

Registered number: 1565099

# **Phoenix Life & Pensions Limited**

**(formerly Royal & Sun Alliance Life & Pensions Limited)**

**(A member of the Resolution plc group)**

## **Report and Financial Statements for the year ended 31 December 2005**



# Phoenix Life & Pensions Limited

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## Report and financial statements for the year ended 31 December 2005

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# **Phoenix Life & Pensions Limited**

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## **Directors**

Mr M N Biggs

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 G L Singleton

Mr P A Thompson

## **Secretary**

Ms J J Wilman

## **Registered office**

Edward Pavilion, Albert Dock, Liverpool, Merseyside, L3 4SL

## **Auditors**

Ernst & Young LLP

1 More London Place, London, SE1 2AF

# Phoenix Life & Pensions Limited

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## Directors' report for the year ended 31 December 2005

### Principal activities and review of business

The principal activity of the Company is the transaction of ordinary long term insurance business in the United Kingdom and overseas. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

The Company was allocated costs on a pass through basis from Royal & Sun Alliance Life Insurance Services Limited (renamed to Phoenix Life Insurance Services Limited) (PLIS), a fellow subsidiary company. On 21 December 2005 the Company entered into a new management services agreement with PLIS which was novated to Resolution Management Services Limited, a fellow subsidiary, with effect from 1 January 2006. The expenses risk associated with the new agreement is now borne by the management services company.

During 2005 the Company entered into a reinsurance treaty with Prudential Pensions Limited (Prudential), for the transfer of a substantial part of its pension annuity portfolio that was in force as at 1 January 2005 – see note 2.

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 2005, the cost incurred by the Company in respect of these complaints, including the cost of redress and management expenses, was **£28.7m** (2004: £25.5m). See also note 21 on page 23.

### Britannic and Resolution Merger

On 6 September 2005, Britannic Group plc (Britannic) and Resolution Life Group Limited (Resolution) announced the completion of the merger of Britannic and Resolution, creating a leading closed life fund consolidator in the United Kingdom.

### Business transacted

Net premium income of the Company for the year was **£(1,282.1)m** (2004: £253.2m). This reduction on prior year is largely as a result of the reinsurance premium paid to Prudential – see note 2.

### Valuation

A valuation of the long term insurance business of the Company in accordance with the Integrated Prudential Sourcebook (*insurance companies*) issued by the Financial Services Authority was made as at 31 December 2005. The rules require the Company to determine its liabilities on two different bases, which are known as the “regulatory basis” and the “realistic basis” and effectively take the higher of the two.

The valuation on the regulatory basis showed a surplus of **£144.5m** (2004: £181.3m), out of which **£131.1m** (2004: £164.7m) has been allocated to policyholders and **£12.9m** (2004: £16.1m) to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as **£18.5m** (2004: £23.0m).

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. Since the Company is effectively closed to new business all of the long term assets will be distributed to either current policyholders or the shareholders so the liability is equal to the net assets of the long term fund. Hence, on the realistic basis the long term fund surplus is nil.

### Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 11 and 12.

A dividend of **£49.5m** was paid during the year (2004: £Nil) resulting in a transfer from retained profits of **£34.8m** (2004 restated: £18.0m transfer to retained profits).

# Phoenix Life & Pensions Limited

## Directors' report for the year ended 31 December 2005 (*continued*)

### Directors and their interests

Messrs M N Biggs and I G Maidens were appointed as directors of the Company with effect from 2 June 2005 and 31 March 2005 respectively. Messrs A B Davidson and D G R Ferguson were appointed as directors of the Company with effect from 26 January 2005. Messrs G L Singleton and P A Thompson were appointed as directors of the Company with effect from 6 September 2005. Messrs C A Cowdery and B J Meehan resigned as directors of the Company with effect from 6 September 2005. Ms F Matthews resigned as a director of the Company with effect from 6 September 2005. Mr P F McDonnell was appointed as a director of the Company with effect from 2 June 2005 and resigned as a director of the Company with effect from 15 July 2005.

