0.3	-	0.3	-	4.4
Utilised	-	-	-	-	-	-
Part VII Transfer	-	(0.3)	-	-	-	(3.0)
Charges to/(release) from:						
Technical account – long term business	-	-	-	(0.3)	-	(1.4)
At 31 December	-	-	-	-	-	-

16. Cash flow

The Company is a wholly owned subsidiary of Resolution plc and the cash flows of the Company are included in the consolidated cash flow statement of Resolution plc. The Company has thus taken advantage of the exemption permitted by Financial Reporting Standard 1 (revised) and has elected not to prepare its own cash flow statement.

17. Contingent liabilities

The company had no contingent liabilities at 31 December 2006 (2005: £Nil).

18. Related party transactions

Advantage has been taken of the exemption provided in Financial Reporting Standard 8 from disclosing details of transactions with Resolution plc and its subsidiary undertakings.

19. Parent companies

The Company's immediate parent company is Resolution Life Limited, registered in England and Wales.

The Company's ultimate parent company and controlling party is Resolution plc, which is registered in England and Wales, and is the parent undertaking of the largest and smallest group to consolidate these financial statements. A copy of that company's accounts can be obtained from Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.

Notes on the financial statements

20. Non technical account investment return

Following the change in accounting policy the shareholder investment return is now disclosed in the non technical account and not in the long term business technical account. The effect of the change on the 2005 profit and loss account has been to reduce investment return in the long term business technical account by £6.3m and include the same amount in the non technical account and to reduce the tax charge in the long term business technical account by £1.9m and reduce the tax credit attributable to long term business in the non technical account by the same amount.