

Registered number: 894616

Phoenix & London Assurance Limited

(A member of the Resolution plc group)

Report and Financial Statements for the year ended 31 December 2006

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Phoenix & London Assurance Limited

Report and financial statements for the year ended 31 December 2006

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Phoenix & London Assurance Limited

Directors

Mr R Craine

Mr A B Davidson (Non-executive)

Mr D G R Ferguson (Non-executive Chairman)

Mr R E K Greenfield

Mr M R Kipling

Mr I G Maidens

Mr J A Newman

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

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2006

Business Review

Principal activities

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

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

Corporate activity

During 2005, the Company transferred a substantial part of its pension annuity portfolio that was in force on 1 January 2005 to Canada Life Limited (Canada Life). Further details are provided in the notes to the financial statements.

Following an amendment to the subordinated loan agreement with RLG With Profit Holdings Limited (RLGWPH) in April 2006, RLGWPH made a capital contribution to the Company of £47.7m and reduced its subordinated loan to the Company by a corresponding amount. In April 2006, the Long Term Fund repaid £45.0m from the balance of its internal support loan from the Company's shareholder fund. In December 2006, a further draw-down of £35.9m was made on the subordinated loan facility. Further details are provided in the notes to the financial statements.

On 21 December 2006 the Company's then immediate parent, RLGWPH, transferred its shareholding and loan interests in the Company to Resolution Life Limited.

Business transacted

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

Virtually all the term assurance, permanent health insurance, unitised with profits pensions and unit linked business was reinsured with fellow subsidiary companies, Phoenix Life Limited and Phoenix Life and Pensions Limited.

Policy administration is outsourced to Resolution Management Services Limited (RMS), which in turn has an agreement to sub-contract administration to Unisys Insurance Services Limited. Under the agreement with RMS, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk. On 2 January 2006, the management of the Company's investments was transferred to Resolution Asset Management Limited.

The gross premium income of the Company for the year was **£274.9m** (2005: £313.0m). A segmental analysis of premium income is provided in note 2 to the financial statements.

Funds under management

At the end of the year, the value of funds under management was £6,504.4m compared with £6,888.0m a year earlier.

Valuation result and capital position

A valuation of the long term insurance business of the Company in accordance with the prudential sourcebook for insurers issued by the Financial Services Authority was made as at 31 December 2006. The rules require the Company to determine its liabilities on two different bases, which are known as the "regulatory basis" and the "realistic basis" and effectively take the higher of the two.

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2006 (continued)

The valuation on the regulatory basis showed a surplus of **£32.5m** (2005: £45.3m), out of which **£28.9m** (2005: £40.6m) has been allocated to policyholders and **£3.1m** (2005: £4.2m) to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as **£4.4m** (2005: £5.9m).

Under the realistic basis the liability is equal to the value of the liabilities to policyholders and the expected transfer to shareholders in respect of the currently in-force business. The long term fund takes credit for **£106.4m** of the contingent loan from the shareholders' fund resulting in a realistic basis surplus of **£nil**.

Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 15 and 16. The profit on ordinary activities before taxation was **£22.7m** (2005: £28.9m), of which £11.3m derived from the Long Term fund and £11.4m from shareholder investment activity.

No dividend was paid in the year (2005: £Nil).

Principal risks

The Long Term fund is relatively weak and, as a result, the shareholder is potentially directly exposed to significant insurance risk and to market and credit risk associated with its investments. Principal risks derive from improving annuitant longevity which will increase pensions liabilities, from guaranteed sums assured under contracts which require relatively high investment returns to be achieved and from guaranteed annuity rates granted on pensions contracts. In addition, the Company faces operational risks, including the performance of its outsourced policy administration arrangements.

The Company has mitigated these risks by maintaining a relatively low risk investment and bonus strategy with the bulk of funds being invested in relatively less volatile fixed interest securities. In addition, substantial cashflow matching has been achieved and interest rate swaptions have been purchased. At the end of 2005, the Company transferred a large part of its in force annuity business to Canada Life.

In common with the Life Insurance industry, the Company has experienced a large number of complaints in respect of mortgage endowment business. A systematic review process has been established to deal with these complaints. During 2006, the cost incurred by the Company in respect of these complaints, including the cost of redress and management expenses, was **£17.1m** (2005: £14.0m).

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

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

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2006 (continued)

Directors and their interests

Mr J A Newman was appointed as a director of the Company with effect from 30 August 2006. Mr G L Singleton resigned as a director of the Company with effect from 30 August 2006. Messrs M N Biggs and P A Thompson resigned as directors of the Company with effect from 10 July 2006.

The other directors, whose names appear on page 2, 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 and J Newman whose interests are disclosed in the financial statements of that company, are as follows:

Directors' interest in shares

	Ordinary shares held at 1 January 2006 or on appointment	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31 December 2006
R Craine	28,452	4,190	-	32,642
A B Davidson	-	-	-	-
D G R Ferguson	-	-	-	-
M R Kipling	28,452	4,190	-	32,642

Mr R E K Greenfield was also a director of Resolution Life Limited (RLL) 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' 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 <u>in pence</u>	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	-	-
A B Davidson	-	-	-	-	-	-
D G R Ferguson	-	-	-	-	-	-
M R Kipling	454.76	01.06.2009	-	2,055	-	-

Phoenix & London Assurance Limited

Directors' report for the year ended 31 December 2006 (continued)

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
A B Davidson	-	-	-	-	-	-	-	10.04.2009
D G R	-	-	-	-	-	-	-	-
Ferguson								
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

Qualifying third party indemnity provisions are in place for the benefit of the directors in relation to certain losses and liabilities which they may potentially incur to third parties in the course of their duties.

