Annual Report and Accounts 2006

Resolution plc

Resolution is the largest specialist manager of life assurance in-force portfolios in the UK

- around 7 million policyholders
- £61 billion assets under management
- market capitalisation of over £4 billion
- joined the FTSE 100 in September 2006

Value creation

- delivery on 2005 Britannic/Resolution merger synergies
- acquired life businesses from Abbey National plc for £3.6 billion
- European embedded value per share up by 18%
- return on embedded value of 23.5%
- proposed dividend growth of 15% in 2006
- proposed 38% dividend growth for 2007, targeting at least 5% per annum thereafter
- share price up 14%

Resolution plc

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Resolution

Clive Cowdery, Chairman

The Group has had a transformational year. The acquisition of the Abbey National plc life businesses doubled our size making Resolution one of the largest managers of UK life assurance portfolios; profits are coming through strongly and we now anticipate an even higher return from that acquisition. Our other businesses also performed strongly.

Dividend

The Board proposes a final dividend of 13.28 pence per share making 19.92 pence per share for the year (2005 restated: 17.32 pence per share). This represents a 15% increase in line with the accelerated growth signalled at the time of our interim results.

Strong profitability and prospects underpin the Board's proposal to increase the dividend by 38% in 2007 to 27.50 pence per share, starting with the interim dividend in respect of 2007, whilst maintaining the one third (interim), two thirds (final) payment weighting. Thereafter, the policy will be to target at least 5% per annum growth. Our dividend philosophy remains unchanged, namely that dividends will be paid out of embedded value earnings and not capital releases.

Treating Customers Fairly and policyholder benefits

Resolution has around 7 million policyholders in total following the acquisition of Abbey's life businesses. Our customer strategy aims to enhance engagement with our existing customers to offer improved communication on their policy benefits, access to independent advice where an IFA relationship does not already exist, and to provide opportunities to buy simple retail products including life cover, savings plans, motor and home insurance. Enhanced customer information and policy retention teams have now been established in Abbey's life businesses and our Advice Referral Service is now available to Scottish Provident and Scottish Mutual customers.

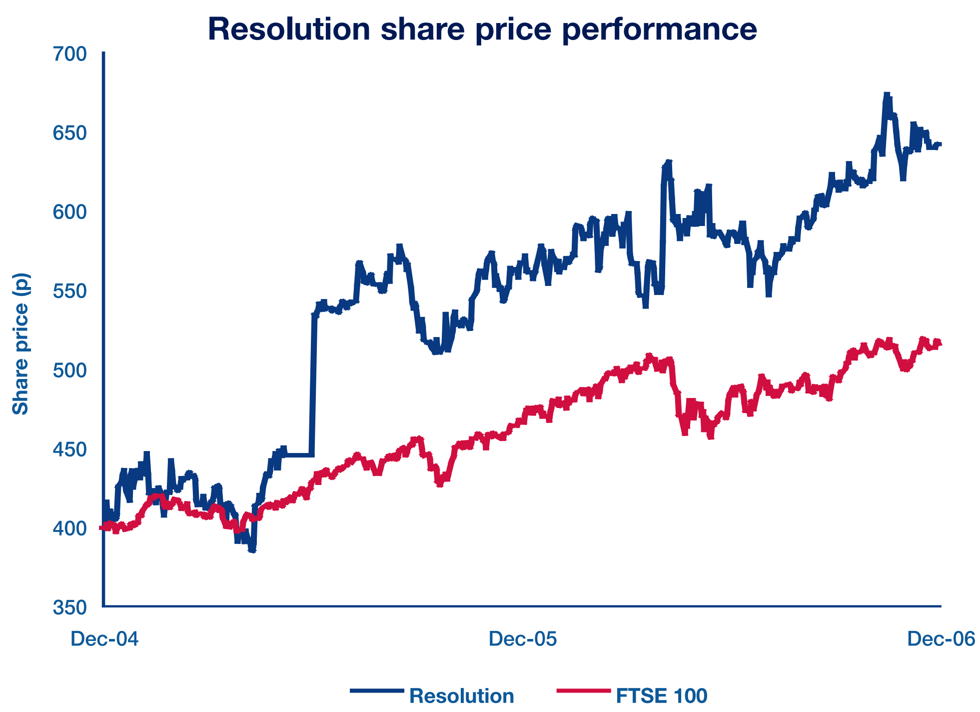
By the end of 2006 approximately 8,900 customers had been referred via this service to our advice partner, AWD Money Extra, with sales increasing at the rate of 15% per month. Over 3,200 customers had bought new products, including those who had responded to direct marketing by Resolution.

