ST ANDREWS LIFE ASSURANCE PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Registered Number 3104670

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DIRECTORS' AND COMPANY INFORMATION

CHIEF EXECUTIVE
J Dawson

MANAGING DIRECTOR
R A Devey

OTHER DIRECTORS
M Christophers*
S J Colsell
D G R Ferguson*
T A Leonard
P McNamara
R J H Milne
M R N Moore*
K A Nealon*
M P Smith*
T Woolgrove

** Non Executive Director*

SECRETARY
P J Veale

REGISTERED OFFICE
St Andrew's House
Portsmouth Road
Esher
Surrey
KT10 9SA

PRINCIPAL PLACES OF BUSINESS

<u>Bristol Head Office</u>
Narrow Plain
Bristol
BS2 OJH

<u>Esher</u>
St Andrew's House
Portsmouth Road
Esher
KT10 9SA

<u>Cheltenham</u>
Jessop House
Jessop Avenue
Cheltenham
GL50 3SH

<u>York Office</u>
2 Rougier Street
York
YO1 1HR

<u>Aylesbury Office</u>
Walton Street
Aylesbury
HP21 7QW

AUDITORS
KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

DIRECTORS' REPORT

The Directors present their Report and the audited Financial Statements for the year ended 31 December 2006

BUSINESS REVIEW

The Company, which is authorised by the Financial Services Authority and is a member of the Association of British Insurers, is a wholly owned subsidiary of Halifax Life Limited and the ultimate parent undertaking is HBOS plc

The Company's principal activity is the transaction of long term insurance and investment business and associated investment activities in the United Kingdom

Throughout the year the Company made its products available through its appointed representatives, who are mainly personal financial advisors within the Halifax and Bank of Scotland banking network The Company also reassures business with and from fellow subsidiary undertakings of the ultimate parent undertaking and with and from insurance entities external to the group The Company transacts non profit, and unit linked business

At 11 59 pm on 26 May 2006 a transfer of insurance business under Part VII of the Financial Services and Markets Act 2000 took place The transaction transferred part of the life and annuity business of the Company's parent undertaking, (together with all liabilities relating to that business and admissible assets to match the liabilities of that business) to the Company, with an approximate value of £9 8 billion

Ordinary shares with a total value of £330 million were issued by the Company

Risk Management

The key risks of the Company are considered to be Market Risk (currency and interest rate), Credit and Liquidity Risk, Price Risk, Insurance Risk and Operational Risk

Detailed analysis of the risks and their management is included within the notes to the Financial Statements

The risks associated with the activities of the Company are overseen by the Risk Control Committee of the Insurance & Investment Division of HBOS plc The Committee, which is chaired by T Hobson, reviews all risk and compliance issues affecting the Company, as well as the other wholly owned companies within the Insurance & Investment Division

In addition to the Risk Control Committee, there are a number of other committees responsible for different aspects of corporate governance of HBOS plc and its major subsidiaries Further details of these committees and compliance with the Combined Code on corporate governance are included in the HBOS plc annual report and accounts

In relation to the balance of interests between the policyholders and shareholders, there is a Long Term Business Governance Committee

Further information regarding the corporate governance and risk management is included in Note 28

Performance

The profit for the year after taxation was £147 0 million (2005 £4 3 million) and before taxation was £201 2 million (2005 £7 8 million) No interim dividend was paid during the year (2005 nil) and the Directors recommend that no final dividend be paid (2005 nil) The movement in profit reflects the transfer of insurance business affected on 26 May 2006, as described above

The new business sold during the year amounted to £304 5 million (2005 £60 4 million), this is on an Annual Premium Equivalent (APE) basis, which is calculated as annualised regular premium new business plus one tenth of single premium new business Total insurance premiums recognised in the Income Statement were £2,196 5 million (2005 £166 3 million) and total investment premiums deposit accounted were £695 9 million (2005 nil) The increase in new business is largely due to the transfer of insurance business during the year and reflects continuing sales of a variety of insurance products During the year GGB 15 was launched No other new products were during the year

The funds under management are approximately £11 4 billion (2005 £71 million)

DIRECTORS' REPORT (CONTINUED)

The excess of capital resources over regulatory capital resource requirements was £269 0 million (2005 £16 4 million) The Directors believe that the Company currently has adequate capital resources, has had throughout the year and will continue to do so in the foreseeable future

The Directors have chosen Key Performance Indicators they consider appropriate to the principal activity of the Company

Future developments

A business plan is produced for the operations for the HBOS Financial Services group of companies, of which the Company is part Progress against this is monitored regularly by the Board The Company expects to continue to transact long term insurance and investment business and associated investment activities for the foreseeable future

The Company has no employees All staff providing services to the Company are employed by HBOS plc

POST BALANCE SHEET EVENT

There are no material events affecting the Company after the balance sheet date

ULTIMATE HOLDING COMPANY

HBOS plc is the ultimate parent undertaking of St Andrews Life Plc and heads the largest group into which the accounts of the Company are consolidated The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ

DIRECTORS' REPORT (CONTINUED)

SUPPLIER PAYMENT POLICY

The Company's suppliers are paid through HBOS plc's centralised Accounts Payable department

For the forthcoming period HBOS plc's policy for the payment of suppliers will be as follows

- Payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement,
- Standard payment terms to suppliers of goods and services will be 30 days from the date of a correct invoice that has been received for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract,
- Payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made, and
- Suppliers will be advised without delay when an invoice is contested and disputes will be settled as quickly as possible

HBOS plc complies with the Better Payment Practice Code Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www payontime co uk

The Company had trade creditors outstanding at 31 December 2006 representing 18 days of purchases

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows

W A Beadle	*Resigned 17 August 2006*
M Christophers	
S J Colsell*	*Appointed 17 August 2006*
J Dawson*	*Appointed 1 March 2006*
R A Devey*	*Resigned 1 June 2006* *Reappointed 10 October 2006*
J S Edwards	*Resigned 31 March 2006*
D G R Ferguson*	
T A Leonard	
P McNamara	
R J H Milne	
M R N Moore*	
K A Nealon*	
M P Smith	
J Spellman*	*Resigned 8 September 2006*
T Woolgrove	*Appointed 1 June 2006*

** Member of the Long Term Business Governance Committee*

DIRECTORS' REPORT (CONTINUED)

Directors' beneficial interests in the ordinary shares of HBOS plc

During the year, no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc

The beneficial and non-beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below -

	At 31.12.05 or date of appointment if later HBOS plc shares	At 31 12.06 HBOS plc shares
M Christophers	722	722
S J Colsell	-	-
J Dawson	57,093	52,485
R A Devey	14,360	19,724
D G R Ferguson	8,444	7,000
T A Leonard	12,045	19,550
P McNamara	-	589
R J H Milne	13,563	16,025
M R N Moore	-	-
K A Nealon	-	12,879
M P Smith	-	-
T Woolgrove	8,346	8,741

DIRECTORS' REPORT (CONTINUED)

Short-term Incentive Plan – HBOS scheme and former Halifax scheme

Certain Directors have conditional entitlements to shares arising from the annual incentive plan Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors

	Grant effective from	Shares as at 31 12 06
M Christophers	-	
S J Colsell	-	
J Dawson	March 2004	5,640
	March 2005	7,324
	March 2006	7,116
R A Devey	March 2004	1,243
	March 2005	4,085
	March 2006	2,696
D G R Ferguson	-	-
T A Leonard	March 2004	701
	March 2005	1,050
	March 2006	1,411
P McNamara	March 2006	139
R J H Milne	March 2004	1,127
	March 2005	1,985
	March 2006	1,434
M R N Moore	-	-
K A Nealon	-	-
M P Smith	-	-
T Woolgrove	March 2004	963
	March 2005	540
	March 2006	1,526

DIRECTORS' REPORT (CONTINUED)

Long-term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2006.