Secretary

Ms J J Wilman resigned as Secretary of the Company on 1 September 2006 and Resolution Secretariat Services Limited was appointed as Secretary on that date.

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.

The auditors, Ernst & Young LLP, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

By order of the directors



Director
28 March 2007

Phoenix & London Assurance Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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.

Phoenix & London Assurance Limited

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

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the profit and loss account, the movement in shareholders' funds, the Balance Sheet and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out on pages 9 to 13.

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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 whether in our opinion the information given in the directors' report is 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

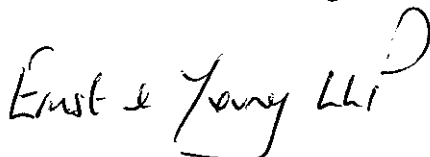
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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 profit 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

29 March 2007

Phoenix & London Assurance Limited

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. Except as set out below and described in note 1, all accounting policies have been applied on a consistent basis.

Changes in accounting policies

The Company has adopted for the first time Financial Reporting Standard 26 'Financial Instruments – Measurement' (FRS 26), the amendments issued in October 2005 and April 2006 and the disclosure requirements of Financial Reporting Standard 25 'Financial Instruments – Disclosure and Presentation' (FRS 25) in its 2006 financial statements. FRS 26 deals with the measurement of financial instruments and this excludes insurance contracts and investment contracts with discretionary participation features (DPF). However, all contracts have been classified as insurance contracts. The disclosure requirements of FRS 25 are to enhance the understanding of the significance of financial instruments to the company's financial position, performance and cash flows. It also provides an assessment of the amounts, timing and certainty of future cash flows associated with financial instruments. These disclosures provide information to assist users of financial statements to assess the risks associated with market, credit, liquidity and cash flow interest rate risks.

As all contracts have been classified as insurance contracts, no restatement to the previous year's figures is required under FRS 26. The Company has taken advantage of the exemption under FRS 25 from providing disclosures in respect of comparatives.

FRS19 Deferred Tax allows, but does not prescribe, the discounting of deferred tax. In prior years, advantage has been taken of this option. From 2006 onwards, provision for deferred tax has been made in full, without discounting. This constitutes a change in accounting policy, and as such, requires prior year comparatives to be restated. The relevant primary statements and notes have been amended, the effect of which is set out in note 1 to the accounts.

The Company had 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 long term 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.

Group accounts

The Company is a wholly owned subsidiary of a UK holding company and, in accordance with Section 228 of the Companies Act 1985, consolidated accounts have not been prepared.

Classification of contracts

Contracts under which the Company accepts significant insurance risk and those which have DPF are classified as insurance contracts.

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

All contracts have been classified as insurance contracts.

Premiums

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

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Accounting Policies (continued)

Claims

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

Long term business provision

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

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

Provision for outstanding claims

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

Provision for linked liabilities

Unit linked contracts may be classified as insurance contracts or investment contracts depending on the extent to which insurance risk is transferred to the Company. The linked element of the liability is disclosed in the technical provision for linked liabilities. Regardless of classification, the valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. Where the surrender value of an investment contract exceeds the financial liability the liability is increased to reflect the surrender value.

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

For 2005, the technical provision for linked liabilities represents the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description, or to indices of the value of investments. Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. These assets are included, predominantly, at mid market value.

Reinsurance

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

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

Investment contracts without DPF

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the balance sheet as an adjustment to the liability to the policyholder.

However, all contracts are classified as insurance contracts.

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Accounting Policies (continued)

Revenue from investment contracts

Revenues from investment contracts comprise amounts assessed against policyholders' account balances for policy administration and surrender charges and are recognised as the related services are provided. Origination costs to relating services to be provided in future periods are deferred to the extent that they are recoverable from deferred income. Revenues are disclosed in Other Technical Income as fee income and movements in deferred origination costs are disclosed in Operating Expenses.

Liabilities under investment contracts

Unit linked contracts may be classified as insurance contracts or investment contracts depending on the extent to which insurance risk is transferred to the Company. The linked element of the liability is disclosed in the technical provision for linked liabilities. Regardless of classification, the valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. Where the surrender value of an investment contract exceeds the financial liability the liability is increased to reflect the surrender value.

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

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

For 2005, the technical provision for linked liabilities represents the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description, or to indices of the value of investments. Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. These assets are included, predominantly, at mid market value.

Acquisition costs

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

Deferred acquisition costs

Deferred acquisition costs comprise the amount of direct and indirect costs arising from the obtaining and processing of new business that was carried forward to be amortised against future margins in respect of the related policies. Deferral of costs was limited to the extent that there are available future margins. Following the adoption of FRS 27 from 2005, acquisition costs in respect of With Profit business are no longer deferred.

Fund for future appropriations

The funds for future appropriations represent the difference between the assets of the long term fund and the sum of the technical provisions and other liabilities of the fund.