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 Messrs M N Biggs and P A Thompson whose interests are disclosed in the financial statements of that company, are as follows:


	<b>Ordinary shares held at 1 January 2005 <u>or on appointment</u></b>	<b>Ordinary shares <u>acquired</u></b>	<b>Ordinary shares <u>disposed</u></b>	<b>Ordinary shares held at 31 December 2005</b>
R Craine	-	49,176	(20,724)	28,452
A B Davidson	-	-	-	-
D G R Ferguson	-	-	-	-
M R Kipling	-	49,176	(20,724)	28,452

Mr I G Maidens was also a director of Resolution Life Group Limited (RLG) during the year and his interests in the ordinary shares of 5p in Resolution plc are disclosed in the financial statements of RLG. Messrs G L Singleton and R E K Greenfield were also directors of Resolution Life Limited (RLL) during the year and their interests in the ordinary shares of 5p each in Resolution plc are disclosed in the financial statements of RLL.

### Auditors

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



**J J Wilman**  
Secretary  
29 March 2006

# Phoenix Life & Pensions Limited

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## 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.

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# Phoenix Life & Pensions Limited

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## Independent auditor's report to the shareholders of Phoenix Life & Pensions Limited

We have audited the Phoenix Life & Pensions Limited financial statements for the year ended 31 December 2005 which comprise the profit and loss account, the movements in shareholders' funds, the balance sheet and the related notes 1 to 24 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, if 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 transactions with the Company 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

**Ernst & Young LLP**  
Registered Auditor  
London  
30 March 2006

# Phoenix Life & Pensions Limited

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## 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.

### Changes in accounting policies

The Company has adopted for the first time Financial Reporting Standard 21 (FRS 21) in its 2005 financial statements. Previously, in accordance with the Companies Act 1985 and UK GAAP, dividends payable to shareholders were accounted for in the period to which they relate. Under FRS 21 dividends are recognised only on the date they become a legal liability. The previous year's figures have been restated resulting in a reduction in creditors and a corresponding increase in the shareholders' retained earnings of £49.5m.

The Company has adopted for the first time Financial Reporting Standard 27 (FRS 27) in its 2005 financial statements. FRS 27 requires companies that fall within the scope of the FSA's realistic capital regime to use the FSA's new realistic calculation in measuring the policyholders' liabilities in the financial statements. The previous year's figures have been restated resulting in a reduction in the fund for future appropriations of £1,134.3m and a corresponding increase in the gross long term business provision. The FRS acknowledges the difficulty in applying the requirements retrospectively in the profit and loss account and whilst the balance sheet comparatives have been restated the profit and loss account comparatives have not been restated.

### Long term insurance business

The long term insurance business result is computed in accordance with the requirements of FRS 27 for a realistic basis company. Details of the main assumptions made and the method used are given in note 12.

### Earned premiums

Earned premiums comprise written premiums and are recognised when payment is due, except for linked premiums which are accounted for when the liability for the units is included in the technical provision for linked liabilities. Single premiums are those relating to products issued by the Company where there is a contractual obligation for the payment of only one premium. Annual premiums are those where there is a contractual obligation for the payment of premiums on a regular basis.

### New business premiums

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.

### 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.

### Claims incurred

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.

Claims payable include all related internal and external claims handling costs.

Reinsurance recoveries are accounted for in the same period as the related claim.



# Phoenix Life & Pensions Limited

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## Accounting Policies

### **Acquisition costs**

Acquisition costs comprise direct and indirect costs of obtaining and processing new business.

### **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.

### **Long term business provision**

The long term business provision is computed in accordance with the requirements of FRS 27 for a realistic basis company. Details of the main assumptions made and the methods used are given in Note 12.

### **Technical provision for linked liabilities**

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.

### **Outstanding claims**

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

### **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, and the investment return attributable to the long term fund from investments held outside the long term fund. 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.

### **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.

### **Investment income**

Income and realised and unrealised gains and losses on investments are reported in the long-term business 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'.