	Grant Effective from	At 31.12.05 or date of appointment if later	Granted (G) or *lapsed (L)* in year	Added as a result of performance	Dividend Reinvestment Shares	Released in year	At 31.12.06
M Christophers	-	-	-	-	-	-	-
S J Colsell	Mar 2006	-	7,641 (G)	-	-	-	7,641
	Aug 2006	-	40,000* (G)	-	-	-	40,000
J Dawson	Mar 2003	18,229	-	17,478	2,829	38,536	-
	Mar 2004	25,569	-	-	-	-	25,569
	Mar 2005	27,380	-	-	-	-	27,380
	Mar 2006	-	24,236 (G)	-	-	-	24,236
	Aug 2006	-	15,049 (G)	-	-	-	15,049
R A Devey	Jan 2003	7,291	-	6,990	1,131	15,412	-
	Jan 2004	6,694	-	-	-	-	6,694
	Jan 2005	11,540	-	-	-	-	11,540
	Mar 2006		13,654 (G)	-	-	-	13,654
D G R Ferguson	-	-	-	-	-	-	-
T A Leonard	Jan 2003	4,791	-	4,593	743	10,127	-
	Jan 2004	4,509	-	-	-	-	4,509
	Jan 2005	4,007	-	-	-	-	4,007
	Mar 2006	-	4,096 (G)	-	-	-	4,096
P McNamara	Mar 2005	1,141	-	-	-	-	1,141
	Mar 2006	-	5,803 (G)	-	-	-	5,803
R J H Milne	Jan 2003	5,989	-	5,741	929	12,659	-
	Jan 2004	5,811	-	-	-	-	5,811
	Jan 2005	5,555	-	-	-	-	5,555
	Jan 2006	-	4,970 (G)	-	-	-	4,970
M R N Moore	-	-	-	-	-	-	-
K A Nealon	-	-	-	-	-	-	-
M P Smith	-	-	-	-	-	-	-
T Woolgrove	Mar 2004	5,346	-	-	-	-	5,346
	Mar 2005	4,682	-	-	-	-	4,682
	Mar 2006	-	9,310 (G)	-	-	-	9,310

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2003 grant ended on 31 December 2005 and, in the light of the performance outcome, grants were released at 183% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 15.5% of the original conditional grant were also released to participants in accordance with the rules of the plan.

* These shares were granted on an unconditional basis

DIRECTORS' REPORT (CONTINUED)

Long-term Incentive Plan - HBOS Scheme, former Bank of Scotland scheme and former Halifax Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied Share options granted under other plans are not subject to a performance precondition Details of the options outstanding under these plans are set out below

	Options outstanding at 31.12.05 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31 12 06
M Christophers	-	-	-
S J Colsell	-	-	-
J Dawson	3,727	-	3,727
R A Devey	8,323	-	8,323
D G R Ferguson	-	-	-
T A Leonard	7,931	-	7,931
P McNamara	-	-	-
R J H Milne	9,946	3,516 (E)	6,430
M R N Moore	-	-	-
K A Nealon	-	-	-
M P Smith	-	-	-
T Woolgrove	6,286	3,058 (E)	3,228

Sharesave Plan

Share options granted under these plans are set out below

	Options outstanding at 31.12 05 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.06
M Christophers	-	-	-
S J Colsell	-	-	-
J Dawson	1,607	2,065 (G)	3,672
R A Devey	2,970	-	2,970
D G R Ferguson	-	-	-
T A Leonard	1,607	1,191 (G)	2,798
P McNamara	-	1,191 (G)	1,191
R J H Milne	1,352	-	1,352
M R N Moore	-	-	-
K A Nealon	-	-	-
M P Smith	-	-	-
T Woolgrove	2,911	-	2,911

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN STATEMENT

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

AUDIT INFORMATION

Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITOR

KPMG Audit Plc, having expressed their willingness to do so, will continue in office as auditor

ANNUAL GENERAL MEETING

Pursuant to a Resolution passed by the members, the Company has elected to dispense with the holding of Annual General Meetings, of laying accounts before the Company in General Meeting and with the obligation to reappoint auditors annually

By order of the Board

P J VEALE
Secretary
St Andrews House
Portsmouth Road
Esher
Surrey
KT10 9SA

29 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The dırectors are responsıble for preparıng the Dırectors' report and the Fınancıal Statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare company Fınancıal Statements for each fınancıal year Under that law the dırectors have elected to prepare the company Fınancıal Statements ın accordance wıth IFRSs as adopted by the EU

The company Fınancıal Statements are requıred by law and IFRSs as adopted by the EU to present faırly the fınancıal posıtıon of the company and the performance for that perıod, the Companıes Act 1985 provıdes ın relatıon to such Fınancıal Statements that references ın the relevant part of that Act to Fınancıal Statements gıvıng a true and faır vıew are references to theır achıevıng a faır presentatıon

In preparıng the company Fınancıal Statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and estımates that are reasonable and prudent,
- state whether they have been prepared ın accordance wıth IFRSs as adopted by the EU, and
- prepare the Fınancıal Statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the company wıll contınue ın busıness

The dırectors are responsıble for keepıng proper accountıng records that dısclose wıth reasonable accuracy at any tıme the fınancıal posıtıon of the company and enable them to ensure that ıts fınancıal statement comply wıth the Companıes Act 1985 They have general responsıbılıty for takıng such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other ırregularıtıes

Under applıcable law and regulatıons, the dırectors are also responsıble for preparıng a Dırectors' report and a busıness revıew

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST ANDREWS LIFE ASSURANCE PLC LIMITED

We have audited the Financial Statements of St Andrews Life Assurance PLC Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity 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

The directors' responsibilities for preparing the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 12

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 whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements

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

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

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST ANDREWS LIFE ASSURANCE PLC LIMITED (CONTINUED)

Opinion

In our opinion

• the Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,

• the Financial Statements have been properly prepared in accordance with the Companies Act 1985, and

• the information given in the Directors' Report is consistent with the Financial Statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

29 March 2007

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £m	2005 £m
TOTAL REVENUE		**2,703.8**	160 7
Net insurance revenue	4	**1,932 6**	7 2
Gross earned premiums on insurance contracts		**2,196 5**	166 3
Less reinsurers' share of gross earned premiums		**(263.9)**	(159 1)
Other revenue		**771.2**	153 5
Fee and commission income		**112.8**	136 7
Investment income	5	**262.3**	6 2
Net realised gains recorded in the income statement		**21.5**	1 4
Net fair value gains recorded in the income statement	6	**372.7**	4 0
Other income		**1.9**	5 2
TOTAL EXPENSES		**(2,526.0)**	(152 9)
Net insurance claims and benefits	7	**(2,253 6)**	51 0
Gross insurance contracts claims and benefits paid		**(674 5)**	(18 3)
Less reinsurers' share of gross insurance contracts claims and benefits paid		**24.0**	12 9
Gross change in insurance contracts liabilities		**(1,884.0)**	146 8
Less reinsurers' share of gross change in insurance contracts liabilities		**280.9**	(90 4)
Other expenses		**(272.4)**	(203 9)
Net change in investment contracts liabilities		**(8.2)**	(50 5)
Finance costs	8	**(0.6)**	-
Fee and commission expenses		**(188 7)**	(146 6)
Other operating and administration expenses	9	**(74.9)**	(6 8)
Income arising on Part VII business transfer	3	**23.4**	-
Profit before taxation		**201 2**	7 8
Total income tax expense	10	**(54 2)**	(3 5)
Taxation attributable to policyholder returns		**(1 6)**	-
Taxation attributable to shareholders		**(52 6)**	(3 5)
Profit after taxation		**147.0**	4 3

The accounting policies and notes set out on pages 19 to 48 are an integral part of the primary Financial Statements

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 £m	2005 £m
ASSETS			
Deferred costs	11	**284 7**	1 7
Investment properties	12	**56.2**	-
Investment in Group undertakings and participating interests	13	**1,367.7**	-
Reinsurance assets	14	**345.4**	64 6
Prepayments and accrued income	15	**49.2**	0 8
Current tax receivable	23	**2.0**	1 8
Deferred tax asset	23	**-**	28 9
Financial assets			
Financial assets at fair value through income statement			
Derivative financial instruments	16	**18.6**	0 2
Equity investments	17	**6,472 1**	21 0
Debt investments	17	**3,903.3**	49 8
Insurance receivables	18	**3 3**	1 0
Other receivables	18	**24.3**	11 6
Cash and cash equivalents	19	**64.1**	73 3
Total assets		**12,590.9**	254 7
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance contracts liabilities	20, 22	**(9,907.7)**	(96 6)
Deferred tax liability	23	**(79 4)**	-
Current tax payable	23	**(13.2)**	(4 4)
Financial liabilities			
Derivative liabilities	16	**(1.5)**	-
Investment contracts liabilities	21, 22	**(1,630.9)**	(44 4)
Other insurance financial liabilities	24	**(105.9)**	-
Accruals and deferred income	25	**(7.6)**	(0 4)
Other liabilities	26	**(122.5)**	(18 8)
Total liabilities		**(11,868.7)**	(164 6)
CAPITAL & RESERVES ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS			
Issued share capital	27	**(360 0)**	(30 0)
Retained earnings		**(362.2)**	(60 1)
Total equity		**(722 2)**	(90 1)
Total liabilities and equity		**(12,590 9)**	(254 7)