Basis of profit recognition

The profits on long term business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities. Long term profits are shown in the non-technical account grossed up for taxation at the effective rate of corporation tax applicable in the period.

Bonuses

The long-term business provision includes the value of the liabilities for previously declared reversionary bonuses and also future reversionary and terminal bonuses.

Phoenix & London Assurance Limited

Accounting Policies (continued)

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

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

Taxation

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

The balance on the technical account - long term business is transferred to the non-technical account. Profits are shown in the non-technical account grossed up for tax at the 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.

Investments

Investments in subsidiaries and associated undertakings

Investment in subsidiaries and associated undertakings are included in the balance sheet at net asset value. The difference between cost and net asset value of subsidiaries and associated undertakings is included within unrealised gains/(losses).

Land and buildings

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual by a qualified valuation surveyor.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 "Accounting for investment properties", no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Company's practice to maintain properties occupied by the Company in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

Financial assets

Financial assets, with the exception of loans and receivables, are designated as fair value through profit and loss. The fair value of listed equities, fixed income securities and collective investment schemes is their quoted bid price. Financial assets are accounted for at trade date, being the date the Company commits to purchase or sell the assets, and transaction costs on initial recognition and subsequent derecognition are recognised as an expense. Unlisted investments where the fair value cannot be reliably measured are stated at cost less impairment losses.

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Accounting Policies (continued)

Derivative financial instruments are used primarily for the purpose of efficient portfolio management or reduction of investment risk. The interest payable or receivable on interest rate swaps is included in interest paid. Derivative financial instruments are recognised initially at cost and subsequently at fair value. Transaction costs relating to derivatives are accounted for as an expense.

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

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

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

The accounting policies for investments operative for 2005 were as follows.

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

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.

Derivative financial instruments are used primarily for the purpose of efficient portfolio management or reduction of investment risk. Future contracts, written and purchased options are included within the category to which the contract relates and are valued at market rate. The interest payable or receivable on interest rate swaps is included in investment income or investment income and charges.

Operating leases

Payments made under operating leases are charged on a straight line basis over the term of the lease.

Estimation techniques and uncertainties

Introduction

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

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

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

Estimation techniques

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

Uncertainties

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

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

Phoenix & London Assurance Limited

Profit and loss account

for the year ended 31 December 2006

Technical account - long term business

	Notes	2006 £m	2005 (restated) £m
Earned premiums, net of reinsurance			
Gross premiums written	2a	274.9	313.0
Outward reinsurance premiums	2a, 3	(82.7)	(2,260.1)
Net earned premiums		192.2	(1,947.1)
Investment income	1, 8	658.3	812.5
Unrealised gains on investments	1, 8	-	121.1
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(731.1)	(870.3)
Reinsurers' share		201.5	288.3
		(529.6)	(582.0)
Change in the provision for claims			
Gross amount		(5.9)	1.2
Reinsurers' share		(0.4)	0.2
		(6.3)	1.4
Net claims incurred		(535.9)	(580.6)
Change in long term business provision			
Gross amount	1	402.5	1,770.1
Reinsurers' share		(82.7)	(72.1)
Net change in long term business provision		319.8	1,698.0
Change in technical provision for linked liabilities			
Gross amount		(15.9)	(102.6)
Reinsurers' share		15.9	102.6
Net change in technical provision for linked liabilities		-	-
Net operating expenses	4	(15.9)	(19.5)
Investment expenses and charges	1, 8	(22.7)	(32.4)
Unrealised losses on investments	8	(576.3)	-
Reorganisation costs	5	-	0.1
Taxation attributable to long term business	1,6	2.6	(43.8)
Transfers (to)/from the fund for future appropriations	13	(14.2)	-
Balance on technical account - long term business		7.9	8.3

All figures relate to continuing operations.

The notes on pages 19 to 32 form part of these financial statements.

Phoenix & London Assurance Limited

Profit and loss account

for the year ended 31 December 2006

Non-technical account

	Notes	2006 £m	2005 (restated) £m
Balance on the long term business technical account		7.9	8.3
Tax credit attributable to balance on the long term business technical account	1, 6	3.4	3.6
		11.3	11.9
Investment income	1, 8	30.5	26.5
Unrealised gains/(losses) on investments	1, 8	(7.1)	2.4
Investment expenses and charges	1, 8	(12.0)	(11.9)
Profit on ordinary activities before taxation		22.7	28.9
Taxation on profit on ordinary activities	6	(6.8)	(8.7)
Profit on ordinary activities after taxation		15.9	20.2

All figures relate to continuing operations.

There have been no recognised gains or losses in either reporting year other than those reported in the profit and loss account, and accordingly a statement of total recognised gains and losses has been presented.

Movements in shareholders' funds

for the year ended 31 December 2006

	Share capital £m	Capital contribution £m	Profit & loss account £m	Total 2006 £m	2005 £m
Shareholders' funds at 1 January	81.0	-	239.3	320.3	300.1
Shareholders' recognised gains	-	-	15.9	15.9	20.2
Capital contribution	-	47.7	-	47.7	-
Shareholders' funds at 31 December	81.0	47.7	255.2	383.9	320.3

The profit and loss account includes £255.2m (2005: £236.1m) which is realised.

The notes on pages 19 to 32 form part of these financial statements.