### **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.

# Phoenix Life & Pensions Limited

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## Accounting Policies

### **Taxation** *(continued)*

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

The 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.

### **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.

### **Financial instruments**

Derivative financial instruments are used primarily for the purpose of efficient portfolio management or reduction of investment risk.

Futures 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 interest paid.

### **Operating leases**

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

# Phoenix Life & Pensions Limited

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## 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 and the results are certified by the professionals undertaking the valuations.

### 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 Life & Pensions Limited

## Profit and loss account for the year ended 31 December 2005

### Technical account – long term business

	Notes	2005 £m	2004 £m
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1a	286.6	361.0
Outward reinsurance premiums	1a, 2	(1,568.7)	(107.8)
Net earned premiums		(1,282.1)	253.2
<b>Investment income</b>	8	771.0	639.1
<b>Unrealised gains on investments</b>	8	210.8	66.5
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(1,101.2)	(1,184.5)
Reinsurers' share		151.8	120.7
		(949.4)	(1,063.8)
Change in the provision for claims			
Gross amount		(1.2)	4.1
Reinsurers' share		-	(0.4)
		(1.2)	3.7
Net claims incurred		(950.6)	(1,060.1)
<b>Changes in other technical provisions, net of reinsurance</b>			
Long term business provision	12		
Gross amount		(121.9)	102.1
Reinsurers' share		1,506.8	0.8
		1,384.9	102.9
Technical provision for linked liabilities			
Gross amount		(175.8)	(103.7)
Reinsurers' share		175.1	103.6
		(0.7)	(0.1)
Net changes in other technical provisions		1,384.2	102.8
<b>Net operating expenses</b>	3	(24.9)	(51.8)
<b>Investment expenses and charges</b>	8	(17.0)	(18.8)
<b>Reorganisation release/(charge)</b>	4	0.6	(0.5)
<b>Taxation attributable to the long term business</b>	5	(97.3)	(48.6)
<b>Transfer from the fund for future appropriations</b>		20.0	136.2
<b>Balance on technical account - long term business</b>		14.7	18.0

All figures relate to continuing operations.

The notes on pages 15 to 23 form part of these financial statements.

# Phoenix Life & Pensions Limited

## Profit and loss account

for the year ended 31 December 2005

## Non-technical account

	Notes	2005 £m	2004 (restated) £m
Balance on the long term business technical account		14.7	18.0
Tax credit attributable to balance on the long term Business technical account		6.3	7.7
<b>Profit on ordinary activities before taxation</b>		<b>21.0</b>	<b>25.7</b>
Taxation on profit on ordinary activities	5	(6.3)	(7.7)
<b>Profit on ordinary activities after taxation</b>		<b>14.7</b>	<b>18.0</b>
Dividends paid	6	(49.5)	-
<b>Transfer (from)/to retained profits</b>		<b>(34.8)</b>	<b>18.0</b>

All figures relate to continuing operations.

There have been no recognised gains or losses in either reporting year other than those recorded 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 2005

	Share capital/ premium £m	Profit & loss account £m	Total 2005 £m	2004 (restated) £m
<b>Shareholders' funds at 1 January as previously stated</b>	9.9	38.6	<b>48.5</b>	80.0
Prior year adjustment (see page 7)	-	49.5	<b>49.5</b>	-
Shareholders' funds at 1 January as restated	9.9	88.1	<b>98.0</b>	80.0
Shareholders' recognised gains	-	14.7	<b>14.7</b>	18.0
Dividends	-	(49.5)	<b>(49.5)</b>	-
<b>Shareholders' funds at 31 December</b>	<b>9.9</b>	<b>53.3</b>	<b>63.2</b>	<b>98.0</b>

The profit and loss account includes **£53.3m** (restated 2004: £88.1m), which is realised.

The notes on pages 15 to 23 form part of these financial statements.

