# Suffolk Life Group plc

## Directors' Report and Consolidated Financial Statements

31 December 2006
Registered number 2962287

# Directors' report and consolidated financial statements

## Contents

**2006 has been a year of progress and building for Suffolk Life. Our position in the SIPP market has never been better.**

## Group structure

Suffolk Life Group plc has two main operating subsidiaries:

**Suffolk Life Annuities Limited (SLA)**
SLA is an authorised life assurance company and is the provider of the Suffolk Life Self-Invested Personal Pension.

**Suffolk Life Pensions Limited (SLP)**
Suffolk Life is the administrator of all Suffolk Life schemes Both of the above subsidiaries are authorised and regulated by the Financial Services Authority.

## At a glance

Suffolk Life is a pensions administration specialist with a primary focus on Self-Invested Personal Pensions (SIPPs) We have particular expertise in various aspects of SIPP administration including property purchase, discrete investment portfolios and providing comprehensive annual statement valuations. Our systems are web-enabled, robust and scaleable, enabling us to provide exceptional service at a fair and transparent price

## Highlights of the year

Our key performance indicators (KPIs) for the year ended 31 December 2006 are all encouraging

| | 2006 | 2005 | Change |
|---|---|---|---|
| Number of SIPPs under administration | 7,894 | 5,758 | 37% |
| Funds under administration | £2 1bn | £1 3bn | 62% |
| Premium income | £759m | £335m | 127% |
| Operating profit | £0 85m | £0 25m | 240% |
| Profit before tax | £1 55m | £0 25m | 520% |
| Shareholders funds | £11 4m | £9 6m | 19% |

- Business results are pleasing considering the investments we have made for future growth
- New contracts established with Norwich Union, Clerical Medical and Prudential for the administration of their self-invested pension type offerings
- Web portal developed alongside our accounting systems to provide access for advisers and their clients to real-time data and online trading.
- Management and staff additions to resource our next phase of growth.
- Reputation for service evidenced by independent surveys and awards.
- Future developments are based on a strong market for SIPPs we are working on new products and initiatives to make ourselves more efficient as well as widening the appeal of our offering

## Chairman's statement

The business achieved another year of substantial growth

New SIPP numbers in 2006 rose by 37% following a 36% rise in the previous year, this was achieved against the background of the numerous changes to the pensions landscape caused by A-Day in April 2006 I am glad to say that Suffolk Life took these changes in its stride and continued to provide high quality service to its growing client base throughout the year

2006 has seen a number of Board changes, both executive and non executive I am pleased to welcome Hugh May, the deputy chief executive of Ipswich Building Society and John Poulter, currently chairman of Spectris plc as non executive directors, during the year we said farewell and thank you to Alan Barker who had given the Board many years of sound advice

Due to the growth of the business and the pressure on senior management we have also recruited a new Group Finance Director, Ian Furniss formerly Group Finance Director of Reed Healthcare Group plc who comes with a wealth of relevant experience Renata Chester has now become Chief Operating Officer of the Group

2007 marks a milestone in the history of Suffolk Life as Alan Catchpole, its founder, retires after the AGM in June Alan founded the business in 1971 on the principle of wanting to provide efficient pension administration with personal service at a reasonable and transparent price and we hope that is what Suffolk Life continues to do today We will miss his advice, experience and good humour

On behalf of the Board I would like to thank all our employees who have demonstrated great commitment and dedication in another busy year Their efforts are the bedrock on which Suffolk Life's reputation is based

2007 has started well for Suffolk Life, although the SIPP market has become more competitive over recent years the Board remains confident that Suffolk Life's focus on its core competencies and its investment in new products and services will enable it to make strong progress in the years ahead

In light of the above the Board is recommending to maintain the dividend at £0 10 per share

AJ Scott-Barrett
Chairman

## Key performance indicators

| | 2006 | 2005 | Change |
|---|---|---|---|
| Number of SIPPs under administration | 7,894 | 5,758 | 37% |
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| Premium income | £759m | £335m | 127% |
| Operating profit | £0.85m | £0 25m | 240% |
| Profit before tax | £1.55m | £0 25m | 520% |
| Shareholders funds | £11.4m | £9 6m | 19% |

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## The executive team

### Henry Catchpole Chief Executive Officer

Henry, having qualified as a solicitor, joined Suffolk Life in 1994. He has led the company from its very early days in SIPPs to its current position as one of the leading players He has been consistently aiming to keep Suffolk Life one step ahead in terms of service, proposition and value

### Renata Chester Chief Operating Officer

Renata is a qualified chartered accountant. She joined Suffolk Life in 1997 and was instrumental in redesigning our IT platform which is the core of all our business processing Renata also oversees all operational issues and through her work with the Association of Member-Directed Pension Schemes (AMPS) has a good understanding of all industry issues.

### Peter Weir Director, Property

Peter is a qualified solicitor who joined Suffolk Life in September 2000. Previously he was a partner in a large and well-regarded law practice where he specialised in commercial property Peter has overseen the development of our property department into a 'centre of excellence' and also provides technical input to the company on a range of legal and legislative issues.

### John Moret Director of Sales and Marketing

John has led the development of SIPPs in the UK since 1990 He joined Suffolk Life in 2004 from Capita PPML where he was Executive Chairman/Managing Director for four and a half years He has worked in the pensions and financial services sector for over 35 years.

### Ian Furniss Group Finance Director

Ian is a qualified chartered accountant with commercial experience from working in a number of market sectors He spent 7 years at Hays plc where he became Finance Director of the Personnel division and then joined Harvey Nash Group plc as Group Finance Director Ian's last appointment was Group Finance Director of Reed Health Group plc

## Operational review by the Chief Executive

I am pleased to report that we have maintained our reputation for service throughout 2006

2006 has been a year of achievement. Not only did we cope very well (thanks to our dedicated staff) with the advent of A-Day but we also maintained our reputation for service, evidenced by the winning of another three industry awards Furthermore we won three new major contracts, while at the same time growing our core business

### Business results

The year saw another period of growth in the number of SIPPs we administer by 37% to 7,894 and total SIPP funds under administration increased by 62% to £2 1bn I must admit that even I did not anticipate premium income more than doubling to £759m and thus reaching the £2bn funds under administration milestone before 2007 It is a further sign of the strength of demand for SIPPs and the quality of the business that we attract.

The Group's profit before tax for the year ended 31 December 2006 increased by 520% to £1.55m (2005 restated £0 25m) Excluding the income we received from the sale of our SSAS business we achieved an Operating Profit of £0 85m The balance sheet has been strengthened by this result as well as by the issue of share capital Shareholders' funds increased to £11 4m at 31 December 2006 (2005· £9 6m)

### Dividend

The Board intends to recommend a £0 10 dividend per share for the current year (2006 £0 10 per share) and will keep under review a progressive dividend policy to reflect the company's profits and its capital needs to support future business growth

### New contracts

In addition to our bespoke SIPP business, I am pleased to report that we won three new contracts in 2006 to provide administration services to Norwich Union, Clerical Medical and Prudential These companies have sought Suffolk Life's expertise and service quality to ensure that their self-invested pensions type offerings are administered to a high standard The cost of implementing these contracts has been substantially borne by each of the respective companies In addition, we receive annual fees to support the ongoing service we provide while each of the contracts is still in its infancy We hope that each of them will turn out to be a significant additional income generator for the Group in future years Although hard to quantify, there is certainly anecdotal evidence that our own sales have been helped by the enhanced reputation that comes with these contracts

### Adviser focus

With effect from April 2006, we decided to accept only applications for SIPPs via FSA authorised financial advisers This has strengthened our relationships with financial advisers and intermediaries and ensures all new policyholders have access to independent financial advice This policy has contributed to our success in increasing volumes of business from key introducers However, it has had the effect of slightly reducing our average income per SIPP based on a change in investment patterns

## Web portal

We have continued to roll out our web portal to our existing IFA supporters and extol its virtues to new introducers. As I outlined in my previous statement, our portal allows advisers to see the latest information, either aggregated across all their clients or on a SIPP by SIPP basis Much of the information is real-time and most investment valuations are updated daily through data feeds, depending upon the investment manager employed There is also the facility to invest and switch funds on the Cofunds platform The Suffolk Life strategy is to provide advisers with a web solution that adds value to their business and, over time, we expect to continue to extend its functionality We will also shortly pilot access to individual SIPP holders

This portal development builds on the success of the data feed project As mentioned in my last report, we have or are developing data feeds with the majority of the investment firms who manage funds on behalf of our SIPPs Four out of five purchases and sales are now reported to us electronically with the consequent cost and data advantages to customers One consequence of this is that we have experienced reduced investment administration income We are looking to offset this by pricing changes which will impact in 2008 rather than 2007