Phoenix & London Assurance Limited

Balance sheet

at 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Investments			
Land and buildings	9	1.2	471.2
Investments in subsidiary undertakings	17	353.0	1.2
Other financial investments	9	6,148.0	6,413.3
		6,502.2	6,885.7
Assets held to cover linked liabilities	10	3.4	3.5
Reinsurers' share of technical provisions			
Long term business provision	14	707.0	789.7
Claims outstanding		2.0	2.4
Technical provision for linked liabilities		953.6	937.7
		1,662.6	1,729.8
Debtors			
Debtors arising out of direct insurance operations	11	4.2	4.2
Debtors arising out of reinsurance operations		0.8	10.0
Other debtors		14.6	14.1
		19.6	28.3
Other assets			
Cash at bank and in hand		14.4	64.7
Prepayments and accrued income			
Accrued interest and rent		70.1	72.6
Other prepayments		0.2	3.4
		70.3	76.0
Total assets		8,272.5	8,788.0

The balance sheet includes assets (net of reinsurance) totalling **£6,132.4m** (2005: £6,240.4m) representing the long term insurance funds.

The notes on pages 19 to 32 form part of these financial statements.

Phoenix & London Assurance Limited

Balance sheet

at 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Liabilities			
Capital and reserves (see page 16)			
Called up share capital	12	81.0	81.0
Capital contribution		47.7	-
Profit and loss account		255.2	239.3
Shareholders' funds – equity interests		383.9	320.3
Subordinated debt	26	200.0	211.9
Total capital, reserves and subordinated debt		583.9	532.2
Fund for future appropriations	13	14.2	-
Technical provisions			
Long term business provision	1, 14	6,622.4	7,024.9
Claims outstanding		50.4	44.5
		6,672.8	7,069.4
Technical provision for linked liabilities	15	957.1	941.2
Provision for other risks and charges	1, 21	21.2	17.6
Creditors	16		
Creditors arising out of direct insurance operations		1.0	1.8
Creditors arising out of reinsurance operations		1.4	2.5
Other creditors including taxation and social security		20.8	214.6
		23.2	218.9
Accruals and deferred income			
Property rent		0.1	8.7
Total liabilities		8,272.5	8,788.0

The notes on pages 19 to 32 form part of these financial statements.

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



R Craine
Finance Director
28 March 2007

Phoenix & London Assurance Limited

Notes to the financial statements

1. Effect of changes in accounting policies

1a. FRS 26 Financial instruments

The Company has adopted FRS 26 *Financial Instruments: Recognition and Measurement* with effect from 1 January 2006. All contracts are designated as insurance contracts and accordingly there is no practical effect of the changes in accounting policy. The Company has also adopted the disclosure requirements of FRS 25 *Financial Instruments: Disclosure and Presentation*.

1b. FRS 19 Deferred taxation

A change in accounting policy has been made to remove the discounting basis for deferred tax. The comparative figures for 2005 have been restated to reflect the change of accounting policy.

The effect of the prior year adjustment on the 2005 balance sheet was to decrease the gross long term business provision by £1.6m and increase the liability for deferred taxation by £1.6m. The effect of the prior year adjustment on the 2005 technical account – long term business was to reduce the taxation charge attributable to long-term business by £1.0m and reduce the change in gross long term business provision by £1.0m.

1c. Shareholder investment return

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 (net of investment expenses and charges) in the long term business technical account by £17.0m and include the same amount in the non technical account and to reduce the tax charge in the long term business technical account by £5.1m and reduce the tax credit attributable to long term business in the non technical account by the same amount.

2. Segmental analysis

2a. Premiums written

	Gross £m	2006 Reinsurance ceded £m	Net £m	Gross £m	2005 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked with profits	85.0	(4.8)	80.2	101.7	(5.4)	96.3
Non linked without profits	41.0	(35.2)	5.8	43.4	(37.5)	5.9
Unit linked	0.9	(0.9)	-	1.0	(1.0)	-
Group						
Non linked without profits	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Pensions						
Individual						
Non linked with profits	19.6	(3.4)	16.2	28.9	(5.4)	23.5
Non linked without profits	0.7	(0.6)	0.1	0.9	(0.7)	0.2
Unit linked	19.9	(19.9)	-	23.8	(23.8)	-
Group						
Non linked with profits	6.2	(2.5)	3.7	8.1	(3.6)	4.5
Unit linked	2.0	(2.0)	-	4.1	(4.1)	-
Annuity	99.7	(13.4)	86.3	101.3	(2,178.6)	(2,077.3)
Total premiums written	274.9	(82.7)	192.2	313.0	(2,260.1)	(1,947.1)
Periodic premiums	171.4	(66.1)	105.3	205.0	(76.6)	128.4
Single premiums	103.5	(16.6)	86.9	108.0	(2,183.5)	(2,075.5)
Total premiums written	274.9	(82.7)	192.2	313.0	(2,260.1)	(1,947.1)

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

All contracts are classified as insurance. Consequently, the above analysis includes premiums on all contracts, with no premiums being accounted for on a deposit basis

Included within the 2005 reinsurance ceded above of £2,260.1m is £2,178.6m paid in connection with the transfer of annuity business as described in note 3.