As our customer strategy moves from its current pilot phase to become fully operational in 2007, we will further enhance this access to advice, provide more access to policyholder information through customer care teams and provide more informed choices through retention activities.

The restructuring of life assets within the Resolution Group has enabled with-profit bonuses to be enhanced for certain sets of policyholders, including a 12% increase in payouts for Britannic Industrial Branch policyholders in 2006 following the Alba restructuring. The distribution of with-profit estates of around £400 million is benefiting former Phoenix Assurance, Swiss Life and Britannic Industrial Branch policyholders, resulting in some of the highest with-profit bonus payouts in the UK.

During 2006, over one third of Resolution's life companies were placed in the top quartile of all with-profit policy payouts for 25 year endowments. These results show that closed funds are capable of producing better results than open funds and that specialist management can make a material improvement to payouts over time.

In addition, policyholders in the smaller with-profit funds that have been acquired are protected from the risks of escalating unit costs over the longer term, which are borne by Resolution Management Services.



A Group Treating Customers Fairly champion will be appointed to oversee all aspects of our approach to ensure that customers are treated fairly.

Staff

Our staff have been magnificent in the way they have coped with the changes and challenges thrust upon them. On behalf of the Board, I thank them.

The Board

In July 2006, we strengthened the Board with the appointments of Ian Maidens and Brendan Meehan.

In March 2007, by joint agreement, Paul Thompson left Resolution and was replaced by Mike Biggs as Group Chief Executive. Jim Newman stepped up to the Board as Group Finance Director. In the same month Brendan Meehan was appointed Group Chief Operating Officer reporting to Mike Biggs.

Outlook

Resolution's strategic focus is to play an active part in the further restructuring and consolidation of the UK life sector. The track record of the Group, its rapid cash and capital generation, together with a business model capable of sustaining at least a 10% per annum return on embedded value (ROEV), provides strategic and financial flexibility. We focus on the maximisation of shareholder value. The Company continues to assess possible acquisitions and business combinations and has the scope to return capital to shareholders should it consider that the available transactions do not create sufficient value for them.

Ian Maidens, Group Chief Actuary & Head of Corporate Development

Brendan Meehan, Group Chief Operating Officer

Clive Cowdery
Chairman

Mike Biggs, Group Chief Executive

Our focus on managing in-force life businesses has benefited both investor and policyholder returns and helped the Group avoid the losses from persistency seen elsewhere in the life sector. The Britannic/Resolution merger is largely completed and we are making rapid progress to integrate the acquired Abbey National plc life businesses.

Our business model can sustain a minimum of a 10% total return on embedded value (ROEV) on a standalone basis. This is evidenced by the value we see emerging from our transactions to date, together with the outlook for new business, (including protection sales through IFAs and Abbey), third party sales from Resolution Asset Management (RAM) and our customer strategy. In 2006, the total ROEV was 23.5%. Our intention is to deliver further value adding transactions, but in the event that surplus capital accumulates and is not used for value enhancing transactions, consideration will be given to returning capital to shareholders in a manner consistent with achieving a minimum ROEV of 10% per annum.

Progress on acquired Abbey businesses

Resolution's 100 day integration plan was completed successfully in December 2006, putting the appropriate controls and governance processes into Abbey's life businesses. Integration has proceeded rapidly on all fronts, using our experience and expertise from previous acquisitions. Clear organisation and management structures were established, with strong reporting lines and delegated authorities. Excess shareholder capital of £1.5 billion was almost immediately released, by way of loan, of which £1.3 billion was used to repay the majority of the bridging finance related to the transaction.

The internal rate of return (IRR) on the acquisition has improved from our original estimate of 16% to 18%, taking account of leverage in the transaction for equity shareholders. The higher return reflects improved values from new business, the impact of our customer strategy and of the FSA's Policy Statement 06/14 (PS 06/14) which reduces life insurers' reserving and capital requirements and enables early release of capital.