## Management and staff

New outsourced contracts, a web portal and similar developments and the growth in our market have increased the complexity and thus the risks inherent in our business We have recognised this, in part aided by the associations we have made with our new contract partners They have demanded the highest standards from us in terms of business continuity planning, financial reporting and compliance This has led us to review our management resource and organisation

I would like to join our Chairman in welcoming three new Board directors, but also to welcome on board all the new staff we have taken on in the past 12 months We have increased the numbers we employ by 35 to 140 as at 31 December 2006 This additional resource is required to ensure that we maintain our service levels, meet the requirements of our new contract partners and manage the increasing intricacy of our business as it grows

The growth in both staff and the business has warranted that Renata Chester devote her full attention to this Thus with effect from November 2006 Renata became Chief Operating Officer and Ian Furniss came in as our Group Finance Director To reflect an increasing outward focus on my part, I have become Chief Executive Officer

## Regulation and risk

It comes as no surprise that a sector of the pensions market that is enjoying and looks set to enjoy stellar growth is attracting more and more entrants At the end of 2006 our best estimate was that 130 firms were offering SIPPs This is a near trebling in the space of a few years

This growth has been watched by the FSA and with effect from 6 April 2007 all SIPP firms must be authorised We welcome this on a number of counts First, it underscores the migration of SIPPs from being a niche product into something more mainstream

Secondly, firms that have not been FSA authorised have not had to contend with all the costs associated with being authorised. This gave them a not insignificant cost advantage over Suffolk Life Thirdly, investors and their advisers will at long last be able to make more meaningful comparisons between different SIPPs. Lastly, and perhaps most interestingly, while Suffolk Life Annuities has been FSA authorised since inception and we have extended our permissions in good time for 6 April 2007, it is my belief that a good number of recently authorised SIPP firms are likely to prove unable to sustain their authorisation This will lead to a period of dislocation in the market We will be very alive to any opportunities that may arise

The company and directors regard compliance with regulation to be very important. The directors meet regularly to identify and discuss risks facing the business and where possible work hard to mitigate these This activity has been enhanced by the completion this year of an Individual Capital Assessment (ICA), a new requirement of the FSA to provide a regular assessment of the adequacy of our financial resources in relation to the risks we face I am pleased to report that our approach to the ICA was accepted by the FSA and we have benefited from the increased scrutiny of the financial impacts of the risks associated with our business

A further development towards good governance has been the introduction of an Audit and Risks Committee Ken Burrage (Chair) and Hugh May, both independent non-executive directors, have been appointed to this committee and meetings are to be held regularly and, in particular to receive the audit reports of KPMG and our newly appointed internal audit function provided by Mutual One

## Reputation for service

I am pleased to report that we have maintained our reputation for service throughout 2006 In January 2006 we won the Professional Adviser SIPP Provider of the Year Award, in April 2006 the UK Pensions SIPP Provider of the Year Award and finally the Pensions Management Technology, Administration and Service Award in October 2006 We were also awarded the first ever Investor in Customer (iic) award, which recognises companies for their excellence in customer service

At the end of 2006 we conducted a detailed research study that enabled all our introducers to provide us with feedback about our service Some of the many favourable comments that we received are set out around the text of this report

Treating customers fairly is a principle that the FSA wants to see embedded in all the businesses that it regulates We have long believed in treating customers fairly and consider this to be a natural trait of Suffolk Life However, in 2006 we carried out a gap analysis to see just how good we were at meeting the FSA's outcomes for treating customers fairly From this we created an action plan to make sure that we can demonstrate our compliance with the FSA's principles and a formal policy document to encapsulate what we have long believed to be the right way of doing business

## Future developments

We will continue to develop key performance indicators to help us manage our business

Much has been made of the general simplification of pensions However, the Government has not yet opined on whether they will relax the investment restrictions that relate to protected rights Current estimates of the market size are somewhere between £60bn-£100bn By virtue of SLA being an authorised insurance company, Suffolk Life is able to take protected rights money and have it invested together with SIPP funds Unless there is a change in the regulations (there is currently a consultation process which is due to report by the end of the year) this would give Suffolk Life a distinct competitive advantage over SIPP firms that do not have a life office as part of their offering

Our research has shown that the facility to invest protected rights funds alongside non-protected rights funds would be extremely attractive to investment managers We plan to have our new offering ready in the second half of 2007 We think this, together with our reputation, web portal and long experience of being FSA authorised will give us a useful head start for 2008 sales

Therefore 2007 will be a year of further investment and growth so we have the right platform for enhanced profitability in 2008 onwards

The early results we have experienced in 2007 lead us to believe that demand for SIPPs will remain solid for the months ahead It is true to say that we have experienced increased competition However, this risk has been anticipated and we remain confident that our market leading service and investment in new products and efficiency will deliver growth in the future

## Conclusion

In short, 2006 has been another exceptional year for Suffolk Life The fact that we have been chosen by Norwich Union, Clerical Medical and Prudential is a testament to our reputation and service quality

We will continue to build our capability in 2007 to ensure we have the right platform for further profitable growth in the future

**HN Catchpole**
Chief Executive Officer

## Directors' report

The Directors present their annual report and the audited financial statements of the Group and the Company for the year ended 31 December 2006

### Principal activities

The principal activity of the Group is the administration of Self-Invested Personal Pensions (SIPPs)

### Results and dividends

The Group's profit before tax for the year was £1,545,000 (2005 restated £245,000) The Company paid a dividend of £0 10 per Ordinary Share, totalling £281,102 on 27th October 2006

The Group's long term business fund, which relates to the life assurance business of Suffolk Life Annuities Limited, stood at £2 1 billion (2005 £1 3 billion) at the year end

### Business review

A review of the business, its risks and future developments are set out in the Chairman's statement and Operational review on pages 4 and 8

In summary, the business continued to perform well with over 2,100 new SIPPs being established during the year SIPP premium income increased once again from £335 5 million in 2005 to £758 5 million in 2006 On 27 January 2006 the Group disposed of the Small Self-Administered Schemes (SSASs) book for a gross consideration of £700,000, which after costs has provided additional profit of £691,000 to the Group for the year ended 31st December 2006

### Share Capital

During the year 148,603 Ordinary Shares were alloted, with a nominal value of £148,603 Consideration received for the shares issued was £837,546

On 13 September 2006 the reduction of the company's share premium account by £3,400,000 was confirmed by an Order of the High Court, Chancery Division and was registered at Companies House pursuant to section 138 of the Companies Act 1985 The effect of this was to increase the distributable reserves of the company and the creation of a Special Reserve

### Market Value of Land and Buildings

In the opinion of the directors, the market values of the Group's freehold properties are not materially different from those stated in note 12 to the financial statements

### Employees

The Group is committed to the principle of Equal Opportunities for all its employees and prospective employees We welcome applications for employment from persons of any age, religious belief, ethnic origin, nationality, sexual orientation, gender, marital status or disability We will make reasonable adjustments to our working practices and environment to accommodate a disability We promote employees on the basis of merit following regular appraisal of performance and we encourage staff training and development In all matters we aim to treat staff fairly and involve them in the decision-making of the business To this effect we regularly consult with staff and take their views into account when considering matters that are likely to affect their interests We also provide staff with information about the activity and performance of the Group on a regular basis

### Political and charitable contributions

Charitable donations by the Group during the year amounted to £13,306 (2005 £438) There were no political donations made during either year

### Supplier payment policy

Although the company does not follow a specified code or standard of payment practice, it is the company's policy to agree terms for payment with suppliers in advance of the supply of goods and services and to make payment according to those terms The number of supplier credit days outstanding at the year end was 10 days (2005 10 days)

### Directors and directors' interests

The directors who held office during the year, or who were appointed or retired during the year, are as follows

| | | |
|---|---|---|
| AJ Scott-Barrett | *(Chairman)* | AG Barker (retired 03/08/2006) |
| HN Catchpole | *(Chief Executive Officer)* | PG Burley |
| IW Furniss | *(Group Finance Director)* (appointed 15/12/2006) | KG Burrage |
| Mrs RAK Chester | *(Chief Operating Officer)* | AH Catchpole |
| PV Weir | | HG May (appointed 23/02/2006) |
| AJ Moret | | JW Poulter (appointed 01/09/2006) |

## Directors' report *continued*

### Directors and directors' interests *continued*

The directors who held office at the end of the financial year had the following beneficial interests in the shares of Suffolk Life Group plc according to the register of directors' interests

| | Class of share | Interest at end of year | Interest at start of year or date of appointment |
|---|---|---|---|
| PG Burley | Ordinary £1 shares | 193,615 | 193,615 |
| KG Burrage | Ordinary £1 shares | 5,900 | 5,900 |
| AH Catchpole | Ordinary £1 shares | 63,000 | 63,000 |
| HN Catchpole | Ordinary £1 shares | 245,402 | 254,402 |
| RAK Chester | Ordinary £1 shares | 133,000 | 140,000 |
| A J Moret | Ordinary £1 shares | 4,000 | 4,000 |
| A J Scott-Barrett | Ordinary £1 shares | 102,000 | 102,000 |
| P V Weir | Ordinary £1 shares | 179,876 | 184,876 |