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

2b. New business premiums

	Gross £m	2006 Reinsurance ceded £m	Net £m	Gross £m	2005 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked with profits	-	-	-	0.1	-	0.1
Non linked without profits	0.1	-	0.1	0.2	-	0.2
Group contracts						
Non linked without profits	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Pensions						
Individual						
Non linked with profits	0.8	(0.2)	0.6	2.7	(1.0)	1.7
Non linked without profits	-	-	-	0.1	-	0.1
Unit linked	2.9	(2.9)	-	3.4	(3.4)	-
Group contracts						
Non linked with profits	-	-	-	0.2	(0.1)	0.1
Unit linked	0.2	(0.2)	-	0.8	(0.8)	-
Annuity	99.7	(13.4)	86.3	101.3	(2,178.6)	(2,077.3)
Total new business annualised premiums	103.6	(16.7)	86.9	108.6	(2,183.9)	(2,075.3)
Periodic premiums	-	-	-	0.6	(0.4)	0.2
Single premiums	103.6	(16.7)	86.9	108.0	(2,183.5)	(2,075.5)
Total new business annualised premiums	103.6	(16.7)	86.9	108.6	(2,183.9)	(2,075.3)

All contracts are classified as insurance contracts.

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.

3. Annuity business sale

On 1 July 2005 the Company sold, subject to Court approval, a substantial part of its pension annuity business that was in force at 1 January 2005 to Canada Life Limited (Canada Life).

However, prior to Court approval for a funds transfer under Section 105 of the Financial Services and Markets Act 2000 this business continued to be underwritten by the Company and 100% reassured to Canada Life. To this effect from 1 July 2005 the Company entered into a reinsurance agreement with Canada Life under which the annuity business sold was 100% reassured to Canada Life. On 1 July 2005 a reinsurance premium of £2,178.6m was paid to Canada Life.

Court approval was effective from 31 December 2005 and all funds related to this business were transferred to Canada Life. From this date this business was written directly by Canada Life.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

4. Net operating expenses

	2006 £m	2005 £m
Acquisition costs	-	(1.8)
Administrative expenses	(19.1)	(21.5)
Reinsurance commissions and profit participation	3.2	3.8
Net operating expenses	<u>(15.9)</u>	<u>(19.5)</u>

All operating expenses were recharged from fellow group companies, Resolution Management Services Limited and Phoenix Life Insurance Services Limited.

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to **£2.9m** (2005: £4.7m). Total reinsurance commissions accounted for by the Company during the year amounted to net income of **£3.2m** (2005: £3.8m).

5. Reorganisation costs

The amount shown in the technical account – long term business relates to costs arising from the decision to close to new business in 2002 and other previous business improvement programmes (see note 21).

6. 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 £m	2005 (restated) £m	2006 £m	2005 (restated) £m
Current tax:				
UK corporation tax	(7.6)	(44.8)	(3.4)	(5.1)
Overseas taxation	(0.3)	(0.5)	-	-
Over/(under) provision in respect of prior year	(0.5)	0.7	-	-
Double taxation relief	0.1	-	-	-
Total current tax	<u>(8.3)</u>	<u>(44.6)</u>	<u>(3.4)</u>	<u>(5.1)</u>
Tax attributable to balance on the long term technical account	-	-	(3.4)	(3.6)
Deferred tax				
Timing differences	10.9	0.8	-	-
Total tax charge	<u>2.6</u>	<u>(43.8)</u>	<u>(6.8)</u>	<u>(8.7)</u>

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 in the non-technical account is the standard rate of **30%** (2005: 30%).

7. Bonuses

The total amount of bonuses attributable to policyholders for the year is **£28.9m** (2005: £40.6m).

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

8. Investment return

	Long term technical account		Non-technical account	
	2006	2005 (restated)	2006	2005 (restated)
	£m	£m	£m	£m
Income from investments				
Income from land and buildings	16.5	31.6	-	
Income from other financial investments	271.9	322.6	31.6	26.6
Gains/(losses) on the realisation of investments	369.9	458.3	(1.1)	(0.1)
Total investment income	658.3	812.5	30.5	26.5
Unrealised gains on investments	-	121.1	-	2.4
Investment expenses and charges				
Investment management charges	(9.8)	(10.5)	(0.3)	(0.1)
Loan interest to group companies	(12.9)	(21.9)	(11.7)	(11.8)
	(22.7)	(32.4)	(12.0)	(11.9)
Unrealised losses on investments	(576.3)	-	(7.1)	-
	59.3	901.2	11.4	17.0

The above amounts include **£2.6m** gross interest income on financial investments that are not designated at fair value through profit or loss.

9. Investments

	2006 £m	2005 £m
Land and buildings		
Freehold	1.2	440.4
Long leasehold	-	30.8
Total land and buildings	1.2	471.2
Other financial investments		
Shares and other variable yield securities	512.7	513.9
Fixed income securities	5,455.7	5,704.5
Derivatives - swaptions	143.2	186.1
Mortgages	4.2	5.3
Policy loans	2.4	3.5
Deposits with credit institutions	29.8	-
Total financial investments	6,148.0	6,413.3

The amount of financial investments that are designated at fair value through profit or loss is **£6,148.0m**.

The historic cost of land and buildings is **£0.3m** and that of other financial investments is **£5,973.7m**. The historic cost of land and buildings and other financial investments (including £1.2m for assets held to cover linked liabilities) at 31 December 2005 was £6,121.4m.