# Phoenix Life & Pensions Limited

## Balance sheet

at 31 December 2005

	Notes	2005 £m	2004 £m
<b>Assets</b>			
<b>Investments</b>			
	9		
Land and buildings		815.2	779.0
Other financial investments		7,238.2	8,632.8
		8,053.4	9,411.8
<b>Assets held to cover linked liabilities</b>		5.3	4.6
<b>Reinsurers' share of technical provisions</b>			
	2, 12		
Long term business provision		1,648.3	141.5
Claims outstanding		0.2	0.2
Technical provision for linked liabilities		1,462.3	1,287.2
		3,110.8	1,428.9
<b>Debtors</b>			
	10		
Debtors arising out of direct insurance operations		0.3	2.1
Debtors arising out of reinsurance operations		10.7	5.4
Deferred taxation	5	-	6.2
Other debtors		28.3	37.3
		39.3	51.0
<b>Other assets</b>			
Cash at bank and in hand		26.7	32.7
<b>Prepayments and accrued income</b>			
Accrued interest and rent		83.1	97.8
Other prepayments		2.6	2.9
		85.7	100.7
<b>Total assets</b>		<b>11,321.2</b>	<b>11,029.7</b>

The balance sheet includes assets (net of reinsurance) totalling **£7,903.9m** (2004: £9,308.2m) representing the long term insurance funds.

The notes on pages 15 to 23 form part of these financial statements.

# Phoenix Life & Pensions Limited

## Balance sheet at 31 December 2005

	Notes	2005 £m	2004 (restated) £m
<b>Liabilities</b>			
<b>Capital and reserves</b> (see page 12)			
Called up share capital	11	5.0	5.0
Share premium account		4.9	4.9
Profit and loss account		53.3	88.1
<b>Shareholders' funds – equity interests</b>		<b>63.2</b>	<b>98.0</b>
Subordinated debt	22	36.0	35.5
<b>Total capital, reserves and subordinated debt</b>		<b>99.2</b>	<b>133.5</b>
<b>Fund for future appropriations</b>		<b>174.7</b>	<b>194.7</b>
<b>Technical provisions</b>			
Long term business provision	12	9,372.3	9,250.4
Claims outstanding		47.0	45.8
		<b>9,419.3</b>	<b>9,296.2</b>
<b>Technical provision for linked liabilities</b>		<b>1,467.6</b>	<b>1,291.8</b>
<b>Provision for other risks and charges</b>	17	<b>32.5</b>	<b>2.4</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	1.2	6.7
Creditors arising out of reinsurance operations		13.8	4.8
Other creditors including taxation and social security		99.8	92.2
		<b>114.8</b>	<b>103.7</b>
<b>Accruals and deferred income</b>			
Property rent		13.1	7.4
<b>Total liabilities</b>		<b>11,321.2</b>	<b>11,029.7</b>

The notes on pages 15 to 23 form part of these financial statements.

The financial statements on pages 7 to 23 were approved by the directors on 29 March 2006 and were signed on their behalf by:



**R Craine**  
Finance Director  
29 March 2006

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 1. Segmental analysis

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	2005 Reinsurance ceded £m	Net £m	Gross £m	2004 Reinsurance ceded £m	Net £m
<b>Life</b>						
Individual						
Non linked with profits	127.1	(9.1)	118.0	140.7	(10.0)	130.7
Non linked without profits	27.0	(23.3)	3.7	37.2	(25.1)	12.1
Unit Linked	5.7	-	5.7	6.5	(0.1)	6.4
Group						
Non linked without profits	(0.4)	(0.5)	(0.9)	6.3	(1.0)	5.3
<b>Pensions</b>						
Individual						
Non linked with profits	18.3	(0.1)	18.2	26.6	(0.1)	26.5
Unit Linked	35.9	(35.9)	-	63.9	(63.9)	-
Group						
Non linked with profits	3.0	-	3.0	4.9	-	4.9
Unit Linked	5.5	(5.5)	-	7.6	(7.6)	-
<b>Annuity</b>	64.5	(1,494.3)	(1,429.8)	67.3	-	67.3
<b>Total premiums written</b>	<b>286.6</b>	<b>(1,568.7)</b>	<b>(1,282.1)</b>	<b>361.0</b>	<b>(107.8)</b>	<b>253.2</b>
Periodic premiums	212.3	(65.5)	146.8	248.8	(77.8)	171.0
Single premiums	74.3	(1,503.2)	(1,428.9)	112.2	(30.0)	82.2
<b>Total premiums written</b>	<b>286.6</b>	<b>(1,568.7)</b>	<b>(1,282.1)</b>	<b>361.0</b>	<b>(107.8)</b>	<b>253.2</b>