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year, except as indicated below

| | Number of options | | | | | | |
|---|---|---|---|---|---|---|---|
| | At start of year | Granted | Exercised | At end of year | Exercise price | Date from which exercisable | Expiry date |
| HN Catchpole | 4,083 | - | - | 4,083 | £1 80 | 01/11/07 | 30/04/08 |
| HN Catchpole | 1,378 | - | - | 1,378 | £3 20 | 01/11/08 | 30/04/09 |
| HN Catchpole | 591 | - | - | 591 | £4 80 | 01/12/09 | 31/05/10 |
| HN Catchpole | 605 | - | - | 605 | £5 90 | 01/12/11 | 31/05/12 |
| HN Catchpole | 20,000 | - | - | 20,000 | £14 00 | 11/08/05 | 11/08/09 |
| HN Catchpole | 1,052 | - | - | 1,052 | £6 50 | 01/12/12 | 31/05/13 |
| HN Catchpole | - | 553 | - | 553 | £7 10 | 01/12/11 | 31/05/12 |
| RAK Chester | 3,750 | - | 3,750 | - | £1 80 | 01/11/05 | 30/04/06 |
| RAK Chester | 1,368 | - | - | 1,368 | £4 80 | 01/12/07 | 31/05/08 |
| RAK Chester | 560 | - | - | 560 | £5 90 | 01/12/09 | 31/05/10 |
| RAK Chester | 15,000 | - | - | 15,000 | £14 00 | 11/08/05 | 11/08/09 |
| RAK Chester | 990 | - | - | 990 | £6 50 | 01/12/10 | 31/05/11 |
| AJ Moret | 25,000 | - | - | 25,000 | £7 00 | 10/09/04 | 10/09/07 |
| AJ Moret | 25,000 | - | - | 25,000 | £10 50 | 10/09/04 | 10/09/08 |
| AJ Moret | 100,000 | - | - | 100,000 | £14 00 | 10/09/04 | 10/09/09 |
| PV Weir | 2,296 | - | - | 2,296 | £3 20 | 01/11/08 | 30/04/09 |
| PV Weir | 15,000 | - | - | 15,000 | £14 00 | 11/08/05 | 11/08/09 |

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the Board

A. Stannard

**AO Stannard**
*Secretary*

20th April 2007

153 Princes Street
Ipswich
IP1 1QJ

## Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss 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 Group and the parent 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

## Independent auditors' report to the members of Suffolk Life Group plc

We have audited the Group and parent company financial statements (the "financial statements") of Suffolk Life Group plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Statement of Total Recognised Gains and Losses, the Consolidated Cash Flow Statement and the related notes These financial statements have been prepared under 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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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**

As described in the Statement of directors' responsibilities on page 14, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 The information given in the Directors' report includes that specific information presented in the Chairman's statement and Operational review that is cross referred from the Business Review section of the Directors' report 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 other information contained in the Annual report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

**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 group's and 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 UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the Group's 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

KPMG Audit Plc

**KPMG Audit Plc**
Chartered Accountants
Registered Auditor

6 Lower Brook Street
Ipswich
IP4 1AP

20 April 2007

## Consolidated profit and loss account
*for the year ended 31 December 2006*

| | Note | 2006 £'000 | 2006 £'000 | As restated 2005 £'000 | As restated 2005 £'000 |
|---|---|---|---|---|---|
| **TECHNICAL ACCOUNT - LONG TERM BUSINESS** | | | | | |
| Gross premiums | *2* | 758,540 | | 335,453 | |
| Investment income | *3* | 60,481 | | 42,802 | |
| Realised gains on investments | | 30,019 | | 23,486 | |
| Unrealised gains on investments | | 123,709 | | 97,989 | |
| Other income | | 406 | | 348 | |
| | | | 973,155 | | 500,078 |
| Claims incurred | *4* | 107,956 | | 53,537 | |
| Changes in other technical provisions | | | | | |
| Technical provisions for linked liabilities | *22* | 799,702 | | 417,338 | |
| Long term business provision | *23* | (32) | | 20 | |
| Net operating expenses | *5* | 9,647 | | 4,871 | |
| Investment expenses and charges | *6* | 13,647 | | 9,023 | |
| Realised losses on investments | | 17,853 | | 5,576 | |
| Unrealised losses on investments | | 22,638 | | 8,467 | |
| | | | (971,411) | | (498,832) |
| **Balance on the technical account - long term business** | | | 1,744 | | 1 246 |
| **NON-TECHNICAL ACCOUNT** | | | | | |
| Balance on the long term business technical account | | | 1,744 | | 1,246 |
| Investment income | *3* | | 1,900 | | 1,366 |
| Realised gains on investments | | | 254 | | 1 |
| Unrealised gains on investments | | | 3 | | 21 |
| Net operating expenses | *5* | | (4,072) | | (2,748) |
| Investment expenses and charges | *6* | | (16) | | (17) |
| Unrealised losses on investments | | | (21) | | (14) |
| Realised losses on investments | | | - | | (1) |
| Other income - continuing | *10* | | 1,062 | | 7 |
| - discontinued | *10* | | - | | 384 |
| **Operating profit on ordinary activities before tax** | *7* | | 854 | | 245 |
| Profit on sale of discontinued operation | *30* | | 691 | | - |
| **Profit before tax** | | | 1,545 | | 245 |
| Tax on profit on ordinary activities | *11* | | (386) | | 439 |
| **Retained profit for the financial year** | *21* | | 1,159 | | 684 |

The notes on pages 21 to 37 form part of these financial statements

## Consolidated balance sheet
*as at 31 December 2006*

| | *Note* | 2006 £'000 | 2006 £'000 | 2005 £'000 | 2005 £'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Investments** | | | | | |
| Land and buildings | *12* | 1,219 | | 956 | |
| Other financial investments | *14* | 531 | | 587 | |
| | | | 1,750 | | 1,543 |
| **Assets held to cover linked liabilities** | *15* | | 2,182,217 | | 1,383,640 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | *16* | 113,805 | | 56,348 | |
| Other debtors | *16* | 1,171 | | 2,082 | |
| | | | 114,976 | | 58,430 |
| **Other assets** | | | | | |
| Tangible fixed assets | *17* | 2,619 | | 1,878 | |
| Cash at bank and in hand | | 6,548 | | 5,700 | |
| Other | *19* | 10 | | 10 | |
| | | | 9,177 | | 7,588 |
| **Prepayments and accrued income** | | | | | |
| Other prepayments and accrued income | *16* | | 687 | | 702 |
| **Total assets** | | | 2,308,807 | | 1,451,903 |
| **LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Called up share capital | *20* | | 3,254 | | 3,105 |
| Share premium account | *21* | | 753 | | 3,464 |
| Revaluation reserve | *21* | | 2 | | 2 |
| Special reserve account | *21* | | 6 | | - |
| Profit and loss account | *21* | | 7,345 | | 3,036 |
| **Shareholders' funds attributable to equity interests** | *21* | | 11,360 | | 9,607 |
| **Technical provisions** | | | | | |
| Linked liabilities | *22* | | 2,135,092 | | 1,335,390 |
| Long term business provision | *23* | | 469 | | 501 |
| **Creditors Amounts falling due within one year** | | | | | |
| Amounts owed to credit institutions | *24* | 16,275 | | 12,911 | |
| Obligations due under finance leases | *24* | 6 | | 9 | |
| Other creditors including taxation and social security | *24* | 3,883 | | 1,989 | |
| | | | 20,164 | | 14,909 |
| **Accruals and deferred income** | *24* | | 5,998 | | 4,458 |
| **Creditors Amounts falling due after more than one year** | | | | | |
| Amounts owed to credit institutions | *24* | 135,724 | | 87,038 | |
| | | | 135,724 | | 87,038 |
| **Total liabilities** | | | 2,308,807 | | 1,451,903 |

These financial statements were approved by the Board of directors on 20th April and were signed on its behalf by