The accounting policies and notes set out on pages 19 to 48 are an integral part of the primary Financial Statements

These accounts were approved and authorised for issue by the Board of Directors on 29 March 2007 and were signed on its behalf by

T A LEONARD
DIRECTOR

R A DEVEY
DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Issued Share Capital	Retained Earnings	Total
		£m	£m	£m
Balance as at 1 January 2005		30 0	55 8	85 8
Net profit for the year		-	4 3	4 3
Balance as at 31 December 2005		**30.0**	**60.1**	**90 1**
Net profit for the year		-	147 0	147 0
Issued share capital	27	330 0	-	330 0
Attnbutable to Part VII busıness transfer	3	-	155 1	155 1
Balance as at 31 December 2006		**360.0**	**362.2**	**722.2**

Included wıthın retaıned earnıngs ıs £285 4 mıllıon whıch ıs non-dıstrıbutable as ıt relates to amounts held wıthın the long term busıness fund

The accountıng polıcıes and notes set out on pages 19 to 48 are an ıntegral part of the prımary Fınancıal Statements

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £m	2005 £m
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**201.2**	7 8
Movement in deferred costs		**(119 1)**	7 8
Movement in prepayments and accrued income		**(48.4)**	1 7
(Decrease)/ increase in insurance contract liabilities		**9,811.1**	(167 8)
(Decrease)/ increase in investments contract liabilities		**1,586.5**	44 4
Decrease / (increase) in reinsurance assets		**(280.8)**	90 4
Decrease/ (increase) in investment property		**(56.2)**	-
Decrease/ (increase) in equity investments		**(7,818.8)**	41 4
Decrease/ (increase) in derivatives investments		**(16.9)**	0 5
Decrease/ (increase) in debt investments		**(3,853.5)**	22 3
Net decrease in other operating assets and liabilities		**193.1**	6 0
Taxation paid		**62 6**	(1 1)
Net cash inflow from operating activities		**(339.2)**	53 4
CASH FLOW FROM INVESTING ACTIVITIES			
Net cash inflows from investing activities		**-**	-
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital	27	**330 0**	-
Net cash inflows from financing activities		**330.0**	-
Net increase in cash and cash equivalents		**(9 2)**	53 4
Cash and cash equivalents at the beginning of the year		**73 3**	19 9
Cash and cash equivalents at 31 December	19	**64 1**	73 3

The accounting policies and note set out on pages 19 to 48 are an integral part of the primary Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

1.1 Company and its operations

St Andrews Life Assurance Plc ("the Company") is a limited liability company incorporated in the United Kingdom The principal activity of the Company is the undertaking of ordinary long term insurance business in the UK and overseas

As the Company is a wholly owned subsidiary undertaking of HBOS Plc which is registered in the United Kingdom, accordingly the Financial Statements present information about the Company as an individual undertaking and are not consolidated

The Financial Statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 29 March 2007

1.2 Basis of preparation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, interpretations issued by its International Financial Reporting Interpretations Committee ("IFRIC"), those parts of the Companies Act 1985 applicable to companies reported under IFRS and under the historical cost convention, as modified by the revaluation of investment property, investment securities and derivative assets and liabilities In accordance with IFRS 4 "Insurance contracts", the Company has applied UK GAAP (including in particular the requirements of FRS 27) for its long term insurance contracts The Financial Statements are also prepared on a going concern basis

IFRS 7 "Financial instruments Disclosure" applicable for years commencing on or after 1 January 2007 has not been applied The application of IFRS 7 in 2006 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure

1.3 Use of estimates, assumptions and judgments

The preparation of the Financial Statements necessitates the use of estimates, assumptions and judgements These estimates and assumptions affect the reported amounts of assets and liabilities, contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year Although, the estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly

1 4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results These accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance and investment liabilities, deferred acquisition costs and the ascertainment of fair values of reinsurance assets, financial assets, liabilities, derivative financial instruments and the determination of impairment losses In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in future periods

Since these involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results

The significant accounting policies adopted in the preparation of the Financial Statements are set out below

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1.4 Summary of significant accounting policies (continued)

(a) Product classification

The Company has classified its Long Term Assurance business in accordance with IFRS 4 "Insurance Contracts" as follows

- Insurance contracts – contracts containing significant insurance risk,
- Investment contracts – contracts that have no significant insurance risk

Insurance contracts

Insurance contract liabilities are calculated in accordance with the Prudential Sourcebook for Insurance ("PRU") and subsequently the General Prudential sourcebook ("GENPRU") issued by the Financial Services Authority These are adjusted to remove the closure provisions and certain other reserves required under PRU/GENPRU rules Regular premiums are recognised as revenue when due from policyholders Single premiums are recognised as revenue on a cash basis Claims are recognised when notified or due

The accounting policies set out above in respect of the measurement of the policyholders liabilities include liability adequacy testing that meet or exceed the requirements of IFRS 4

Investment contracts

The Company's investment contracts are purely unit-linked The liability is measured at fair value, which is estimated using a valuation technique In accordance with this technique the liability is established as the bid value of assets held to match the liability, less an allowance in relation to deductions made to the liability for capital gains tax on unrealised chargeable gains relating to matching assets

Deposits and withdrawals are accounted for as adjustments to the investment contract liability

(b) Revenue recognition

Premium income

Gross premiums written for insurance business are accounted for on a cash basis in respect of single premium business For other classes of insurance business, gross premiums written are accounted for in the year in which they are due for payment Outward reinsurance premiums are accounted for when the related gross premiums written are recognised Gross premiums written exclude any taxes or duties based on premiums

Investment income

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend Other investment income, including rent, is accrued up to the balance sheet date Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost Rental income from investment properties is also recognised in investment income, and it is recognised in the period it is due

Realised gains and losses

Realised gains and losses on the sale of property and equipment is the difference between net sales proceeds and the original cost Realised gains and losses are recognised in the income statement when the sale transaction occurred

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1 4 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

Fee and commission income

Revenues arising from services rendered are recognised in the accounting period in which the services are rendered, unless these relate to services to be provided in future periods If the fees are for services to be provided in future periods, these are deferred and recognised in the income statement as the service is provided over the term of the contract Initiation and other front end fees are also deferred and recognised over the term of the contract Regular fees charged at the end of the period in which the related service is performed, are accrued as a receivable

(c) Expense recognition

Claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs Death claims and surrenders are recorded on the basis of notifications received Maturities are recorded when due Benefits recorded are then accrued to the liability

Interest paid

Interest paid is recorded in the period in which it is incurred

Commission

Commission payable is accounted for on the same basis as the corresponding premiums, except for commission payable under indemnity terms, which is charged when paid

(d) Deferred costs

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing of existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins deferred acquisition costs ("DAC") is capitalised and is amortised over the life of the contract All other costs are recognised as an expense when incurred

Commission and other acquisition cost incurred in relation to securing investment contracts is likewise capitalised as deferred origination cost ("DOC") and amortised as the related revenue is recognised

An impairment review is performed by category of business at each reporting date where there is any indication of impairment and the carrying value is written down to the recoverable amount

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1 4 Summary of significant accounting policies (continued)

(e) Reinsurance contracts

Only contracts that give risk to a significant transfer of insurance risk are accounted for as reassurance Amounts recoverable under such contracts are recognised in the same period as the related claim and premiums Substantially all reinsurance is with Group undertakings