The gross figures above include the following inward reinsurance premiums:

	2005 £m	2004 £m
<b>Life Individual</b>		
Non linked with profits	0.1	0.3
Non linked without profits	0.5	0.6
Unit linked	5.6	6.4
<b>Pensions Individual</b>		
Non linked with profits	5.4	6.2
Unit linked	16.7	24.5
<b>Pensions Group</b>		
Non linked with profits	0.6	1.0
Unit linked	4.2	4.3
<b>Total</b>	<b>33.1</b>	<b>43.3</b>

Included within the 2005 reinsurance ceded above of £1,568.7m is £1,494.3m paid in connection with the transfer of annuity business as described in note 2.



# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 1b New business premiums

	Gross £m	2005 Reinsurance Ceded £m	Net £m	Gross £m	2004 Reinsurance ceded £m	Net £m
<b>Life</b>						
Individual						
Non linked with profits	(0.1)	-	(0.1)	0.4	-	0.4
Non linked without profits	0.1	-	0.1	-	-	-
Unit Linked	-	-	-	0.1	(0.1)	-
Group						
Non linked without profits	(3.5)	-	(3.5)	3.6	-	3.6
<b>Pensions</b>						
Individual						
Non linked with profits	4.4	-	4.4	10.8	-	10.8
Unit Linked	8.7	(8.7)	-	31.0	(31.0)	-
Group						
Non linked with profits	0.1	-	0.1	0.2	-	0.2
Unit linked	1.6	(1.6)	-	1.0	(1.0)	-
<b>Annuity</b>	64.6	(1,494.3)	(1,429.7)	67.3	-	67.3
<b>Total new business annualised premiums</b>	<b>75.9</b>	<b>(1,504.6)</b>	<b>(1,428.7)</b>	<b>114.4</b>	<b>(32.1)</b>	<b>82.3</b>
Periodic premiums	1.6	(1.4)	0.2	2.2	(2.0)	0.2
Single premiums	74.3	(1,503.2)	(1,428.9)	112.2	(30.1)	82.1
<b>Total new business annualised premiums</b>	<b>75.9</b>	<b>(1,504.6)</b>	<b>(1,428.7)</b>	<b>114.4</b>	<b>(32.1)</b>	<b>82.3</b>

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

The gross figures above include the following inward reinsurance premiums:

	2005 £m	2004 £m
<b>Life Individual</b>		
Non linked with profits	-	0.1
<b>Pensions Individual</b>		
Non linked with profits	1.1	2.0
Unit linked	1.8	5.4
<b>Pensions Group</b>		
Non linked without profits	0.1	-
Unit linked	0.8	0.4
<b>Total</b>	<b>3.8</b>	<b>7.9</b>

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 2. Annuity Transfer

On 1 September 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 Prudential Pensions Limited (Prudential).

Court approval for a funds transfer under Section 105 of the Financial Services and Markets Act 2000 has been applied for and the hearing is scheduled for June 2006. However prior to Court approval this business continues to be underwritten by the Company and 100% reassured to Prudential. To this effect from 1 September 2005 the Company entered into a reinsurance agreement with Prudential under which the annuity business sold was 100% reassured to Prudential. On 1 September 2005 a reinsurance premium of £1,494.3m was paid to Prudential.