**AJ Scott-Barrett**
**Director**

**HN Catchpole**
**Director**

The notes on pages 21 to 37 form part of these financial statements

## Company balance sheet
***as at 31 December 2006***

| | *Note* | 2006 £'000 | 2006 £'000 | As restated 2005 £'000 | As restated 2005 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Freehold property | *12* | 508 | | 956 | |
| Other tangible fixed assets | *18* | 2,619 | | 1,878 | |
| Investments | *13* | 2,029 | | 1,993 | |
| | | | 5,156 | | 4,827 |
| **Current assets** | | | | | |
| Current asset investments | *19* | 10 | | 10 | |
| Debtors | *16* | 189 | | 415 | |
| Cash at bank and in hand | | 98 | | 1,153 | |
| | | 297 | | 1,578 | |
| **Creditors amounts falling due within one year** | *24* | (227) | | (621) | |
| **Net current assets** | | | 70 | | 957 |
| **Net assets** | | | 5,226 | | 5,784 |
| **Capital and reserves** | | | | | |
| Called up share capital | *20* | | 3,254 | | 3,105 |
| Share premium account | *21* | | 753 | | 3,464 |
| Special reserve | *21* | | 6 | | - |
| Capital contribution reserve | *21* | | 91 | | 54 |
| Profit and loss account | *21* | | 1,122 | | (839) |
| **Shareholders' funds attributable to equity interests** | *21* | | 5,226 | | 5,784 |

These financial statements were approved by the Board of directors on 20th April and were signed on its behalf by

**AJ Scott-Barrett**
**Director**

**HN Catchpole**
**Director**

## Statement of total recognised gains and losses
***for the year ended 31st December 2006***

| | Note | 2006 £'000 | As restated 2005 £'000 |
|---|---|---|---|
| **Profit for the financial year** | | **1,159** | 684 |
| **Total gains and losses relating to the financial year** | | **1,159** | 684 |
| Prior year adjustment for share based payments | *33* | **(28)** | - |
| **Total gains and losses recognised since the last annual report** | | **1,131** | 684 |

The notes on pages 21 to 37 form part of these financial statements

## Consolidated cash flow statement
***for the year ended 31 December 2006***

| | Note | 2006 £'000 | 2006 £'000 | As restated 2005 £'000 | As restated 2005 £'000 |
|---|---|---|---|---|---|
| CASH FLOW STATEMENT | | | | | |
| **Cash flow from operating activities** | 27 | | 999 | | 480 |
| **Interest paid** | 28 | | (8) | | (10) |
| **Taxation** | | | (2) | | (60) |
| **Sale of discontinued operation** | 30 | | 691 | | - |
| **Capital expenditure** | 28 | | (1,392) | | (1,674) |
| **Equity dividends paid** | 21 | | (281) | | - |
| **Cash inflow before financing** | | | 7 | | (1,264) |
| **Financing** | 28 | | 835 | | 2,947 |
| | | | 842 | | 1,683 |
| CASH FLOWS WERE INVESTED AS FOLLOWS | | | | | |
| **Increase in cash holdings** | | | 848 | | 4,041 |
| **Net portfolio investment (not including long term business)** | | | | | |
| Equity shares | 29 | (31) | | - | |
| Repayment of mortgage loans | 29 | - | | (70) | |
| Investment properties | 29 | 25 | | (2,288) | |
| | | | (6) | | (2,358) |
| **Net investment of cash flows** | | | 842 | | 1,683 |
| **Movement in opening and closing portfolio investments net of financing** | | | | | |
| Net cash inflow for the year | | | 848 | | 4,041 |
| Portfolio investments | 28 | | (6) | | (2,358) |
| Capital element of hire purchase contracts repaid | 28 | | 3 | | 5 |
| Movement arising from cash flows | | | 845 | | 1,688 |
| Changes in market values and exchange rate effects | 29 | | 223 | | 155 |
| Depreciation of non-linked investment properties | 29 | | (10) | | (11) |
| **Movement in portfolio investments net of financing** | | | 1,058 | | 1,832 |
| **Portfolio investments net of financing at the beginning of the year** | 29 | | 7,234 | | 5,402 |
| **Portfolio investments net of financing at the end of the year** | 29 | | 8,292 | | 7,234 |

The notes on pages 21 to 37 form part of these financial statements

# Notes

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

### Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of certain assets

### Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, with the exception that in accordance with Statement of Standard Accounting Practice No 19, no depreciation is provided in respect of investment properties as set out below The balance sheet of the parent company has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985

In the preparation of its financial statements, the Group has taken account of the recommendation stated in the ABI Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (amended 2006) by the Association of British Insurers (the "ABI SORP") except for in relation to Investment Returns to aid the understanding of the Company's activities Investment Returns arising during the accounting period in relation to investments which are not directly connected with the carrying on of Long Term Insurance Business have therefore, not been included within the Technical Account for Long Term Business but are shown in the Non-Technical Account

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules In the year ended 31 December 2006 the Group has adopted FRS20 in accounting for share based payments and adjusted the comparative figures for the year ended 31 December 2005 The impact of this change in accounting policy is to reduce the consolidated retained profit reported in 2005 by £28,009 There is no impact on the consolidated net assets of the Group There is no impact on the Company's retained profit reported in 2005 However the net assets of the Company have increased by £54 000

### Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006 The acquisition method of accounting has been adopted Under this method the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Intra-group year end balances between the long term business fund and group undertakings, where these have been concluded or have arisen in accordance with normal market conditions are not eliminated on consolidation Such balances are disclosed separately in the financial statements, where material All other intra-group income and balances are eliminated on consolidation

Certain liabilities relating to the Group's long term business fund together with certain assets (changes in the values of which affect or establish policyholders' rights and entitlements), have been valued in accordance with provisions applying only to insurance undertakings No adjustment is made in respect of such items on consolidation

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable assets acquired) is capitalised and written off over the estimated period from which the benefit is expected to be derived

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

### Long-term business

The Group's long -term business is comprised of internal linked and non-linked policies and Self Invested Personal Pension schemes

Technical provisions for linked liabilities are actuarially valued at the year end in accordance with applicable valuation guidelines and directives Any surplus/(deficit) recognised within the year is on the advice of the actuary allocated by the directors to the non-technical profit and loss account to be included within the shareholders' profit for the year Investment income attributable to share capital and reserves is credited directly to shareholders' profit and loss account (non technical account)

The long term business provision arising in connection with non-linked policies has been calculated based upon actuarial assumptions as a multiple of the annual annuity payment an annuity factor dependent upon mortality and economic conditions together with an expense loading Any surplus/(deficit) recognised within the year is, on the advice of the actuary, allocated by the directors to the non-technical profit and loss account, and is then included within the shareholders' profit for the year

### Premiums

Premiums relating to the Group s linked business are credited to the profit and loss accounts in the same period in which the associated liability is established

## Notes *(continued)*

### 1 Accounting policies *(continued)*

**Investment income, expenses and charges**

Investment income is accounted for on a receivable basis, including, where appropriate the imputed tax credit Dividends are recognised on the date on which the related investment is marked ex-dividend Interest income is accrued up to the balance sheet date

Investment expenses include investment management fees and interest payable

**Realised and unrealised investment gains and losses**

Realised gains and losses are calculated as the difference between the net sale proceeds and the original cost or, if previously valued, the valuation at the last balance sheet date and are included in investment income or investment expenses Unrealised gains and losses on investments are calculated as the difference between the current valuation and the original cost or, if previously valued, the valuation at the last balance sheet date

Realised gains and losses movements in unrealised gains and losses, expenses and charges which are held to cover linked liabilities are included in the technical account - long term business Realised gains and losses, expenses and charges on other investments are reported in the non-technical account Movements in unrealised gains and losses on other investments are included in the non - technical account

**Claims**

Death claims and surrenders are accounted for when the associated liability of the company is fully extinguished Annuities are recognised as they fall due for payment Claims payable include related claims handling costs Provision is made for claims admitted or intimated but not paid by the balance sheet date, including related claims handling costs

**Acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts No deferred acquisition costs asset has been established as the costs in question have already been recovered

**Other income**

Other income included in the non-technical account comprises the main non group trading income receivable by subsidiary undertakings and represents the invoiced amount of services provided, exclusive of Value Added Tax, together with other income as detailed in the notes to the financial statements

**Investments**

All investments, including those classified as assets held to cover linked liabilities are stated at cost or valuation Listed shares and securities are valued at middle market price at the balance sheet date All land and buildings are treated as investment properties, other than those not held to cover linked liabilities, which are included in the balance sheet at cost Full valuations are made by independent professionally qualified chartered surveyors when required by statute or the policyholder In the intervening years, or when there has not been a full valuation, the directors review the valuations based on future rental streams to determine whether the changes in these rental streams are significant to require a change in the valuation

In accordance with Statement of Standard Accounting Practice No 19 no depreciation is provided in respect of freehold investment properties This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated However these properties are not held for consumption but for investment and the directors consider that systematic depreciation would be inappropriate The accounting policy is therefore necessary for the financial statements to give a true and fair view

Loans secured by mortgage are included at cost, less provisions for diminution in value Investments in group undertakings are stated at cost less provisions for permanent diminution in value In the company's financial statements, investments in subsidiary and associated undertakings are stated at cost less amounts written off