Group results

The European Embedded Value (EEV) at 31 December 2006 increased to £4,197 million, up from £2,141 million at the end of 2005, reflecting the acquisition of Abbey's life businesses and the improved profitability of the Group. The EEV excludes the future profits from the asset management and service companies, future life new business and distribution agreements, the impact of our customer strategy and does not include the accrued cost of the proposed final dividend of £91.0 million. The EEV includes goodwill of £145 million, principally from the asset management business, and net assets of £121 million from asset management and the service company, Resolution Management Services.

The EEV per share increased by 18% to £6.13, after adjusting for the effect of the rights issue associated with the acquisition of Abbey's life businesses.

IFRS operating profits for the year amounted to £532.5 million (2005: £180.4 million), including the post acquisition profits from Abbey's life businesses of £158.0 million.

Pro forma EEV operating profits were £390.9 million (half year ended 31 December 2005: £85.8 million), including 6 months' profit from Abbey's life businesses of £106.7 million.

On 21 March 2007, the Chancellor announced a proposed reduction in the headline corporate rate of tax from 30% to 28% from April 2008. The results do not take account of this proposed reduction. It is estimated that had the proposed reduced rate of corporation tax been allowed for, the embedded value would have been increased by around £75 million as at 31 December 2006.

Life division

IFRS operating profit for the life division amounted to £479.0 million which included £158.0 million of post acquisition profits from Abbey's life businesses.

Pro forma EEV operating profit for the life division amounted to £351.5 million which included £106.7 million in respect of 6 months' profits from Abbey's life businesses.

The net effect of all variances across the division was positive. This reflected favourable experience in mortality, morbidity and persistency, net of higher than assumed lapses in with-profit bonds largely prior to our ownership of Abbey's life businesses. These expected lapses were allowed for in the acquisition price.

Resolution is an industry leader in restructuring life assets and seeks to apply the benefits of scale and efficiency across its in-force book. In the first half of 2006, the restructuring of Alba Life into a shareholder owned entity increased the EEV profit by £52 million after transaction costs and tax. At the end of 2006, the funds merger of seven out of the eight pre-Abbey Resolution life companies was completed which added £65.5 million net to the EEV. The new funds structure creates the platform for future reconstructions, and a further merger of funds is planned for 2008, which it is estimated will increase the EEV by a net £150 million.

New business

The new business franchise of Scottish Provident and Abbey National Life became part of Resolution with the acquisition of Abbey's life businesses in September 2006. Distribution is through Abbey's 700 strong branch network and through IFAs. Improvements are being made to the business with an e-processing platform expected to be in place by the end of June 2007, and new products are being developed. We continue to win a number of awards for our range of protection products. A dedicated sales force for the IFA networks was put in place by Abbey during the first quarter of 2007 and we have recently appointed a Head of UK New Business.

Sales for the second half of 2006, in annual premium equivalent terms (APE), totalled £71 million with a margin of 33% from a new business contribution of £23 million before tax (£16 million net). Present value of new business premiums (PVNBP) amounted to £596 million, with a PVNBP gross margin of 3.9%.

New business strain of only £9 million in the second half of 2006 (estimated £100 million first half 2006) reflects the benefit of the FSA's Policy Statement 06/14; this will ensure the average IRR on new business remains comfortably in excess of our 12% target.

The implementation of Policy Statement 06/14 has dramatically reduced the amount of capital required to support new protection business. As a result, an IRR based target for the profitability of new protection business is no longer believed to be sufficiently challenging. For new protection business we will therefore be targeting a margin of 50% of APE before tax going forward in addition to meeting our current 12% IRR target.

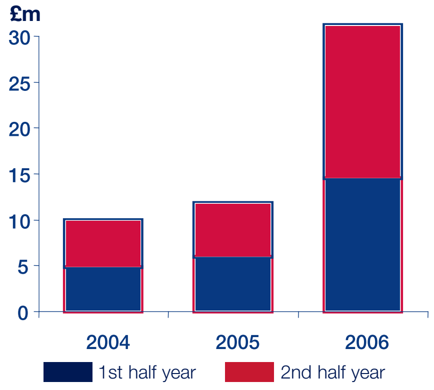
Competition continues to be significant for protection products and we have negotiated improved terms with our reinsurers, which will help mitigate the impact of this competition.

Asset management

Resolution Asset Management (RAM) had an excellent year with operating profits on an IFRS basis rising to £32.2 million (2005: £11.8 million).

Total assets under management at the year end totalled £61 billion, including £4.5 billion of third party funds.