Listed investments included in the total investments are as follows:

	2006 £m	2005 £m
Shares and other variable yield securities	512.7	513.5
Fixed income securities	5,167.4	5,301.2
	5,680.1	5,814.7

Included within shares and other variable yield securities are money market funds with a value of **£85.1m** (2005: £40.9m) which are listed.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

10. Assets held to cover linked liabilities

	2006 £m	2005 £m
Investments		
Land and Buildings	-	1.3
Shares and other variable yield securities and units in unit trusts	3.3	2.2
	3.3	3.5
Cash	0.1	-
	3.4	3.5

The cost of assets held to cover linked liabilities is **£1.9m** (2005: £1.2m).

11. Debtors

	2006 £m	2005 £m
Arising out of direct insurance operations		
Amounts due from policyholders	4.2	4.2
Arising out of reinsurance operations		
Amounts due from group companies	0.8	10.0
Other debtors		
Amounts due from group companies	-	4.7
Taxation	11.7	1.1
Other	2.9	8.3
	14.6	14.1
Total	19.6	28.3

12. Share capital

	2006 £m	2005 £m
Authorised		
251,000,000 ordinary shares of £1 each	251.0	251.0
Issued and fully paid		
81,000,000 ordinary shares of £1 each	81.0	81.0

13. Funds for future appropriations

The fund for future appropriations is **£14.2m** (2005: £Nil) after recognising a liability to repay all of the contingent loan from the shareholder fund to the long term fund.

Following the adoption of FRS27 in 2005, the Fund for Future Appropriations balance was initially negative, but was maintained in the statutory accounts at a nil balance by a charge to shareholders in the technical account. As the financial position of the Long Term Fund has improved, the charge against shareholders has reduced to £nil by 31 December 2006. The charge against shareholders at 31 December 2004 was £8.9m and at 31 December 2005 was £4.8m. Consequently, amounts of £4.1m and £4.8m are recognised as shareholder income in the 2005 and 2006 technical accounts respectively.

14. Long term business provision

The liabilities are valued using a proprietary market consistent risk-neutral stochastic model. The principal non-economic assumptions (persistency, mortality and take-up rates for guaranteed annuity options) are determined on a "best estimate" basis after examining the Company's own recent experience and also, for mortality, industry and population experience. A number of pension policies have guaranteed annuity options which could in aggregate have a material effect on the amounts, timing and uncertainty of the Company's future cashflows.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

14. Long term business provision (continued)

The liabilities under insurance contracts have been calculated in accordance with FRS 27 as applied to a company falling within the Financial Services Authority's (FSA) realistic capital regime.

Non profit business

Insurance liabilities for non profit business have been calculated in accordance with Section 1.2 of the FSA's prudential sourcebook for insurers (INSPRU). The principal assumptions are:

Interest rates

	Interest rate p.a.
Life non-profit	3.30%
Pension non-profit	3.98%
Pension annuities in payment	4.70%
Pension deferred annuities	3.98%

Mortality

The mortality assumptions are proportions of the published tables below.

	Mortality table
Life non-profit (term assurance)	TM92/TF92
Pension non-profit	AM92/AF92
Pension annuities in payment	PMA92/PFA92 (c=2020)
Pension deferred annuities (in deferment)	AM92/AF92
Pension deferred annuities (in payment)	PMA92/PFA92 (c=2020)

Specimen proportions for male lives used at 31 December 2006 are shown below:

	Age		
	40	50	60
Life non-profit (term assurance*)	78.8%	78.8%	78.8%
Pension non-profit	53.4%	53.4%	53.4%
Pension deferred annuities (in deferment)	53.4%	53.4%	53.4%

(* non smokers)

	Age		
	60	70	80
Pension annuities in payment	269%	92%	78%
Pension deferred annuities (in payment)	295%	101%	85%

Persistency

No allowance is made for future voluntary discontinuance.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

14. Long term business provision (continued)

With profit business

Liabilities to policyholders arising from with profits business is the realistic value calculated in accordance with the FSA's realistic capital regime set out in Section 1.3 of INSPRU. The value is adjusted to exclude the shareholders' share of projected future bonuses. Additionally an amount of £3.7m is recognised (i.e. deducted from the liabilities) for the present value of future profits on non-participating business (allowing for future voluntary discontinuances).

The realistic value of liabilities includes a liability for policyholder options and guarantees measured using stochastic techniques on a market consistent basis.

The principal assumptions are:

Mortality

The mortality assumptions are proportions of the published tables below:

Mortality table	
Life with profit	AM92/AF92
Pension with profit (in deferment)	AM92/AF92
Pension with profit (in payment)	PMA92/PFA92 (c=2020)

Specimen proportions for male lives used at 31 December 2006 are shown below:

Age			
	40	50	60
Life with profit	78.1%	78.1%	78.1%
Pension with profit (in deferment)	56%	56%	56%

Age			
	60	70	80
Pension with profit (in payment)	309%	107%	89%

Persistency

The assumed rates of surrender and voluntary premium discontinuance depends on the length of time a policy has been in force. Specimen assumed surrender rates as at the valuation date are:

Policy Year											
	1	2	3	4	5	6	7	8	9	10	11+
Mortgage endowment	3%	3%	3%	3%	3%	4%	4%	4%	6%	8%	6%
Personal pension (regular premium)	1.3%	6.7%	3.5%	2.7%	2.0%	2.3%	2.2%	2.5%	3.0%	2.7%	2.0%
Personal pension (single premium)	0.7%	2.4%	1.2%	1.3%	1.3%	1.5%	1.2%	1.2%	1.2%	1.2%	1.3%

15. Technical provision for linked liabilities

Linked liabilities comprise amounts held in respect of insurance contracts of **£3.4m** (2005: £941.2m) and amounts in respect of investment contracts of **£953.7m** (2005: £Nil).