### 3. Net operating expenses

	2005	2004
	£m	£m
Acquisition costs	0.7	(8.6)
Change in deferred acquisition costs	-	(2.9)
Administrative expenses	(26.4)	(41.7)
Reinsurance commissions and profit participation	0.8	1.4
Net operating expenses	(24.9)	(51.8)

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 **£3.0m** (2004: £13.1m). Total reinsurance commissions accounted for by the Company during the year amounted to net expense of **£0.1m** (2004: £0.2m).

### 4. Reorganisation release/(charge)

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 17).

### 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	
	2005	2004	2005	2004
	£m	£m	£m	£m
<b>Current tax:</b>				
UK corporation tax	(64.5)	(40.6)	-	-
Double taxation relief	0.6	0.2	-	-
Overseas taxation	(1.9)	(1.1)	-	-
Over/(under) provision in respect of prior year	3.4	8.9	-	-
<b>Total current tax</b>	<b>(62.4)</b>	<b>(32.6)</b>	<b>-</b>	<b>-</b>
<b>Tax attributable to balance on the long term technical account</b>	<b>-</b>	<b>-</b>	<b>(6.3)</b>	<b>(7.7)</b>
<b>Deferred tax</b>				
Timing differences	(36.7)	(17.8)	-	-
Movement in discount	1.8	1.8	-	-
	(34.9)	(16.0)	-	-
<b>Total tax charge</b>	<b>(97.3)</b>	<b>(48.6)</b>	<b>(6.3)</b>	<b>(7.7)</b>

The tax charge for UK corporation tax in the technical account – long term business is provided at rates between **20%** and **30%** (2004 between 20% and 30%) computed in accordance with the rules applicable to life insurance companies.

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 5. Taxation (continued)

UK Corporation tax for the current year in the non-technical account is at the standard rate of **30%** (2004 30%).

The deferred tax liability/(asset) on the balance sheet comprises:

	2005 £m	2004 £m
Unrealised investment gains	48.6	19.7
Other timing differences	(16.0)	(23.8)
	32.6	(4.1)
Discount	(3.9)	(2.1)
Deferred taxation liability/(asset) (see note 17)	28.7	(6.2)

Deferred tax assets that cannot be recovered against deferred tax liabilities have been recognised only to the extent that the directors believe that there will be suitable taxable profits to absorb them in the foreseeable future.

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. Dividends

	2005 £m	2004 (restated) £m
Dividends paid	49.5	-

As noted in the accounting policies the Company has adopted for the first time FRS 21 in its 2005 financial statements. Previously, in accordance with the Companies Act 1985 and UK GAAP, dividends payable to shareholders were accounted for in the period to which they relate. Under FRS 21 dividends are recognised only on the date they become a legal liability. The previous year's figures have been restated resulting in a reduction in creditors and a corresponding increase in the shareholders' retained earnings of £49.5m.

### 7. Bonuses

The total amount of bonuses attributable to policyholders for the year is **£131.1m** (2004: £164.7m).

### 8. Investment return

	2005 £m	2004 £m
<b>Attributable to long term business</b>		
<b>Income from investments</b>		
Income from land and buildings	42.1	48.8
Income from other investments	396.9	433.7
Gains/(losses) on the realisation of investments	332.0	156.6
<b>Total investment income</b>	<b>771.0</b>	<b>639.1</b>
<b>Investment expenses and charges</b>		
Investment management charges	(11.6)	(12.2)
Loan interest	(5.4)	(6.6)
	(17.0)	(18.8)
<b>Unrealised gains on investments</b>	<b>210.8</b>	<b>66.5</b>
<b>Investment return attributable to long term business</b>	<b>964.8</b>	<b>686.8</b>

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 9. Investments

#### Land and buildings

Freehold

Long leasehold

Total land and buildings

2005 £m	2004 £m
741.9	714.0
73.3	65.0
815.2	779.0

#### Other financial investments

Shares and other variable yield securities and units in unit trusts

Debt securities and other fixed income securities

British government securities

Other government securities

Local authority securities

Corporate bonds

Loans secured by mortgages

Policy loans

Deposits with credit institutions

2005 £m	2004 £m
1,224.6	1,276.5
3,014.0	3,695.3
174.9	150.8
4.5	4.4
2,809.1	3,492.2
7.5	9.2
1.8	2.6
1.8	1.8
7,238.2	8,632.8

Total other financial investments

The historical cost of investments (including £5.7m (2004: £5.5m) for assets held to cover linked liabilities) is £7,133.5m (2004: £8,704.2m).