(f) Fair values of financial assets and liabilities

Fair value determinations for financial assets and financial liabilities are based on, if readily available, either bid market prices at the close of business on the balance sheet date for listed instruments, or broker or dealer price quotations, or by reference to current market values of another instrument which is substantially the same If prices are not readily available, the fair value is based on either internal valuation models or management's estimate of amounts that could be realised under current market conditions, assuming an orderly liquidation over a reasonable period of time Certain financial instruments, including financial derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and / or prepayment rates of the underlying positions The use of different pricing models and assumptions could produce materially different estimates of fair values

(g) Financial assets

All financial assets are initially recognised at fair Subsequently all financial assets are valued at fair value through the income statement A financial asset shall be derecognised when the contractual right to receive cash flows expire or when the asset is transfer

All regular way purchases of financial assets are recognised on the trade date i e the date the Company commits to purchase the asset All regular way sales of financial assets are recognised on the settlement date i e the date the asset is delivered to the counterparty Regular ways of purchase or sale are purchase or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place

Financial assets at fair value through the income statement has two sub categories, financial assets held for trading and those designated at fair value through income statement at inception

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has been significantly below cost price for a considerable period of time, are individually reviewed A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Group's long term investment strategy

Derivative financial instruments are stated at fair value The Company does not separate embedded derivatives that meet the definition of an insurance contract All other derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value Changes in the fair value are recognised immediately in the income statement Fair values are obtained from quoted prices prevailing in active markets For those transactions where there are no readily available quoted prices, which predominantly relate to over the counter transactions, market values are determined by reference to valuation models, including discounted cash flow and options pricing models as appropriate

(h) Insurance receivables

Insurance receivables are recognised when due and measured at fair value

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1 4 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less at the date of placement, free of any encumbrances

(j) Long term assurance business assets

Assets held and managed in support of the long term assurance liabilities are designated at fair value through profit and loss

(k) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax Income tax is recognised in the income statement, except to the extent that income taxes relating to items recognised directly in equity are recognised in equity

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, together with adjustments to tax payable in respect of prior years

Deferred income tax is provided in full using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, carry forward of unused tax assets and unused tax losses, can be utilised The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised

The income tax charge is analysed between tax on equity holders' returns and the balance which represents the tax in respect of policyholders' returns The income tax charge in respect of policyholders' returns / equity holders' returns reflects the movement in current and deferred income taxes recognised in respect of those items of income, gains and expenses which relate to the benefits of policyholders / equity holders respectively

(l) Borrowings

All borrowings and loans taken up are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with such borrowing or loan

After initial recognition, interest bearing borrowings and loans are subsequently measured at amortised cost, using the effective interest rate method Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement

(m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is probable and will result in an outflow of resources, and which can be measured reliably If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessment for the time value of money and, where appropriate, the risks specific to the liability

The Company recognises provision for onerous contracts when the expected benefits to be derived from the contracts are less than the unavoidable costs of meeting the obligations under the contracts

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

1.4 Summary of significant accounting policies (continued)

(n) Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

(o) Current, non current disclosure

For each assets and liability line item that combines amounts expected to be recovered or settled within twelve months after the balance sheet date, those items will be classified as current at the balance sheet date and the remaining balance as non current

(p) Foreign currency

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

2. Use of estimates, assumptions and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims

For life insurance contracts, estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk The Company based these estimates on standard industry and national mortality tables that reflects historical mortality experience, adjusted where appropriate to reflect the Company's unique risk exposure The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums

Estimates are also made as to future investment income arising from the assets backing life insurance contracts These estimates are based on current market returns as well as expectations about future economic and financial developments

Estimates for future deaths, investment returns and administration expenses are used to calculate the liability over the term of the contract At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability

(b) Investment contracts fair value

The Company issues investment contracts that are designated at fair value through the income statement For the financial instruments that are not quoted in active markets, their fair values are determined by using valuation techniques Such techniques (which are internally generated valuation models), are validated and periodically reviewed by an independently qualified person A variety of factors are considered in these valuation techniques, including time value of money, credit risk and volatility factors Changes in assumptions about these factors could have a material impact on the reported fair values of these financial instruments

(c) Fair value of financial assets at fair value through the income statement

Fair values are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of valuation models As a result of the potential uncertainty in computed fair values, valuation adjustments are an integral part of the valuation process and are applied consistently from period to period Establishing valuations inherently involves the use of judgement and management also applies its judgement in establishing reserves against indicated valuations for aged positions, deteriorating economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, model risk itself and other factors

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

3 Transfer of insurance business under Part VII of the FSMA 2000

On 25 November 2005, the High Court made an order sanctioning a scheme to transfer insurance business under Part VII of the Financial Services and Markets Act 2000 The transfer took place at 11 59 pm on 26 May 2006 ("the Effective Time") and transferred part of the life and annuity business of Halifax Life Limited, the Company's immediate parent undertaking, (together with all liabilities relating to that business and admissible assets to match the liabilities of that business) to the Company with an approximate value of £9 8 billion In addition, deferred assets and liabilities associated with this business were transferred with a net value of £155 1 million, with the resultant increase reflected in retained earnings

The table below shows the assets and liabilities which were transferred as a result of the above transaction

	£m
Transferred assets	
Guaranteed growth bond	1,008 3
Reinsured Company creditor business	56 7
Other non linked reserves	174 5
Unit liabilities	8,534 4
Non-policy liabilities	9 1
Total transferred assets	**9,783.0**
Transferred liabilities	
Guaranteed growth bond	(981 8)
Reinsured Company creditor business	(63 7)
Other non linked reserves	(178 9)
Unit liabilities	(8,526 1)
Non-policy liabilities	(9 1)
Total transferred liabilities	**(9,759.6)**
Profit before tax attributable to Part VII transfer	**23 4**

Deferred assets and liabilities transferred

	£m
Deferred acquisition and origination costs in respect of transferred business	234 1
Total transferred assets	**234.1**
Deferred income reserves in respect of transferred business	(9 6)
Deferred tax in respect of the deferred acquisition costs and deferred income reserve	(69 4)
Total transferred liabilities	**(79.0)**
Movement on retained earnings	**155 1**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

4 Net insurance revenue

	2006 £m	2005 £m
Total gross earned premiums on insurance contracts	2,196.5	166 3
Total reinsurers' share of gross earned premiums on insurance contracts	(263.9)	(159 1)
Total net insurance revenue	1,932.6	7 2

5 Investment income

	2006 £m	2005 £m
Financial assets at fair value through income statement		
Cash and Cash Equivalents Interest income	15 6	0 2
Fixed Interest income	106.2	4 9
Dividend income	139 3	1 1
Rental income from investment properties	0.6	-
Other income	0.6	-
Total investment income	262.3	6 2

6 Net fair value gains / (losses) recorded in the income statement

	2006 £m	2005 £m
Net gain on financial assets at fair value through income statement	365.6	4 5
Net gain/ (loss) on investment properties	(1.5)	-
Net gain / (loss) on derivative financial instruments	8.6	(0 5)
Total net fair value gains recorded in the income statement	372.7	4 0

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

7 **Net insurance claims and benefits**

	2006 £m	2005 £m
Total gross insurance contracts claims and benefits paid	**674.5**	18 3
Total reinsurers' share of gross insurance contracts claims and benefits paid	**(24.0)**	(12 9)
Total gross change in insurance contracts liabilities	**1,884 0**	(146 8)
Total reinsurers' share of gross change in insurance contracts liabilities	**(280 9)**	90 4
Total net insurance claims and benefits	**2,253 6**	(51 0)

8. **Finance costs**

	2006 £m	2005 £m
Other interest	**0.6**	-
Total finance costs	**0.6**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

9 Other operatıng and admınıstration expenses

	2006 £m	2005 £m
Acquısıtıon costs	**6.4**	1 3
Audıtors remuneratıon		
Fee for statutory audıt	**0.1**	0 1
Fee for audıt of reports to regulators	**-**	-
For non audıt servıces	**-**	-
Investment management expenses	**14.7**	-
Management fee paıd to HBOS Plc	**32.5**	5 4
Other	**21.2**	-
Total other operatıng and admınıstratıon expenses	**74.9**	6 8

The profıt of the company ıs stated after chargıng an amount of £0 3m (2005 £nıl) ın respect of servıces receıved by the company whıch have been settled by way of share-based payment arrangements