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

16. Creditors	2006 £m	2005 £m
Arising out of direct insurance operations		
Other	<u>1.0</u>	<u>1.8</u>
Arising out of reinsurance operations		
Amounts due to group companies	<u>1.4</u>	<u>2.5</u>
	<u>1.4</u>	<u>2.5</u>
Other creditors including taxation and social security		
Amounts due to group companies	4.1	13.0
Corporation tax	-	13.9
Other	<u>16.7</u>	<u>187.7</u>
	<u>20.8</u>	<u>214.6</u>

17. Investments in subsidiary undertakings

The Company owns the whole of the issued share capital of Imbercourt Limited and Sun Alliance Pensions Life & Investment Services Limited. The Company owns 65% of the shares of UK Commercial Property Trust Limited, which is accounted for as a subsidiary in accordance with the Companies Act 1985. All subsidiaries are registered in England and Wales.

18. Directors' emoluments

All the directors of the Company are employed by Resolution plc or Resolution Management Services Limited and received remuneration by the service company, Resolution Management Services Ltd. The non-executive directors are remunerated by Resolution Management Services Limited relative to service given as directors.

The emoluments of Messrs M N Biggs, I G Maidens and P A Thompson in respect of their services to the Company from the date of their appointment are disclosed in the financial statements of Resolution plc. The emoluments of Messrs G L Singleton and R E K Greenfield in respect of their services to the Company from the date of their appointment are disclosed in the financial statements of Resolution Life Limited. The emoluments of Mr J A Newman in respect of his services to the Company from the date of his appointment are disclosed in the financial statements of Resolution Life Group Ltd

The aggregate emoluments of the remaining directors of the Company were **£627,505**. Of this **£104,021** has been allocated to the Company.

The emoluments of the highest paid director are disclosed in the financial statements of Resolution plc

Retirement benefits are accruing for 5 continuing directors under defined contribution and defined benefit schemes.

Annual bonuses are shown in the year in which they are paid.

In 2005 the directors' emoluments were as follows:

The total emoluments of the directors of the Company were **£14,770,998**. Of this total **£2,790,596** has been 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.

Annual bonuses are shown in the year in which they were paid.

19. Auditors' remuneration

The remuneration receivable by the Company's auditors for auditing the accounts amounted to **£125,000** (2005: **£151,000**). 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.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

20. Pension costs and other post-retirement benefits

Following the merger of Britannic with Resolution groups, all staff and associated pensions arrangements and obligations were transferred to Resolution Management Services Limited.

21. Provision for other risks and charges	Complaints and litigation costs		Deferred taxation		Other	
	2006	2005	2006	2005 (restated)	2006	2005
	£m	£m	£m	£m	£m	£m
At 1 January as previously reported	2.5	1.4	13.5	13.3	-	0.1
Prior year adjustment	-	-	1.6	2.6	-	-
At 1 January	2.5	1.4	15.1	15.9	-	0.1
Utilised	(0.6)	(1.2)	-	-	-	-
Charges to/(release) from:						
Technical account – long term business	(1.0)	2.3	(10.9)	(0.8)	16.1	(0.1)
At 31 December	0.9	2.5	4.2	15.1	16.1	-

Other provisions at 31 December 2006 represent amounts set aside to in respect of additional liabilities to Canada Life under the agreement for the sale of annuity business referred to in note 3. Amounts in 2005 were for reorganisation costs related to the decision to close the Company to new business in 2002 (see note 5) and other previous business improvements programmes.

Deferred tax comprises	2006 £m	2005 (restated) £m
Unrealised investment gains	6.6	17.6
Other timing differences	(2.4)	(2.5)
	4.2	15.1

22. Capital commitments

The Company had no capital commitments at 31 December 2006 (2005 £Nil).

23. Operating leases

Annual commitments under non-cancellable operating leases were £nil (2005: £0.1m).

24. 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.

Phoenix & London Assurance Limited

Notes to the financial statements (continued)

25. Contingent liabilities and other risks

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

Other than disclosed in this note, the Company had no other material contingent liabilities at 31 December 2006 (2005: £Nil).

26. Contingent and subordinated loans

The Company entered into the following arrangements with RLG With Profits Holding Limited (RLGWPH), which were transferred to from RLGWPH to Resolution Life Limited (RLL) in December 2006, in order to support its ongoing solvency position.