**Taxation**

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes No provision is made for future taxation on investments held by the linked long term business included in the balance sheet at revalued amounts Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19 No deferred tax provision is made for future taxation on investments held in the linked funds included in the balance sheet at revalued amounts

**Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

## Notes *(continued)*

### 1 Accounting policies *(continued)*

#### Tangible fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

| | |
|---|---|
| Computer equipment and software | 25% per annum |
| Office equipment, fixtures and fittings | 12 5% per annum |
| Land and buildings | 2% per annum |

In accordance with Financial Reporting Standard No 15 depreciation is charged on properties owned by the Group (other than investment properties) so as to write off the cost or valuation less estimated residual value by equal instalments over their estimated useful economic lives of 50 years

#### Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

#### Share based payments

Suffolk Life Group plc, operates two share option schemes under which options are granted to employees of the Company In accordance with FRS20, the fair value of options granted after 7th November 2002 and those not yet vested as at 1st January 2006 is recognised as an employee expense in the accounts of the Group with a corresponding increase in reserves The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using the Black-Scholes-Option-Pricing model taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest

#### Post retirement benefits

A subsidiary undertaking makes contributions to Self-Invested Personal Pension schemes on behalf of employees The pension schemes are administered by the subsidiary undertaking

#### Cash and liquid resources

Cash, for the purposes of the cashflow statement, comprises cash in hand, deposits repayable on demand and overdrafts payable on demand

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or are traded in an active market

### 2 Segmental analysis

| | 2006 | As restated 2005 |
|---|---|---|
| **Gross premiums written** | **£'000** | **£'000** |
| Long term insurance business | | |
| Periodic premiums relating to self invested personal pensions | 10,631 | 5 635 |
| Single premiums relating to existing self invested personal pensions | 175,744 | 86,375 |
| Single premiums relating to new self invested personal pensions | 572,165 | 243,443 |
| | 758,540 | 335 453 |
| **Profit after taxation** | | |
| Long term insurance business | 1,119 | 1,582 |
| Pension scheme administration | 40 | (898) |
| | 1,159 | 684 |
| **Segmental net assets** | | |
| Long term insurance business | 6,308 | 5 189 |
| Pension scheme administration | 5,052 | 4,418 |
| | 11,360 | 9 607 |

All business arose within the United Kingdom

There are no reinsurance amounts

## Notes *(continued)*

### 3 Investment income

| | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| **Income from other investments** | | | | |
| Land and buildings | 27 | 23,793 | 2 | 17,110 |
| Other investment income (see below) | 1,873 | 36,688 | 1 364 | 25 692 |
| | 1,900 | 60,481 | 1,366 | 42,802 |
| **Other investment income** | | | | |
| Interest receivable | 1,855 | 22,032 | 1,344 | 15,359 |
| Dividends received on listed investments | 18 | 14,656 | 20 | 10,333 |
| | 1,873 | 36,688 | 1,364 | 25,692 |

### 4 Claims paid

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Gross claims paid** | | |
| Lump sums on death | 847 | 1,442 |
| Lump sums on pensions vesting | 39,202 | 13,002 |
| Income withdrawals | 20,428 | 14,934 |
| Annuities paid | 21 | 21 |
| Annuities purchased | 12,337 | 7 699 |
| Transfers out | 35,121 | 16,439 |
| | 107,956 | 53,537 |

### 5 Net operating expenses

| | 2006 Other than linked business £'000 | 2006 Linked business £'000 | As restated 2005 Other than linked business £'000 | As restated 2005 Linked business £'000 |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Staff costs | - | 246 | - | 182 |
| Depreciation | - | 48 | - | 40 |
| Other | - | 189 | - | 112 |
| | - | 483 | - | 334 |
| **Administrative expenses** | | | | |
| Actuarial fees | 22 | 67 | 19 | 58 |
| Audit and accountancy fees | 52 | 41 | 41 | 33 |
| Staff costs | 1,538 | 2,120 | 1,394 | 1,563 |
| Depreciation of tangible fixed assets | 202 | 410 | 48 | 338 |
| Loss on disposal of tangible fixed assets | - | - | 15 | 2 |
| Rent payable | 267 | 415 | 55 | 104 |
| Repairs and renewals | 153 | 65 | 181 | 35 |
| Computer maintenance | 61 | 125 | 91 | 91 |
| External data source | 43 | 88 | 31 | 60 |
| Irrecoverable VAT | 229 | 168 | 133 | 119 |
| Professional fees | 796 | 5,185 | 107 | 1,701 |
| Advertising & promotion | 430 | 142 | 333 | 226 |
| Insurance & regulatory | 66 | 24 | 177 | 50 |
| Other administrative expenses | 213 | 314 | 123 | 157 |
| | 4,072 | 9,164 | 2,748 | 4 537 |
| Net operating expenses | 4,072 | 9,647 | 2 748 | 4,871 |

## Notes *(continued)*

### 6 Investment expenses and charges

| | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| **Investment management expenses** | | | | |
| Staff costs | - | - | 1 | |
| Interest payable - on bank loans | - | 7,459 | - | 5,566 |
| Interest payable - on bank overdrafts | 7 | - | 8 | - |
| Interest payable - on finance leases | 1 | - | 2 | - |
| Other investment management expenses | 8 | 6,188 | 6 | 3 457 |
| | 16 | 13,647 | 17 | 9,023 |

### 7 Profit on ordinary activities before taxation

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Profit on ordinary activities before taxation is stated after charging** | | |
| Depreciation and other amounts written off owned tangible fixed assets | 645 | 393 |
| Depreciation and other amounts written off tangible fixed assets held under hire purchase contracts | 6 | 6 |
| Profit on disposal of fixed assets | - | (17) |
| Auditors' remuneration | | |
| Fees payable to the company's auditor for the audit of the company's annual accounts | 15 | 10 |
| Fees payable to the company's auditor and its assoiciates for other services | | |
| The audit of the companies subsidiaries, pursuant to legislation | 38 | 32 |
| Other services pursant to legislation | 19 | 13 |
| Tax services | 20 | 20 |

### 8 Staff numbers and costs

The average number of persons employed by the group (including executive directors) during the year was as follows

| | 2006 Number | 2005 Number |
|---|---|---|
| Office and management | 130 | 94 |

The aggregate payroll costs of these persons was as follows

| | *Note* | 2006 £'000 | As restated 2005 £'000 |
|---|---|---|---|
| Wages and salaries | | 3,207 | 2,450 |
| Social security costs | | 504 | 379 |
| Other pension costs | | 156 | 140 |
| Share based payments | *33* | 37 | 28 |
| | | 3,904 | 2,997 |

### 9 Remuneration of directors

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Directors' emoluments | 560 | 642 |
| Highest paid director, excluding pension contributions | 159 | 168 |

There were no retirement benefits accruing (2005 £Nil) to the directors under the group's defined benefit scheme or any other scheme

Details of directors' share options, and those exercised in the year (including those exercised by the highest paid director) are set out in the Directors' report on page 13

## Notes *(continued)*

### 10 Other income

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Pension fund management fees | (6) | 350 |
| | (6) | 350 |
| Other income | 1,068 | 41 |
| | 1,062 | 391 |

All income arises within the United Kingdom

As described in note 30 on 27 January 2006 the small self-administered schemes' book (the "SSAS book") was sold The income in relation to the SSAS book included above was £Nil (2005 £384,000)

### 11 Taxation

| | 2006 £'000 | As restated 2005 £'000 |
|---|---|---|
| *Current tax* | | |
| UK corporation tax on profits of the period | 339 | - |
| UK corporation tax underprovided in previous years | - | 1 |
| | 339 | 1 |
| *Deferred tax* | | |
| Origination and reversal of timing differences (see note 25) | 47 | (440) |
| Timing differences from previous periods | - | - |
| | 47 | (440) |
| Tax charge / (credit) on profit on ordinary activities | 386 | (439) |

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% as explained below

| | 2006 | 2005 |
|---|---|---|
| Profit before taxation | 1,545 | 245 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%) | 464 | 74 |
| Expenses not deductible for tax purposes | 27 | 100 |
| Capital allowances in (excess) / arrears of depreciation | (68) | 112 |
| Relief under schedule 23 of Finance Act 2003 on exercise of share options | (81) | (572) |
| Capital losses arising carried forward | (2) | - |
| Indexation on cost of sales of equity disposals | (22) | - |
| Revaluation of equity investments not held within linked business | - | 4 |
| Trading (losses)/excess management expenses carried forward | (14) | 307 |
| Other short term timing differences | 35 | - |
| Other permanent differences | - | (25) |
| Charge for prior years | - | 1 |
| Total UK corporation tax charge | 339 | 1 |