All staff provıdıng servıces to the company are employed by the ultımate parent undertakıng, HBOS plc, ın whose shares settlement ıs made The amount charged ıs recharged on a proportıonate basıs from HBOS plc

Detaıls of the share-based payment schemes wıthın the HBOS Group are ıncluded on an aggregated basıs ın the HBOS plc consolıdated Fınancıal Statements

Costs recharged for staff provıdıng servıces to the Company ınclude contrıbutıons to defıned benefıt pensıon schemes Detaıls of these schemes are ıncluded ın the Fınancıal Statements of HBOS Fınancıal Servıces Lımıted, the ıntermedıate holdıng company Contrıbutıons to defıned benefıt schemes amounted to £0 3m (2005 £nıl)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

10 Tax on profıt

(a) Current year tax charge

	2006 £m	2005 £m
Current tax	(15.2)	(4 4)
UK corporatıon tax (charge) / credıt for the penod	(15.4)	(4 2)
UK corporatıon tax (charge) / credıt ın respect of earlıer penods	0.2	(0 2)
Deferred tax	(39.0)	0 9
Deferred tax (charge) / credıt for the penod	(46.7)	1 2
Deferred tax (charge) / credıt ın respect of earlıer penods	7.7	(0 3)
Total tax expense	(54 2)	(3 5)

	2006 £m	2005 £m
Income tax expense relatıng to polıcyholders	(1.6)	-
Income tax expense relatıng to shareholders	(52.6)	(3 5)
Total tax on profıt	(54 2)	(3 5)

(b) Reconcılıatıon of tax on profıt

	2006 £m	2005 £m
Profıt before taxatıon	201 2	7 8
Tax on profıt at domestıc corporatıon tax rate of 30%	(60.5)	(2 3)
UK tax basıs for lıfe ınsurance profıts	0.2	(0 7)
Adjustments to tax ın respect of pnor penods	(9 0)	(0 5)
Effect of tax rates ın foreıgn junsdıctıons	(0.4)	-
Income not subject to tax	17 1	-
Total tax attnbutable to shareholders	(52 6)	(3 5)
Polıcyholder tax	(1 6)	-
Total ıncome tax expense	(54 2)	(3 5)

(c) Tax charged to equıty

	2006 £m	2005 £m
Current tax	-	-
Deferred tax	(69 3)	-
Total tax charge to equıty	(69 3)	-
Tax charge to equıty relatıng to polıcyholders	(2 0)	-
Tax charge to equıty relatıng to shareholders	(67 3)	-
Total tax expense	(69 3)	-

The charge to equıty dunng the year anses from deferred tax on deferred acquısıtıon and ongınatıon costs, and deferred ıncome reserve assocıated wıth the busıness transferred under Part VII

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

11. Deferred costs

	2006 Deferred acquisition costs £m	2006 Deferred origination costs £m	2006 Total £m	2005 Total £m
At 1 January	1.6	0.1	1.7	9 5
Acquisition costs deferred during the year	67.9	-	67.9	-
Transfer during the year	224.0	10 1	234.1	-
Amortisation	(17.7)	(1 3)	(19.0)	(7 8)
At 31 December	275.8	8.9	284 7	1 7

The transfer above is in respect of deferred acquisition and origination costs associated with the business transferred under Part VII

12. Investment Properties

	2006 £m	2005 £m
Balance at 1 January	-	-
Net (disposals)/additions	57.6	-
Fair Value Adjustments	(1.4)	-
Balance at 31 December	56.2	-

During the year ended 31 December 2006, £0 6 million (2005 £nil) was recognised as rental income in the income statement and £nil (2005 £nil) in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property

13. Investment in Group undertakings and participating interest

Particulars of the Company's principal Group undertakings are shown below Other holdings in Group undertakings and participating interests are not considered to be material

Group Undertakings	Country of Incorporation or Registration	Type of business	% Held
HIFML Specialised OEIC – Cautious Managed	England and Wales	Open-Ended Investment Company	80

	Collective Investment Schemes £m
Valuation	
31 December 2005	-
31 December 2006	1,367.7
Cost	
31 December 2005	-
31 December 2006	1,284.2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

14. Reinsurance assets

	2006 £m	2005 £m
Re-insurers' share of insurance contracts	345 4	64 6
Total reinsurance assets	345.4	64 6

	2006 £m	2005 £m
Current reinsurance assets	27.7	64 6
Non current reinsurance assets	317.7	-
	345.4	64 6

15 Prepayments and accrued income

	2006 £m	2005 £m
Total accrued income		
Interest	49.2	0 8
Total prepayments and accrued income	49.2	0 8

The carrying amounts disclosed above reasonably approximate the fair values at year end It is expected that all prepayments and accrued income will be realised within a year from the balance sheet date

16 Derivative financial instruments

The Company's collateralised derivative financial instruments are held for trading A variety of equity futures are part of the portfolio matching the unit linked investment and insurance liabilities

The Company has also purchased interest rate swap contracts to match the expected liability duration of fixed and guaranteed insurance and investment contracts, to swap floating rates of the backing assets to the fixed rates required to match the interest cash flows over the mean duration of the related insurance and investment contracts

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

16. **Derivative financial instruments (continued)**

The fair values of such arrangements at the year end are as follows

	2006 £m	2005 £m
Equity / index contracts		
Exchange traded	5.4	-
Interest rate contracts		
OTC swaps	13.2	-
Total derivative financial assets	18.6	-
Derivative financial instruments liabilities		
Exchange traded	-	-
OTC swaps	(1 5)	-
Total net derivative financial instruments	17 1	-

	Contract amount 2006 £m	Fair value assets 2006 £m	Fair value liabilities 2006 £m
Equity / index contracts			
Exchange traded	1 0	5 4	-
Interest rate contracts			
OTC swaps	835 0	13 2	(1 5)
Total derivative financial instruments held for trading	836.0	18.6	(1.5)

The carrying amounts disclosed above reasonably approximate the fair values at the year end, and relate to derivative contracts maturing within the next 12 months

17. **Financial assets**

	2006 £m	2005 £m
Financial assets at fair value through income statement		
Equity investments		
Listed	6,472.1	21 0
Unlisted	-	-
Debt investments		
Listed	3,753.1	49 8
Unlisted	150 2	-
Total financial assets at fair value through income statement at fair value	10,375.4	70 8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

17. Financial assets (continued)

The fair value has been determined as follows

	Fair value through income statement £m
At 1 January 2005	**134 5**
Net additions/disposals	(68 4)
Net fair value gains adjustment	4 7
At 31 December 2005	**70 8**
At 1 January 2006	**70 8**
Net additions/disposals	11,285 9
Net fair value loss adjustment	(981 3)
At 31 December 2006	**10,375.4**

18. Insurance and other receivables

(a) Insurance receivables

	2006 £m	2005 £m
Due from policy holders	**0 7**	1 0
Due from reinsurers	**0.5**	-
Due from agents, brokers and intermediaries	**2.1**	-
Total insurance receivables	**3.3**	1 0

The carrying amounts disclosed above reasonably approximate the fair values at the year end, and relate to insurance receivables, which will be recovered within the next 12 months

(b) Other receivables

	2006 £m	2005 £m
Amounts due to related parties	**12 1**	4 3
Outstanding interest, dividends and rent	**0 5**	-
Outstanding proceeds from sale of investments	-	-
Other receivables	**11 7**	7 3
Total other receivables	**24 3**	11 6

The carrying amounts disclosed above reasonable approximate fair values at year end, and relate to other receivables, which will be recovered within the next 12 months

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

19. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	35.9	73 3
Short term deposits	28.2	-
Total cash and cash equivalents	64 1	73 3

The effective interest rates, on short term bank deposits was 4 0% (2005 3 25%)

Policyholder funds include £57 2 million cash and cash equivalents This is not available to settle liabilities outside of those policyholder funds

20. Insurance contracts liabilities

	2006 Gross liabilities £m	2006 Reinsurance £m	2006 Net of reinsurance £m
Opening balance	96 6	(64.6)	32 0
Movement	9,820.1	(280.8)	9,539.3
Changes in assumptions	(9 0)	-	(9 0)
Closing balance	9,907.7	(345.4)	9,562.3

	2006 Gross liabilities £m	2006 Reinsurance £m	2006 Net of reinsurance £m
Current insurance contracts liabilities	795.5	(27.7)	767 8
Non current insurance contracts liabilities	9,112.2	(317.7)	8,794.5
	9,907.7	(345.4)	9,562 3