Subordinated loan agreement

Under these agreements, the Company and Phoenix Life & Pensions Limited (PLP) each have a loan facility from RLGWPH (subsequently with RLL), whereby support is provided where it is anticipated that the companies have insufficient capital to meet the "Capital Test". The Capital Test requires there to be sufficient capital to meet both the Individual Capital Assessment (ICA), as calculated under PRU 2.3 and have an excess of available capital resources equal to at least **£50.0m** under both the statutory and realistic solvency regulations, as shown on Form 2, line 42, of the returns to the FSA, if Form 2 was to be prepared on the date concerned. The loans are repayable at the companies' discretion, giving at least 6 months notice to the lender, to the extent that the Capital Test is met and with the prior consent of the FSA. The amount available to the Company under the subordinated loan agreement is limited to such amount as would cause the aggregate of the loan and any loans advanced under the PLP agreement to equal no more than **£200.0m** (2005: **£265.0m**). Interest is due under these loan agreements at LIBOR plus 2%, but is only payable at the Company's discretion, giving 30 days notice to the lender and is shown under creditors. On 5 April 2006 RLGWPH made a capital contribution to the Company of **£47.7m** and the Company reduced its loan by a corresponding amount. On 5 December 2006 a draw-down of **£35.8m** was made. On 31 December 2006 the Company and PLP had drawn-down **£200.0m** (2005: **£211.9m**) and **£nil** (2005: **£36.0m**) respectively.

Internal capital support memorandum

Under this memorandum, the Company had agreed with RLGWPH (subsequently with RLL) and with the FSA to establish memoranda accounts within the shareholder's (SH) and long-term (LTF) funds to provide support to the LTF. The amount credited to the SH memorandum account at the 31 December 2006 was **£200.0m** (2005: **£211.9m**). Assets are transferred from the SH memorandum account to the LTF memoranda accounts when the Company becomes aware that the value of assets comprised in the LTF have fallen (or are likely to fall) below the "Threshold Amount". The Threshold Amount is **£25.0m** in excess of the requirements under both the statutory and realistic solvency regulations. On 13 April 2006 the balance on the memorandum accounts was reduced by **£45.0m**. The amount transferred from the SH memorandum account to the LTF memoranda at 31 December 2006 was **£106.4m** (2005: **£144.8m**) including accrued interest. Assets are repayable to the SH memorandum account from the LTF memoranda accounts out of profits arising in the Long Term Fund to the extent that the assets comprised in the LTF are greater than the Threshold Amount, subject to receipt by the Company of permission in writing of the FSA. Of the amount transferred from the SH memorandum account into the LTF memoranda accounts, **£51.6m** (2005: **£66.3m**) was required to achieve a realistic basis surplus of **£Nil**.

27. Related party transactions

Advantage has been taken of the exemption provided in Financial Reporting Standard 8 from disclosing details of transactions with Resolution Life Group Limited and its subsidiaries.

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Notes to the financial statements (continued)

28. Parent undertaking and controlling party

The Company's immediate parent at 31 December 2006 is Resolution Life Limited, a company registered in England and Wales. Up to 21 December 2006, the immediate parent had been RLG With Profit Holdings Limited which is 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 that company's accounts can be obtained from Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.

29. Financial risk management

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

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

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

The Company had exposures to fixed interest securities, equity and property. Whilst the significant elements of the investment risk were borne by or shared with policyholders, fluctuations in these financial assets directly affect the Company's results. Asset and liability management strategies were used to mitigate these risks. These risks include credit risk, market risk and liquidity risk. Each of these is described below, together with a summary of how the Company manages them.

i. Credit risk

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

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

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

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

The table shows the rating of fair value of assets held by the Company, which are subject to credit risk and only reflects credit risk on assets where risk is borne wholly or in part by the shareholder, therefore assets backing participating policies are included whereas those backing unit linked policies are excluded.

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Notes to the financial statements (continued)

As at 31 December 2006	AAA	AA	A+	A	A-	BBB	BB	B & below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fixed income securities	4,279	376	317	290	176	161	-	-	-	5,599

(Fixed interest securities including derivatives)

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

Fixed interest securities have been assessed for credit risk on a look through basis.

The derivatives included in the credit risk table above are subject to appropriate collateral arrangements.

Concentration of credit risks

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

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

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

ii. Liquidity risk

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

The Company have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements.

The Company manages liquidity risk through a clearly articulated Liquidity Risk Policy, Investment Guidelines and Treasury Management Guidelines. The Liquidity Risk Policy has the objectives of ensuring low probability of loss due to liquidity risk events, documentation of systems and controls of liquidity risk and cost-efficient control of liquidity risk. This Company in applying the policy ensures that:

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

Liquidity controls in the Company are monitored on a regular basis and breaches are escalated to the Capital Management Committee.

iii. Market risk

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

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Notes to the financial statements (continued)

Participating insurance and investment contracts

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

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

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

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

Non-linked non participating insurance contracts

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

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

- variation in interest rates and bond prices; and
- variation in corporate bond spreads.

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

Unit-linked non-participating insurance and investment contracts

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

Currency risk

The Company's exposure to foreign exchange risk is limited.

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

Interest rate risk

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

The Company's approach to interest rate risk is to manage it by maintaining an appropriate mix of fixed and variable rate instruments including derivatives. The policy also requires it to manage the maturity profile of these assets consistent with the liabilities to policyholders.

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Notes to the financial statements (continued)

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

Price risk

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

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

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

At 31 December 2006, traded equity securities of **£365m** and **£412m** of property assets were held. The property assets consisted of shares in UK Commercial Property Trust Limited, a subsidiary of the Company.

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