The Group's long term business fund transacts only pension business, and is exempt from United Kingdom taxation

Tax losses and excess management charges carried forward by a Group undertaking amounting to £1,207 000 (2005 £1,254,000) are available to relieve future profits of the Group and have been recognised in full in these accounts

The tax effect of the profit on the sale of the discontinued operation disclosed as an exceptional item, is £207,000

## Notes *(continued)*

### 12 Freehold land and buildings

| Group | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At beginning of year | 1,017 | 269,373 | 3,164 | 175 225 |
| Additions | 836 | 131,122 | 39 | 110,083 |
| Disposals | (585) | (18,867) | (2,186) | (18,184) |
| Surplus on revaluation | - | 14,615 | - | 2,249 |
| At end of year | 1,268 | 396,243 | 1,017 | 269 373 |
| ***Depreciation*** | | | | |
| At beginning of year | 61 | - | 56 | - |
| Charge for the year | 10 | - | 11 | - |
| Disposals | (22) | - | (6) | - |
| At end of year | 49 | - | 61 | - |
| ***Net book value*** | | | | |
| **At 31 December 2006** | 1,219 | 396,243 | 956 | 269,373 |
| At 31 December 2005 | 956 | 269,373 | 3,108 | 175,225 |
| At cost | 1,268 | 376,339 | 1,030 | 264,083 |

| Company | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Cost or valuation** | | |
| At beginning of year | 1,017 | 3,164 |
| Additions | 125 | 39 |
| Disposals | (585) | (2,186) |
| At end of year | 557 | 1 017 |
| **Depreciation** | | |
| At beginning of year | 61 | 56 |
| Charge for the year | 10 | 11 |
| Disposals | (22) | (6) |
| At end of year | 49 | 61 |
| **Net book value** | | |
| **At 31 December 2006** | 508 | 956 |
| At 31 December 2005 | 956 | 3,108 |
| At cost | 557 | 1 030 |

The freehold land and buildings included in other than linked business are held for sale and treated as investment properties

Freehold land and buildings held to cover the linked business, form part of the long-term business fund, and are included under assets held to cover linked liabilities (see note 15) All such properties have been valued by the directors at the year end with reference to cost and previous professional valuations

## Notes (continued)

### 13 Investments in group undertakings

| Company | As restated Shares in group undertakings £'000 |
|---|---|
| *Cost* | |
| At beginning of year | 1,993 |
| Additions | 37 |
| Disposals | (1) |
| At end of year | 2,029 |
| ***Net book value*** | |
| **At 31st December 2006** | **2,029** |
| At 31 December 2005 | 1,993 |

The company owned the following subsidiary undertakings at the end of the year

| | Ordinary Shares at cost £ | Net book value £ | Nominal value of ordinary shares £ | Principal activity |
|---|---|---|---|---|
| Suffolk Life Annuities Limited | 1,644,000 | 1,644,000 | 1,700,000 | Life insurance and pension provider |
| Suffolk Life Pensions Limited | 222 827 | 314 233 | 870,000 | Management and administration of pension funds |
| Suffolk Life Services Limited *(formerly Suffolk Mercantile PLC)* | 71,671 | 71,671 | 300,000 | Provision of guarantee credits and management of secured loans |
| SLA Property Company Limited | 100 | 100 | 100 | Trustee Company |
| Suffolk Life (Spartan Estate) Limited | 1 | 1 | 1 | Trustee Company |
| Pension Nominees Limited | 1 | 1 | 1 | Nominee Company |
| E-Sipp Co Ltd | 1 | 1 | 1 | e-based SIPPs |

SLA Property Company Limited, Suffolk Life (Spartan Estate) Limited E-Sipp Co Ltd and Pension Nominees Limited are wholly-owned subsidiaries of Suffolk Life Annuities Limited All other subsidiary undertakings are wholly-owned by the company and are registered in England and Wales

As discussed in the Directors' Report, the small self-administered schemes book (the "SSAS" book) was disposed of on 27 January 2006 As part of this disposal process Suffolk Life Trustee Company Limited was also sold on 27 January 2006 to the purchaser for a consideration of £1,149, equal to its net book value

### 14 Other financial investments

| Group | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| Equity shares and other variable yield securities | 32 | 1,152,934 | 61 | 691,498 |
| Debt securities and other fixed-interest securities | 499 | 99,723 | 526 | 72,174 |
| Total shares and securities | 531 | 1,252,657 | 587 | 763,672 |
| Loans secured by mortgages | - | 99 | - | 558 |
| Deposits with credit institutions | - | 533,218 | - | 350,037 |
| | 531 | 1,785,974 | 587 | 1,114,267 |

Other financial investments owned by the long-term business fund are included under assets held to cover linked liabilities (see note 15)

## Notes *(continued)*

### 14 Other financial investments *(continued)*

***Loans secured by mortgages***

| | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of year | - | 99 | 70 | 564 |
| Net decrease | - | - | (70) | (6) |
| At end of year | - | 99 | - | 558 |
| **Net book value** | - | 99 | - | 558 |

Mortgage loans are secured by means of legal charge over freehold properties and are repayable within one year

| ***Investments - shares and securities*** | 2006 Other than linked business £'000 | 2006 Linked business £'000 | 2005 Other than linked business £'000 | 2005 Linked business £'000 |
|---|---|---|---|---|
| At market value | | | | |
| At beginning of year | 587 | 763,672 | 573 | 505,043 |
| Additions | - | 699,833 | - | 377,198 |
| Disposals | (31) | (297,312) | - | (205,842) |
| Surplus on revaluation | (25) | 86,464 | 14 | 87 273 |
| At end of year | 531 | 1,252,657 | 587 | 763 672 |
| At cost | 523 | 1,084,154 | 549 | 649 859 |

The above investments include £425m (2005 £285m) of listed securities which are dealt on a recognised stock exchange

## Notes *(continued)*

### 15 Assets held to cover linked liabilities

| Group | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Land and buildings | *12* | 396,243 | 269,373 |
| Other financial investments | *14* | 1,785,974 | 1,114,267 |
| Total investments held in respect of linked liabilities | | 2,182,217 | 1,383,640 |
| Other assets and liabilities included elsewhere in the balance sheet | | | |
| Debtors and accrued income | *16* | 113,844 | 57,372 |
| | | 2,296,061 | 1,441,012 |
| Creditors | *24* | (160,969) | (105,622) |
| Total net assets representing the linked long-term business fund | | 2,135,092 | 1,335,390 |

A group undertaking, Suffolk Life Annuities Limited, has granted a floating charge over the long term insurance assets, other than assets that are subject to a fixed charge or lien, to two life insurance companies with whom we have agreed reinsurance contracts This has the effect of ranking these reinsurance contracts pari passu with the direct SIPP insurance contracts granted by that Company

### 16 Debtors

| | Group 2006 £'000 | Group 2005 £'000 | Company 2006 £'000 | Company 2005 £'000 |
|---|---|---|---|---|
| **Other debtors** | | | | |
| Amounts owed by group undertakings | - | - | 50 | 8 |
| Taxation and social security | - | - | 9 | 5 |
| Deferred tax - recoverable in more than one year (note 25) | 445 | 492 | - | 233 |
| Other debtors | 726 | 1,590 | - | 42 |
| | 1,171 | 2,082 | 59 | 288 |
| **Debtors arising out of direct insurance operations** | | | | |
| Policyholders | 110,666 | 55,066 | - | - |
| Income taxation recoverable | 3,139 | 1,282 | - | - |
| | 113,805 | 56,348 | - | - |
| **Prepayments and accrued income** | 687 | 702 | 130 | 127 |
| | 115,663 | 59,132 | 189 | 415 |
| Relating to | | | | |
| Other than linked business | 1,819 | 1,760 | 189 | 415 |
| Linked long-term business fund | 113,844 | 57,372 | - | - |
| | 115,663 | 59,132 | 189 | 415 |

### 17 Tangible fixed assets - Group

| | Office equipment fixtures and fittings £'000 | Computer hardware & software £'000 | Total £'000 |
|---|---|---|---|
| ***Cost or valuation*** | | | |
| At beginning of year | 582 | 2,186 | 2,768 |
| Additions | 87 | 1,306 | 1,393 |
| Disposals | (1) | - | (1) |
| At end of year | 668 | 3 492 | 4,160 |
| ***Depreciation*** | | | |
| At beginning of year | 36 | 854 | 890 |
| Charge for the year | 78 | 573 | 651 |
| On disposals | - | - | - |
| At end of year | 114 | 1,427 | 1 541 |
| ***Net book value*** | | | |
| **At 31 December 2006** | 554 | 2,065 | 2,619 |
| At 31 December 2005 | 546 | 1 332 | 1,878 |