Insurance contract liabilities are designated at fair value through the income statement

21 Investment contracts liabilities

	2006 £m
Opening balance	44.4
Movement	1,586 5
Changes in assumptions	-
Closing balance	1,630 9

	2006 £m
Current investment contracts liabilities	950 4
Non current investment contracts liabilities	680.5
	1,630.9

Investment contract liabilities are designated at fair value through the income statement

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

22 Insurance and investment contracts liabilities – Terms, assumptions and sensitivities

(i) Assumptions

The key assumptions used in the measurement of insurance liabilities are determined by the Board on advice from the Head of Actuarial Function Material judgement is required in the choice of assumptions relating to insurance contracts and investment contracts The assumptions that have the greatest effect on the income statement of the Company are

Mortality and longevity rates

The process used to determine the Company's mortality and longevity assumptions starts with an internal investigation of the Company's actual mortality experience over the last five years This investigation is updated regularly The results of this investigation are considered in the context of a number of factors including the credibility of results (which will be affected by the volume of data available), any exceptional events that have occurred during the period being considered, any known or expected trends in underlying data and relevant published market data

The rates derived from the Company's experience are adjusted in the light of the factors mentioned above to derive a set of "best estimate" rates No deliberate margins for prudence are introduced as part of this process These "best estimate" assumptions will be used in the projections of "best estimate" cashflows

For insurance contracts, the liabilities are assessed on a prudent basis and hence the rates used need to include a margin for adverse deviation that will increase liabilities and provide some protection from the risk that actual experience is worse that the "best estimate" assumptions Then intention is that the margin added should be sufficiently prudent that there is no significant foreseeable risk that liabilities to policyholders will not be met as they fall due Additionally trends in mortality improvement are only anticipated where they will increase the liability, such as for annuities where for males the medium cohort mortality projection is used

Portfolio assumptions by type of business impacting net Liabilities	Mortality		Valuation rate of interest	
	2006	2005	2006	2005
Term Assurances				
Males	43 -145% TM92	43 – 145% TM92	3 00%	2 60%
Females	55 – 160% TF92	55 – 160% TF92	3 00%	2 60%

For annuity contracts, lower longevity (or equivalently, increased mortality) would decrease payments thereby reducing expenditure and increasing profits for the shareholders

For life assurance policies, increased mortality rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for shareholders

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

22. Insurance and investment contracts liabilities – Terms, assumptions and sensitivities (continued)

Investment return

Investment Return assumptions based on the long term view of expected returns for each asset class are used to calculate the future projected cashflows relating to insurance contracts As a long term view, it necessarily involves the application of judgement The respective investment returns for each asset class are weighed based on the actual investment portfolio and long term asset allocation strategies as appropriate to produce an investment return assumption for each class of business

In isolation an increase in the investment return assumption for investment linked policies would lead to increased annual management charges and increased profits for the shareholder For annuity contracts the assets and liabilities are broadly matched meaning that a change in the long-term investment return would have a limited impact on shareholder profits

Valuation rate of interest

The valuation rate of interest is the rate used to discount the projected cash flows on the contracts in order to determine the value of liabilities as at the date of reporting

For insurance contracts, the liabilities are calculated using a prudent valuation rate of interest determined according to specific rules set out by the Financial Services Authority These rules specify that the valuation rate of interest should be set by reference to a prudent estimate of the future yield on the assets of the fund with an additional prudent margin being taken to allow for future investment risk

Generally an increase in the valuation rate of interest would lead to a reduction in shareholder profits

Expense end expense inflation

Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses The current expenses are analysed having regard to the volume and type of business in-force to derive per policy expense assumptions These per policy assumptions are assumed to increase over the course of the projections in line with assumed inflation rates An increase in the level of expenses would reduce profits for the shareholders

(ii) Sensitivities

In general the liabilities are broadly matched by the backing assets and hence the value of shareholder equity at the valuation date is relatively insensitive to changes in financial conditions and investment markets

- An increase in interest rates at the valuation date would result in a reduction in shareholder equity at the valuation date due to a fall in the value of fixed interest investments in the shareholder fund and an increase in non-unit reserves on unit-linked insurance contracts

- A fall in equity and property market values would result in an increase in non-unit reserves on unit-linked insurance business and hence the value of shareholder equity would reduce

The value of shareholder equity at the valuation date would also be impacted by changes in future expenses and demographic experience

- A reduction in future maintenance expenses would increase shareholder equity at the valuation date due to a reduction in non-unit reserves in respect of unit-linked insurance contracts

- An increase in morbidity and mortality rates would reduce shareholder equity at the valuation date, as there would be an increase in reserves for protection business and an increase in non-unit reserves for insurance contracts

- A reduction in future surrender rates would increase shareholder equity at the valuation date, as there is likely to be an increase in the value of DAC Policy liabilities would be unchanged

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

23. Tax assets and liabilities

	2006 £m	2005 £m
Tax payable	**(13.2)**	(4 4)
Tax receivable	**2.0**	1 8
Total current tax (liability)/asset	**(11.2)**	(2 6)
Deferred tax liability	**(79 4)**	(1 1)
Deferred tax asset	**-**	30 0
Total deferred tax asset/(liability)	**(79.4)**	28 9

(a) Tax (payable) / receivable

	2006 £m	2005 £m
At 1 January	**(2 6)**	0 7
Amounts charged to the income statement	**(15 2)**	(4 4)
Tax payments made during the year	**6.6**	1 1
At 31 December	**(11 2)**	(2 6)

Tax receivable at the year end included £nil (2005 £1 8m) due from other group companies

(b) Deferred tax (liability) / asset

	At 1 January 2006 £m	Charge to income for the year £m	Charge to equity for the year £m	At 31 December 2006 £m
Assets				
Expenses deferred for tax purposes	30 0	115 1	-	**145 1**
Deferred Income	-	(0 2)	0 9	**0 7**
Liabilities				
Insurance related items	(0 5)	(14 3)	-	**(14 8)**
Unrealised gains on investments	-	(125 0)	-	**(125.0)**
Deferred costs	(0 6)	(14 6)	(70 2)	**(85.4)**
	28 9	(39 0)	(69 3)	**(79.4)**

The charge to equity during the year arises from deferred tax on deferred acquisition and origination costs, and deferred income reserve associated with the business transferred under Part VII

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

23. Tax assets and lıabılıtıes (contınued)

	2006 £m	2005 £m
At 1 January	**28 9**	28 0
Amounts (charged) / credıted to ıncome statement	**(39.0)**	0 9
Amounts (charged) / credıted to equıty	**(69.3)**	-
At 31 December	**(79 4)**	28 9

Deferred ıncome tax assets are recognısed for tax loss carry forwards only to the extent that realısatıon of the related tax benefıt ıs probable

There were no unrecognısed deferred ıncome tax assets at the end of the year (2005 £134 7m)

24. Other ınsurance fınancial lıabılıtıes

	2006 £m	2005 £m
Insurance busıness		
Amounts payable on dırect ınsurance busıness	**(74.8)**	-
Amounts payable on reınsurance contracts	**(0.3)**	-
Due to agents, brokers and ıntermedıarıes	**(29 7)**	-
Investment securıtıes and debts		
Outstandıng purchases of ınvestment securıtıes	**(1.1)**	-
Total other ınsurance fınancıal lıabılıtıes	**(105.9)**	-

The estımated faır values of amounts due are the amounts repayable wıthın the next 12 months and are the amounts as recorded at year end

25 Accruals and deferred ıncome

	2006 £m	2005 £m
Deferred ıncome	(7.6)	(0 4)
Total accruals and deferred ıncome	(7.6)	(0 4)

The year end deferred ıncome balance ıncludes £7 3 mıllıon ın respect of deferred ıncome assocıated wıth the busıness transferred under Part VII

The carryıng amounts dısclosed above reasonably approxımate the faır values at the year end, and relate to accruals and deferred ıncome that wıll be realısed after the next 12 months

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

26. Other liabılıties

	2006 £m	2005 £m
Amounts due to related partıes	**(108 7)**	(4 7)
Socıal securıty and other taxes	**(0.3)**	-
Other	**(13 5)**	(14 1)
Total other lıabılıtıes	**(122 5)**	(18 8)