Listed investments included in the total investments are as follows:

Shares and other variable yield securities and units in units trusts

Debt securities and other fixed income securities

2005 £m	2004 £m
1,217.1	1,271.2
5,906.4	7,207.3
7,123.5	8,478.5

Included with shares and other variable yield securities are money market funds with a value of £42.3m (2004: £77.4m) which are listed.

### 10. Debtors

#### Debtors arising out of direct insurance operations

Amounts due from policyholders

2005 £m	2004 £m
0.3	2.1

#### Debtors arising out of reinsurance operations

Amounts due from group companies

10.7	5.4
------	-----

#### Deferred taxation

-	6.2
---	-----

#### Other debtors

Taxation

Amounts due from group companies

Other

0.8	0.9
7.2	-
20.3	36.4
28.3	37.3

Total

39.3	51.0
------	------

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 11. Share capital

#### Authorised

405,000,000 ordinary shares of £1 each

2005 £m	2004 £m
<b>405.0</b>	405.0

#### Issued and fully paid

5,000,000 ordinary shares of £1 each

2005 £m	2004 £m
<b>5.0</b>	5.0

### 12. Long term business provision

The liabilities are valued using a proprietary market consistent risk-neutral stochastic model. The principal non-economic assumptions (persistence, 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.

The long term business provision has been calculated in accordance with FRS 27 as applied to a company falling within the Financial Services Authority's (FSA) realistic capital regime, after deducting the value of non-participating business, as follows:

	£m
Gross long term business provision	9,412.5
Less: value of non-participating business (see comment below)	(40.2)
Gross long term business provision shown in the balance sheet	<b>9,372.3</b>

### Non Profit Business

Insurance liabilities for non profit business have been calculated in accordance with rule 7.4.27 of the FSA's integrated prudential sourcebook. The principal assumptions are:

### Interest rates

	Interest rate p.a.
Life non-profit	2.80%
Pension non-profit	3.65%
Pension annuities in payment	4.10%
Pension deferred annuities	3.65%

### 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 2005 are shown below:

	Age		
	40	50	60
Life non-profit (term assurance*)	78.8%	78.8%	78.8%
Pension non-profit	54.3%	54.3%	54.3%
Pension deferred annuities (in deferment)	54.3%	54.3%	54.3%

(\* non smokers)

	Age		
	60	70	80
Pension annuities in payment	316%	103%	81%
Pension deferred annuities (in payment)	332%	108%	85%

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 12. Long term business provision (continued)

#### Persistency

No allowance is made for future voluntary discontinuance.

#### 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 7.4 of its integrated prudential sourcebook. The value is adjusted to exclude the shareholders' share of projected future bonuses and the tax that would be payable thereon. Additionally an amount of £40.25m 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 2005 are shown below:

	Age		
	40	50	60
Life with profit	73.3%	73.3%	73.3%
Pension with profit (in deferment)	56.7%	56.7%	56.7%

	Age		
	60	70	80
Pension with profit (in payment)	347%	114%	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	8	8	8	13	15	16	13	11	10	9	6
Unitised with profits bonds	1	1	2	2	3	17	20	20	13	90	10

### 13. Creditors

#### Arising from direct insurance operations

	2005 £m	2004 £m
Amounts due to policyholders	0.9	0.9
Amounts due to intermediaries	0.3	0.6
Amounts due to group companies	-	5.2
	<u>1.2</u>	<u>6.7</u>

#### Arising from reinsurance operations

	2005 £m	2004 £m
Amounts due to group companies	9.5	-
Other	4.3	4.8
	<u>13.8</u>	<u>4.8</u>