## Notes *(continued)*

### 18 Tangible fixed assets - Company

| | Office equipment fixtures and fittings £'000 | Computer hardware & software £'000 | Total £'000 |
|---|---|---|---|
| ***Cost or valuation*** | | | |
| At beginning of year | 582 | 2 186 | 2,768 |
| Additions | 87 | 1,306 | 1,393 |
| Disposals | (1) | - | (1) |
| At end of year | 668 | 3,492 | 4,160 |
| ***Depreciation*** | | | |
| At beginning of year | 36 | 854 | 890 |
| Charge for the year | 78 | 573 | 651 |
| Disposals | - | - | - |
| At end of year | 114 | 1 427 | 1,541 |
| ***Net book value*** | | | |
| **At 31 December 2006** | **554** | **2,065** | **2,619** |
| At 31 December 2005 | 546 | 1,332 | 1,878 |

### 19 Current asset investments - Group and Company

| | Other investments £'000 |
|---|---|
| ***Cost*** | |
| At beginning and end of year | 10 |
| ***Net book value*** | |
| **At 31 December 2006** | **10** |
| At 31 December 2005 | 10 |

### 20 Share capital

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| ***Authorised*** | | |
| Equity Ordinary shares of £1 each | **10,000** | 10 000 |
| ***Allotted, called up and fully paid*** | | |
| Equity Ordinary shares of £1 each | 3,254 | 3,105 |

During the year 148,603 Ordinary Shares were alloted with a nominal value of £148,603 Consideration received for the shares issued was £837,546

## Notes (continued)

### 20 Share capital (continued)

Options granted for ordinary shares but not exercised are as follows

| | Options granted | Price per share £ | Period of option | Number of options |
|---|---|---|---|---|
| 2000 Employee Share Option Scheme | 2000 | 1 80 | 2005 to 2008 | 4 083 |
| 2001 Employee Share Option Scheme | 2001 | 3 20 | 2006 to 2009 | 18,412 |
| 2002 Employee Share Option Scheme | 2002 | 4 80 | 2007 to 2010 | 14,915 |
| 2003 Employee Share Option Scheme | 2003 | 5 60 | 2008 to 2011 | 12 753 |
| 2004 Share Option scheme | 2004 | 7 00 | 2004 to 2007 | 25 000 |
| 2004 Share Option scheme | 2004 | 10 50 | 2004 to 2008 | 25,000 |
| 2004 Share Option scheme | 2004 | 14 00 | 2004 to 2009 | 100 000 |
| 2004 Employee Share Option Scheme | 2004 | 5 90 | 2009 to 2012 | 21,677 |
| 2005 Share Option Scheme | 2005 | 14 00 | 2005 to 2009 | 50,000 |
| 2005 Share Option Scheme | 2005 | 7 50 | 2005 to 2008 | 30 000 |
| 2005 Share Option Scheme | 2005 | 8 00 | 2005 to 2008 | 5,000 |
| 2005 Share Option Scheme | 2005 | 10 00 | 2005 to 2009 | 25,000 |
| 2005 Share Option Scheme | 2005 | 10 50 | 2005 to 2009 | 10 000 |
| 2005 Share Option Scheme | 2005 | 11 00 | 2005 to 2009 | 10 000 |
| 2005 Share Option Scheme | 2005 | 12 50 | 2005 to 2110 | 25,000 |
| 2005 Share Option Scheme | 2005 | 15 00 | 2005 to 2110 | 15,000 |
| 2005 Share Option Scheme | 2005 | 16 00 | 2005 to 2110 | 15 000 |
| 2005 Employee Share Option Scheme | 2005 | 6 50 | 2010 to 2013 | 18 096 |
| 2006 Employee Share Option Scheme | 2006 | 7 10 | 2011 to 2014 | 31,549 |
| 2006 Share Option Scheme | 2006 | 8 00 | 2006 to 2009 | 2,500 |
| 2006 Share Option Scheme | 2006 | 12 00 | 2006 to 2010 | 2,500 |
| | | | | 461,485 |

### 21 Reconciliation of movements in shareholders' funds

| | Share Capital Account £'000 | Share Premium Account £'000 | Special Reserve £'000 | Revaluation reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At beginning of year | 3,105 | 3,464 | - | 2 | 3 036 | 9 607 |
| New share capital subscribed | 149 | 689 | - | - | - | 838 |
| Capital re-organisation | - | (3 400) | 6 | - | 3,394 | - |
| Profit for the financial year | - | - | - | - | 1 159 | 1 159 |
| Recycling of share option charge | - | - | - | - | 37 | 37 |
| Dividend | - | - | - | - | (281) | (281) |
| **At end of year** | 3,254 | 753 | 6 | 2 | 7,345 | 11,360 |

The profit and loss reserve includes an amount of £2 037 000 (2005 £1 420,000) which is required not to be treated as realised profits under section 268 of Companies Act 1985

## Notes *(continued)*

### 21 Reconciliation of movements in shareholders' funds (continued)

| | Share Capital Account £'000 | Share Premium Account £'000 | Special Reserve £'000 | As restated Capital Contribution Reserve £'000 | Profit and loss account £'000 | As restated Total £'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| At beginning of year | 3,105 | 3 464 | - | 54 | (839) | 5,784 |
| New share capital subscribed | 149 | 689 | - | - | - | 838 |
| Capital re-organisation | | (3,400) | 6 | - | 3,394 | - |
| Loss for the financial year | - | - | - | - | (1,152) | (1,152) |
| Capital contribution in respect of share options granted | - | - | - | 37 | - | 37 |
| Dividend | - | - | - | - | (281) | (281) |
| **At end of year** | 3 254 | 753 | 6 | 91 | 1,122 | 5,226 |

The company's loss for the year was £1 152,000 (2005 loss of £548,000)

On 13 September 2006 the reduction of the company's share premium account by £3,400 000 was confirmed by an Order of the High Court, Chancery Division and was registered at Companies House pursuant to section 138 of the Companies Act 1985 The effect of this was to increase the distributable reserves of the company and the creation of a Special Reserve

The Special Reserve was required initially to hold the sum of £2,561,000 being the difference between the amount of the reserve arising on the reduction of the share premium account and the accumulated deficit on the company's profit and loss account as at 31 December 2005

The company has released the Special Reserve in accordance with the Court Order to form part of the distributable reserves of the company except for the sum of £6,361 in respect of a hire purchase agreement which was outstanding at the date of the Court Order and which has not since been extinguished A bank account has been opened to hold this sum of money until such time as the debt is repaid

During the year a dividend of £0 10 per share was paid amounting to £281 000

### 22 Technical provisions for linked liabilities

For each SIPP the company provides, there is a separate internal fund Where the company provides a trustee investment policy or group managed fund, there are a number of separate internal funds

Technical provisions for linked liabilities arising in connection with the above policies are detailed below There is no reinsurance amount (2005 Nil)

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| At beginning of year | 1,335,390 | 918,052 |
| Increase in year | 799,702 | 417,338 |
| At end of year | 2,135,092 | 1,335 390 |
| These relate to | | |
| SIPPs | 2,132,388 | 1 335 390 |
| Group managed funds | 2,704 | - |
| | 2,135,092 | 1 335 390 |

Total assets representing the linked long-term business fund are detailed under note 15 to the financial statements

## Notes *(continued)*

### 23 Long-term business provision

Following the winding-up of the Group's occupational pension scheme immediate-purchase annuities were written which form part of the company's long-term business fund The long-term business provision arising in connection with this business is detailed below There is no reinsurance amount (2005 Nil)

The provision has been calculated based upon mortality rates of 80% of the PMA/PFA 92 mortality tables with future reductions of those rates following the medium cohort projections set out in the working paper published by the Continuous Mortality Investigation Bureau, but adjusted to have a minimum rate of reductions of 1 25% per annum The valuation rate of interest was 4% (2005 3 4%) per annum An allowance for expenses of 3% (2005 3%) of the annuity payments was included

| | 2006 | 2005 |
|---|---|---|
| | £'000 | £'000 |
| At beginning of year | 501 | 481 |
| (Decrease)/increase in year | (32) | 20 |
| At end of year | 469 | 501 |