The estımated faır values of amounts due to other lıabılıtıes are the amounts repayable on demand and are the amounts as recorded at year end

27 Issued share capıtal

Ordınary shares	2006 £m	2005 £m
Authorısed share capıtal		
360,000,000 ordınary shares of £1 each	**360 0**	30 0
Issued share capıtal		
360,000,000 ordınary shares of £1 each	**360 0**	30 0

All shares ıssued are fully paıd There are no rıghts, preferences or restrıctıons attached to the shares

Durıng the year 330,000,000 ordınary shares with a total value of £330 mıllıon were ıssued by the Company to Halıfax Lıfe Lımıted

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

28 Risk management policies

The Company issues contracts that transfer insurance and financial risk or both This section summarises these risks and the way the Company manages them

Balance Sheet at 31 December 2006	Attributable to the shareholder £m	Attributable to unit linked funds £m	Total insurance and investment business £m
ASSETS			
Deferred costs	284 7	-	**284 7**
Investment properties	-	56 2	**56 2**
Investment in Group Undertakings and Participating Interest	-	1,367 7	**1,367.7**
Reinsurance assets	(1.7)	347 1	**345 4**
Prepayments and accrued income	14 7	34 5	**49.2**
Current tax receivable	(1 4)	3 4	**2.0**
Deferred tax asset	-	-	-
Financial assets			
Financial assets at fair value through income statement			
Derivative financial instruments	13 2	5 4	**18.6**
Equity shares	400 2	6,071 9	**6,472 1**
Debt securities	1,312 5	2,590 8	**3,903.3**
Insurance receivables	(27 8)	31 1	**3.3**
Other receivables	105 9	(81 6)	**24.3**
Cash and cash equivalents	6 9	57 2	**64.1**
Total Assets	**2,107.2**	**10,483.7**	**12,590.9**
LIABILITIES			
Insurance contract liabilities	(226 7)	(9,681 0)	**(9,907 7)**
Deferred tax liability	(79 4)	-	**(79.4)**
Current tax payable	(13 2)	-	**(13.2)**
Financial liabilities			
Derivative liabilities	(1 5)	-	**(1.5)**
Investment contract liabilities	(862 6)	(768 3)	**(1,630 9)**
Other insurance financial liabilities	(71 5)	(34 4)	**(105.9)**
Accruals and deferred income	(7 6)	-	**(7 6)**
Other liabilities	(122 5)	-	**(122.5)**
Total Liabilities	**(1,385.0)**	**(10,483.7)**	**(11,868.7)**
EQUITY			
Issued share capital	(360 0)	-	**(360.0)**
Retained earnings	(362 2)	-	**(362 2)**
Total equity	**(722.2)**	**-**	**(722.2)**
Total liabilities and equity	**(2,107 2)**	**(10,483.7)**	**(12,590 9)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

28 Risk management policies (continued)

(a) Unit Linked Funds

For unit linked funds the policyholders carry the investment risk with any changes in the underlying investments being reflected by an equal change in the underlying investment contract liabilities Accordingly, credit, liquidity, interest and market risks related to the unit linked investments, investment contract liabilities and other related balances are excluded from our assessment of risks and sensitivities impacting on the Company However, we note that an overall change in the market value of these funds will have an indirect impact on the Company through the collection of lower annual management and fund related charges These typically range between 0 75% and 1 75% per annum

(b) Non Profit Business

The principal investment risk in the respect of the non profit business is interest rate risk which arises because assets and liabilities may exhibit differing changes in market value as a result of changes in interest rates These risks are controlled by processes carried out to ensure an appropriate level of matching is maintained in the funds so that changes in fixed interest assets are substantially mitigated by offsetting changes in liabilities as well as through the use of and monitoring against fund mandates

28.1 Risk Management Framework

28 1 (a) Governance

The Company has established a risk management function with clear terms of reference and with the responsibility for monitoring Companywide policies on insurance and financial risks The activities of the company are overseen by the Risk Control Committee and the Long Term Business Governance Committee

28.1 (b) Capital Management

The Company has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the business is exposed and quantifying their impact on capital The results of these tests are reported to the Risk Control Committee

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

28. Risk management policies (continued)

28 1 (c) Regulatory

Regulators are interested in protecting the rights of the policyholders and maintaining close attention to ensure that the Company is satisfactorily managing affairs for their benefit At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency levels to meet reasonably foreseeable liabilities arising from future adverse events

The operations of Company are also subject to local regulatory requirements within the jurisdictions where they operate Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e g capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies to meet the reasonably foreseeable adverse events as these arise

28.2 Financial risk

28.2 (a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss The Company manages the level of credit risk it accepts through a comprehensive credit risk policy This includes the use of credit ratings from independent rating agencies and where not available, by internal analysis Additionally, the policy sets out exposure limits for each type of counterparty, product types and business sectors, which we no time during the year were exceeded

The following table provides information regarding the credit risk exposure of the equity and debt securities within the Company at 31 December 2006 by classifying them according to credit ratings of the counterparties The credit risk associated with all other assets is not considered significant

31 December 2006	AAA £m	AA £m	A £m	Other Rated £m	Not rated £m	Unit Linked £m	Total £m
Financial assets at fair value through income statement							
Equity investments	-	-	-	-	400 2	6,071 9	6,472 1
Debt investments	785 2	240 6	107 7	-	179 0	2,590 8	3,903 3
	785 2	**240.6**	**107.7**	**-**	**579.2**	**8,662 7**	**10,375 4**

28.2 (b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, a counterparty failing on repayment of a contractual obligation, a insurance liability falling due for payment earlier than expected, or the inability to generate cash inflows as anticipated

The Company has determined that liquidity risk does not represent a significant exposure to its long term assurance business This assessment is based on the fact that the majority of investment and insurance contracts are long term in nature whilst the majority of investments are held in listed, readily realisable debt and equity instruments

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

28 Rısk management polıcıes (contınued)

28.2 (b) Lıquıdıty rısk (contınued)

The table below analyses fınancıal assets and lıabılıtıes of the Company ınto theır relevant maturıty groups based on the remaınıng perıod at the balance sheet date to theır contractual maturıtıes or expected repayment dates

31 December 2006	Up to a year £m	1- 5 years £m	Over 5 years £m	Polıcyholder £m	Total £m
Investment ın Group Undertakıngs and partıcıpatıng ınterests				1,367 7	**1,367.7**
Reınsurance assets			(1 7)	347 1	**345 4**
Prepayments and accrued ıncome	14 7			34 5	**49.2**
Current tax receıvable	(1 4)			3 4	**2 0**
Fınancıal assets					
Fınancıal assets at faır value through ıncome statement					
Derıvatıve fınancıal ınstruments	13 2			5 4	**18.6**
Equıty ınvestments	400 2			6,071 9	**6,472.1**
Debt ınvestments	358 7	744 3	209 5	2,590 8	**3,903.3**
Insurance receıvables	(27 8)			31 1	**3.3**
Other receıvables	105 9			(81 6)	**24 3**
Cash and cash equıvalents	6 9			57 2	**64.1**
Total	**870 4**	**744 3**	**207 8**	**10,427.5**	**12,250.0**
Insurance contract lıabılıtıes	(11 9)	(40 7)	(174 1)	(9,681 0)	**(9,907 7)**
Deferred tax lıabılıty		(65 6)	(13 8)		**(79.4)**
Current tax payable	(13 2)				**(13.2)**
Fınancıal lıabılıtıes					
Derıvatıve lıabılıtıes	(1 5)				**(1.5)**
Investment contract lıabılıtıes	(862 6)			(768 3)	**(1,630.9)**
Other ınsurance fınancıal lıabılıtıes	(71 5)			(34 4)	**(105.9)**
Accruals and deferred ıncome	(7 6)				**(7.6)**
Other lıabılıtıes	(122 5)				**(122.5)**
Total	**(1,090.8)**	**(106.3)**	**(187 9)**	**(10,483 7)**	**(11,868.7)**

28.3 Market rısk

Market rısk ıs the rısk of change ın faır value of fınancıal ınstruments from fluctuatıon ın foreıgn exchange rates (currency rısk), market ınterest rates (ınterest rate rısk) and market prıces (prıce rısk), whether such change ın prıce ıs caused by factors specıfıc to the ındıvıdual ınstrument or ıts ıssuer or factors affectıng all ınstruments traded ın the market