#### Other creditors including taxation and social security

	2005 £m	2004 £m
Amounts due to group companies	2.0	0.9
Corporation taxation	33.9	25.0
Other taxation creditors	2.4	6.0
Other	61.5	60.3
	<u>99.8</u>	<u>92.2</u>

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 14. Directors' emoluments

Prior to the merger of Britannic with Resolution, the executive directors were employed by Resolution Life Group or Resolution Services Limited and were remunerated by these companies as appropriate. After the merger all the directors are employed by Resolution plc or Resolution Management Services Limited and received remuneration from the service company, Resolution Management Services Limited. The non-executive directors were remunerated by Royal & Sun Alliance Insurance Services Limited (renamed to Phoenix Life Insurance Services Limited) prior to merger and Resolution Management Services Limited after the merger, relative to service given as directors.

The total emoluments of the directors of the Company were **£14,770,998**. Of this total **£3,426,592** (2004: £499,164) 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 are paid.

### 15. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£195,000** (2004: £130,000). The auditors of the Company also received fees of **£11,000** (2004: £100,000) in respect of non-audit services.

### 16. Pension costs and other post-retirement benefits

All the staff prior to the merger of Britannic with Resolution were employed by Resolution Life Group and after the merger 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.

### 17. Provision for other risks and charges

	Complaints and litigation Costs		Reorganisation costs		Deferred taxation	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	<b>1.8</b>	2.8	<b>0.6</b>	11.2	<b>(6.2)</b>	-
Utilised	<b>(0.7)</b>	(0.8)	-	(11.1)	-	-
Charges to/(release) from:						
Technical account – long term business	<b>2.7</b>	(0.2)	<b>(0.6)</b>	0.5	<b>34.9</b>	16.0
Reclassification to debtors	-	-	-	-	-	(16.0)
At 31 December	<b>3.8</b>	1.8	-	0.6	<b>28.7</b>	-

The reorganisation costs relate to the decision to close the Company to new business in 2002 (see note 4) and other previous business improvements programmes.

### 18. Capital commitments

The Company had no capital commitments at 31 December 2005 (2004: £Nil).

### 19. Operating Leases

Annual commitments under non-cancellable operating leases were payable as follows:

	Land and buildings	
	2005 £m	2004 £m
Operating leases which expire:		
One year or less	-	-
Between two and five years	-	-
After five years	<b>0.1</b>	0.1
	<b>0.1</b>	0.1

# Phoenix Life & Pensions Limited

## Notes on the financial statements

### 20. 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 Group. 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.

### 21. Contingent liabilities

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 2005 (2004: £Nil).

### 22. Contingent and subordinated loans

The Company has entered into the following arrangements with RLG With Profits Holding Limited (RLGWPH) to support its ongoing solvency position.

#### Subordinated loan agreement

Under these agreements, the Company and Phoenix & London Assurance Limited (PALAL) each have a loan facility from RLGWPH, 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 PALAL agreement to equal no more than £265.0m. At 31 December 2005, the Company and PALAL had drawn-down £36.0m (2004: £35.5m) and £211.9m (2004: £211.4m) respectively. 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 it is shown under creditors.

#### Internal capital support memorandum

Under this memorandum, the Company has agreed with RLGWPH 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 31 December 2005 was £36.0m. Assets are transferred from the SH memorandum account to the LTF memoranda accounts when the Company becomes aware that the value of assets comprised in the LTF have fallen (or are likely to fall) below the "Threshold Amount". The Threshold Amount is £25.0m in excess of the requirements under both the statutory and realistic solvency regulations. The amount transferred from the SH memorandum account to the LTF memoranda at 31 December 2005 was £37.7m 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 £37.7m transfer from the SH memorandum account into the LTF memoranda accounts, £Nil was required to achieve a realistic basis surplus of £Nil.

### 23. 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.

### 24. Parent companies

The Company's immediate parent company is RLG With Profit Holdings 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 be obtained from Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.