### 24 Creditors

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| **Amounts owed to credit institutions** | | | | |
| Bank loans and overdrafts - due within one year | 16,275 | 12,911 | - | - |
| Bank loans and overdrafts - due after more than one year | 135,724 | 87,038 | - | |
| | 151,999 | 99,949 | - | - |
| **Obligations under finance leases and hire purchase contracts** | | | | |
| Due within one year | 6 | 9 | 6 | 9 |
| Due after more than one year | - | - | - | - |
| | 6 | 9 | 6 | 9 |
| **Other creditors** | | | | |
| Amounts due to group undertakings | - | - | - | 334 |
| Corporation tax | 337 | - | - | - |
| Deferred tax | - | - | 17 | - |
| Other creditors | 3,546 | 1 989 | 149 | 138 |
| | 3,883 | 1 989 | 166 | 472 |
| **Accruals and deferred income** | | | | |
| Accruals | 185 | 460 | 55 | 140 |
| Deferred income | 5,813 | 3,998 | - | - |
| | 5,998 | 4 458 | 55 | 140 |
| | 161,886 | 106 405 | 227 | 621 |
| Relating to | | | | |
| Other than linked business | 917 | 783 | 227 | 621 |
| Linked long-term business fund | 160,969 | 105,622 | - | - |
| | 161,886 | 106,405 | 227 | 621 |

Included in bank loans and overdrafts above of £151 999,000 (2005 £99 949 000) is an amount of £Nil (2005 £29,000) which is unsecured The remainder are secured by legal charge over certain properties

The maturity of obligations under finance leases and hire purchase contracts is as follows

| | 2006 | 2005 | 2006 | 2005 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Within one year | 6 | 9 | 6 | 9 |
| In second to fifth years | - | - | - | - |
| | 6 | 9 | 6 | 9 |

Notes *(continued)*

## 25 Deferred taxation

The amounts provided for deferred taxation at 30% (2005 30% ) are set out below

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Depreciation in (excess) / arrears of accelerated capital allowances | **(83)** | (168) | **17** | (26) |
| On revaluation of investments | **-** | 3 | **-** | - |
| Tax losses carried forward | **(362)** | (327) | **-** | (207) |
| Net deferred tax (asset) / liability | **(445)** | (492) | **17** | (233) |
| At beginning of year | **(492)** | (52) | **(233)** | (2) |
| Deferred tax charge/(credit) in profit and loss account for period (note 11) | **47** | (440) | **250** | (231) |
| At end of year | **(445)** | (492) | **17** | (233) |

## 26 Related party disclosures

Certain of the directors have a self-invested personal pension with Suffolk Life Annuities Limited

## 27 Reconciliation of operating profit to net cash inflow from operating activities

| | | As restated |
|---|---|---|
| | **2006** | 2005 |
| | **£'000** | £'000 |
| Operating profit | **854** | 245 |
| Depreciation charge on tangible fixed assets | **651** | 399 |
| Loss on sale of tangible fixed assets | **-** | 164 |
| Depreciation of non-linked investment property | **10** | 11 |
| Profit on sale of investment property | **(248)** | (147) |
| Net unrealised gains / (losses) on investments | **25** | (7) |
| Bank interest payable | **7** | 8 |
| Interest element of hire purchase contract payments | **1** | 2 |
| Increase in debtors | **(106)** | (465) |
| (Decrease) / Increase in creditors | **(200)** | 222 |
| Charge in respect of share options granted | **37** | 28 |
| Changes in long term business provision | **(32)** | 20 |
| | **999** | 480 |

## Notes *(continued)*

### 28 Analysis of cash flows

| | 2006 £'000 | 2006 £'000 | 2005 £'000 | 2005 £'000 |
|---|---|---|---|---|
| **Interest paid** | | | | |
| Bank interest | (7) | | (8) | |
| Interest element of hire purchase payments | (1) | | (2) | |
| | | (8) | | (10) |
| **Capital expenditure** | | | | |
| Purchase of tangible fixed assets | (1,393) | | (1,696) | |
| Sale of tangible fixed assets | 1 | | 22 | |
| | | (1,392) | | (1,674) |
| **Financing** | | | | |
| Capital element of hire purchase payments | (3) | | (5) | |
| Issue of ordinary share capital | 838 | | 2,952 | |
| | | 835 | | 2 947 |
| **Portfolio investments** | | | | |
| Purchase of equity shares | - | | - | |
| Sale of equity shares | 31 | | - | |
| Disposal of investment properties | 811 | | 2,327 | |
| Repayment of mortgage loans | - | | 70 | |
| Additions to investment properties | (836) | | (39) | |
| | | 6 | | 2 358 |

### 29 Movement in shareholders' cash, portfolio investments and financing

| | At beginning of year £'000 | Cash flow £'000 | Changes to market value and currencies £'000 | Other non-cash changes £'000 | At end of year £'000 |
|---|---|---|---|---|---|
| Cash in hand and at bank | 5 700 | 848 | - | - | 6,548 |
| | 5,700 | 848 | - | - | 6,548 |
| Equity shares | 61 | (31) | 2 | - | 32 |
| Fixed interest securities | 526 | - | (27) | - | 499 |
| Investment properties | 956 | 25 | 248 | (10) | 1,219 |
| | 1 543 | (6) | 223 | (10) | 1,750 |
| Hire purchase creditor | (9) | 3 | - | - | (6) |
| Total | 7 234 | 845 | 223 | (10) | 8 292 |

### 30 Profit on sale of discontinued operation

On 27 January 2006 the Company disposed of its Small Self-Administered Schemes (SSASs) book for a consideration of £700,000 The income from the Book was relinquished from 1 January 2006 Taking into account legal costs the profit on sale of this disposal was £690,987

### 31 Contingent liabilities

A claim against the Group may arise in respect of tax and similar charges due under the Finance Act 2004 as a result of the late payment of death benefits to the beneficiaries of a SIPP It is estimated that the maximum amount of this liability is £335 000 The Group is currently in negotiation with HM Revenue and Customs to remove this potential liability The Group believes that should a claim arise that the cost will be covered by its insurance policies

## 32 Capital Statement

| | Linked business £ '000 | Other than linked business £ '000 | Total Life business £ '000 | Other activities £ '000 | Total £ '000 |
|---|---|---|---|---|---|
| Shareholders' funds held outside long term business fund | - | 3,671 | 3,671 | 4,699 | 8,370 |
| Shareholders' funds held in long term business fund | - | 2,637 | 2,637 | - | 2,637 |
| Total shareholders' funds | - | 6,308 | 6,308 | 4,699 | 11,007 |
| *Adjustments onto a regulatory basis* | | | | | |
| Regulatory valuation and admissability restrictions | - | (2 587) | (2,587) | - | (2,587) |
| Total available capital resources | - | 3,721 | 3,721 | 4,699 | 8 420 |
| *Analysis of policyholder Liabilities* | | | | | |
| Linked Liabilities | 2,135,092 | - | 2,135,092 | - | 2 135,092 |
| Total Liabilities | 2 135,092 | - | 2 135,092 | - | 2,135,092 |
| *Analysis of Movements in Capital* | | | | | |
| Opening available capital resources | - | 3,096 | 3,096 | 4,418 | 7,514 |
| Movement in year | - | 625 | 625 | 281 | 906 |
| Closing available capital resources | - | 3,721 | 3,721 | 4 699 | 8,420 |

## 33 Share based payments

The total charge relating to employee share based payments was £37,164 (2005 restated £28,009)

During the year, Suffolk Life Group plc issued options under its unapproved Executive Share Option Scheme ("ESOS") and its Savings Related Employee Share Option Scheme ("ESOP") Both schemes deliver settlements for equity only The number of options issued, option price volatility, fair value and vesting periods are shown in the table below

The fair value was determined using the Black-Scholes Option Pricing Model The key input was the volatility assumption which was determined using historic data

| Scheme | Company and Class of Share | Number of options | Exercise Period | Expected Volatility | Exercise Price £ | Fair Value £ |
|---|---|---|---|---|---|---|
| ESOP | Suffolk Life Group plc £1 Ord shares | 32,287 | 2011 to 2014 | 35 60% | 7 10 | 3 09 |
| ESOS | Suffolk Life Group plc £1 Ord shares | 2,500 | 2006 to 2009 | 26 30% | 8 00 | 1 42 |
| ESOS | Suffolk Life Group plc £1 Ord shares | 2,500 | 2006 to 2010 | 34 00% | 12 00 | 1 11 |

The number and weighted average exercise prices of share options in existence are as follows

| | 2006 Weighted average exercise price £ | 2006 Number of options | 2005 Weighted average exercise price | 2005 Number of options |
|---|---|---|---|---|
| Outstanding at the beginning of the period | 9.36 | 571,753 | 5 61 | 1 064,014 |
| Granted during the period | 7 49 | 37,287 | 11 41 | 204 680 |
| Forfeited during the period | 6.36 | (4,002) | 5 73 | (755) |
| Exercised during the period | 5 80 | (143,553) | 4 24 | (696,186) |
| Lapsed during the period | - | - | - | - |
| Outstanding at the end of the period | 10.34 | 461,485 | 9 36 | 571,753 |
| Exercisable at the end of the period | 11.84 | 347,908 | 10 79 | 446,250 |

The options outstanding at the year end have an exercise price in the range of £1 80 to £16 00 and a weighted average remaining life of 3 1 years