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

28 Risk management policies (continued)

28.3 (a) Currency risk

The Company's principal transactions are carried out in Pound Sterling and its exposure to foreign exchange risk arises primarily with respect to the Euro

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled

28.3 (b) Interest rate risk

Interest rate risk is the risk that the value / future cash flows of a financial instrument will fluctuate because of changes in interest rates The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments The policy also requires it to manage the maturity profile of interest bearing financial assets and interest bearing financial liabilities The risk is further managed with the use of interest rate swaps to hedge against interest rate movements

The following table sets out the Company's financial instruments exposed to fixed interest rate risk based on contractual maturities or expected repayment dates

31 December 2006	Up to a year	1 – 5 years	Over 5 years	Non-interest bearing items	Policyholder	Total
	£m	£m	£m	£m	£m	£m
ASSETS						
Deferred costs				284 7		**284.7**
Investment Properties					56 2	**56 2**
Investment in Group Undertakings and participating interests					1,367 7	**1,367 7**
Reinsurance assets				(1 7)	347 1	**345.4**
Prepayments and accrued income	14 7				34 5	**49.2**
Current tax receivable	(1 4)				3 4	**2 0**
Financial assets						
Financial assets at fair value through income statement						
Derivative financial instruments				13 2	5 4	**18 6**
Equity investments				400 2	6,071 9	**6,472 1**
Debt investments	358 7	744 3	209 5		2,590 8	**3,903.3**
Insurance receivables				(27 8)	31 1	**3 3**
Other receivables				105 9	(81 6)	**24.3**
Cash and cash equivalents	6 9				57 2	**64.1**
Total Assets	**378.9**	**744 3**	**209.5**	**774 5**	**10,483 7**	**12,590 9**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (contınued)

28 Rısk management polıcıes (contınued)

28.3 (b) Interest rate risk (contınued)

31 December 2006	Up to a year	1 – 5 years	Over 5 years	Non-ınterest bearing ıtems	Polıcyholder	Total
	£m	£m	£m	£m	£m	£m
LIABILITIES						
Insurance contract lıabılıtıes				(226 7)	(9,681 0)	**(9,907 7)**
Deferred tax lıabılıty		(65 6)	(13 8)			**(79 4)**
Current tax payable	(13 2)					**(13.2)**
Fınancıal lıabılıtıes						
Denvatıve lıabılıtıes				(1 5)		**(1 5)**
Investment contract lıabılıtıes	(862 6)				(768 3)	**(1,630.9)**
Other ınsurance fınancıal lıabılıtıes				(71 5)	(34 4)	**(105.9)**
Accruals and deferred ıncome				(7 6)		**(7.6)**
Other lıabılıtıes				(122 5)		**(122.5)**
Total Lıabılıtıes	**(875.8)**	**(65 6)**	**(13 8)**	**(429.8)**	**(10,483 7)**	**(11,868.7)**

The performance of the entıty ıs not sıgnıfıcantly affected by the level of ıts exposure to ınterest rate nsk or changes to that exposure

28.4 Pnce risk

The Company's pnce nsk exposure relates to holdıng fınancıal assets and lıabılıtıes whose values wıll fluctuate ın dıfferent ways as a result of changes ın market pnces other than as a result of ınterest and foreıgn exchange fluctuatıons Thıs can be due to factors specıfıc to ındıvıdual ınstruments, theır ıssuers or factors affectıng all ınstruments traded ın the market Accordıngly, the Company lımıts ıts exposure to any one counterparty as well as the relevant foreıgn markets (refer to credıt and currency exposure dısclosures for concentratıon nsks ımpactıng pnce nsks)

For certaın long term busıness classes, the Company aıms to hold assets whose values wıll move ın lıne wıth the correspondıng lıabılıtıes so as to lımıt the overall ımpact of pnce nsk

28.5 Long term ınsurance nsk

Insurance nsk ıs the nsk that an ınsured event wıll occur ıncludıng the uncertaınty of the amount and tımıng of any resultıng claım The pnncıpal nsk the Company faces under such contracts ıs that the actual claıms and benefıt payments exceed the carryıng amount of ınsurance lıabılıtıes Thıs ıs ınfluenced by the frequency of claıms, seventy of claıms and subsequent development of long term claıms

The vanabılıty of nsks ıs ımproved by dıversıfıcatıon of nsk of loss to a large portfolıo of ınsurance contracts A more dıversıfıed portfolıo ıs less sensıtıve to losses ansıng due to partıcular nsks ın any subset of the portfolıo The vanabılıty of nsks ıs also be ımproved by careful selectıon and ımplementatıon of underwrıtıng strategy and guıdelınes as well as the use of reınsurance arrangements The Company reınsurance polıcy ıncludes credıt nsk exposure lımıts to ındıvıdual reınsurance groups whıch are dependent on credıt ratıng and there are defıned maxımum retentıon lımıts for ındıvıdual lıves In thıs way concentratıon of exposure to ındıvıdual lıves and reınsurance groups ıs controlled

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

29 Related party transactions

During the year the company was a wholly owned subsidiary of Halifax Life Limited Halifax Life Limited is a wholly owned subsidiary of Clerical Medical Investment Group Limited Clerical Medical Investment Group Limited is a wholly owned subsidiary of HBOS Financial Services Limited HBOS Financial Services Limited is a wholly owned subsidiary of HBOS Insurance & Investment Group Limited, whose ultimate parent undertaking is HBOS plc, a public listed company incorporated in the United Kingdom, whose shares are widely held by the general public

	Transactions in the Year		Outstanding Balance at 31 December	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Relationship				
Parent undertaking				
- Receivables				
Clerical Medical Investment Group (Recharges)	**(0.7)**	-	**0.4**	-
Halifax Financial Services (Admin charges made to HBOS FSL)	**1.6**	-	-	-
- Payables				
Halifax (Commission and cash)	**(67 9)**	-	**(67.5)**	-
Halifax Financial Services (Recharges)	**(37 5)**	0 1	**(24.5)**	0 4
Halifax Life Limited (Reassurance)	**(2.8)**	5 6	-	(2 8)
Other Group companies				
- Receivables				
Bank of Scotland (Cash at bank)	-	0 6	**38 3**	(1 6)
- Payables				
St Andrews Group (Recharges)	**(157.7)**	5 1	**(5.4)**	2 4
Halifax Financial Services (Holdings) (Recharges)	-	0 1	**(0.3)**	(0 3)
Halifax Investment Fund Managers (Investment Fees)	**(5 4)**	-	**(0.9)**	-
Intelligence Finance (commission)	**(1 7)**	3 3	-	-
Capital Bank (Commission)	**(6.8)**	56 2	**(2.5)**	1 5
Insight (Investment fee)	**(3.6)**	-	**(1.0)**	-
Invista (Investment fee)	**(0 1)**	-	-	-
Subsidiary undertakings				
Halifax Investment Fund Managers Ltd OEICs (Income)	**24.9**	-	-	-
Total	**(257.7)**	71 0	**(63.4)**	(0 4)

All the transactions summarised above were entered into on an arm's length basis and settled in cash The amounts outstanding at the end of the year are included in other receivables / payables as appropriate No dividends were received from, or paid to, related parties in either 2005 or 2006

The emoluments of Directors providing services to the Company are

	2006	2005
	£	£
Total emoluments	**195,597**	179,322
Pension contributions	**2,665**	59,852
Other long term benefits	**27,694**	-
Share based payments	**23,218**	55,121

Retirement benefits are accruing to 4 Directors (2005 5) under a defined benefit scheme Retirement benefits are accruing to 2 (2005 1) Directors under a defined contribution scheme

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

29 Related party transactions (continued)

Highest Paid Director

	2006 £	2005 £
Emoluments	**78,358**	-
Pension contributions	**945**	-
Accrued pension entitlement per annum	-	-

2 Directors exercised share options during the year and 7 Directors received shares under long-term incentive schemes in respect of their services

30. Parent undertaking

HBOS plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of the Company Copies of the HBOS plc accounts in which the Company is consolidated can be obtained from its head office at The Mound, Edinburgh, EH1 1YZ