Asset Management Profits



Total third party sales made a step change and rose by 200% to just over £1 billion, including retail sales through IFAs of £678 million, up 170%. There was strong demand for property, bond and Far Eastern funds, supplemented by excellent sales from Argonaut, the first of our three investment boutiques. Strong momentum behind sales has continued into 2007.

Profits benefited from £16 million of the expected £18 million per annum run-rate from the internalisation of £20 billion of Phoenix Life Group assets, which was completed by the end of March 2006. The cost income ratio fell to 55% (2005: 71%) reflecting tight cost control and increased scale in the business.

RAM took over responsibility for Abbey funds following the acquisition and had transitioned £2.5 billion of ex-Abbey funds to its own active management by the end of 2006, with a further £0.5 billion to come in 2007. RAM has also taken on the related investment accounting and administration for all funds under its control. Profits from the Abbey contracts are expected to be an estimated £7 million in 2007, declining thereafter as funds run-off.

Management services

Resolution Management Services, a shareholder owned service company, provides policy administration services to the life division through both in-house and outsourcing arrangements. It is responsible for merger integration and delivering cost synergies.

Operating profits on an IFRS basis increased to £15.0 million (2005: £3.6 million) reflecting some £10 million of cost savings from the 2005 Britannic/Resolution merger. Total committed cost savings of £20 million per annum from that merger are on track to be achieved by the end of 2007. Of the estimated total £28 million of merger costs to achieve the savings, £2.0 million was incurred in 2005, £17.4 million in 2006 with the remaining £8.6 million to be incurred in 2007.

The cost savings arising from the Abbey integration are also on track to meet a target of £10 million per annum additional margin by the end of 2008. A fixed price management services agreement has been put in place with Abbey's life businesses.

A review of whether to offshore policy administration is well advanced, and this will also consider the possibility of further outsourcing. The outcome of the review is expected to be announced in the second quarter of 2007.

Capital

The cash and capital position of the Group has strengthened through the year, with a Group Capital Adequacy surplus of approximately £1.6 billion at 31 December 2006.

As a result of the capital surplus emerging, PS 06/14 and the 2006 life fund mergers, a total of approximately £1.5 billion of surplus capital will be paid up to Group by the life subsidiaries in the second quarter of 2007.

In light of this capital capacity, the Board has decided not to proceed with an issue of Tier 2 hybrid capital and expects to repay £495 million of senior debt in April 2007.

At 31 December 2006 the gearing ratio was 28.2% and the proposed debt repayments would reduce this to a pro forma 21.5%, leaving substantial capital and debt capacity to support business growth.

Customer strategy

Our existing customer strategy development is a low risk, low cost and low capital intensive business activity which is expected to yield tangible results through the course of 2007 as the pilot schemes of 2006 are significantly scaled up. We will target a single digit pre-tax operating profit in the first full year, before taking account of the annuity opportunity below.

As part of our continued strategy to add value for our shareholders and policyholders we are currently evaluating the potential for retention of increased volumes of annuities from vesting in-force pension policies.

Lump sum equivalent amounts arising from vesting in-force pension policies are expected to average over £800 million per annum over the next 20 years. Of these amounts an average of around £300 million per annum is expected to arise from policies with guaranteed annuity rates (GARs). Current experience is that the vast majority of policyholders, including those with GARs, exercise their option to take the 25% maximum tax free cash from their vesting pension policies. Over the next two years we intend to put in place measures which seek to retain a significant proportion of the non-GAR vesting amounts, that are not taken as tax free cash, in the form of annuities written on the shareholder account. We also intend to explore with our with-profit funds whether it would be mutually beneficial to policyholders and shareholders for annuities arising from GAR policies to be transferred to the shareholder account on commercial terms immediately after vesting (for policies with GARs, the annuity generally currently vests in the with-profit fund concerned, increasing exposure to longevity risk for the reducing number of remaining with-profit policies).

Summary

2006 has been a year of strong delivery and increasing returns. This positions us well to play an active part in the further restructuring and consolidation of the UK life sector.

Michael N Biggs
Group Chief Executive

Jim Newman, Group Finance Director

The Group continues to focus on the disciplined financial management of its businesses.

Introduction

This has been a year in which the financial results have been influenced by a number of major activities. These include the acquisition of Abbey's life businesses, the continued delivery of benefits from the merger of Resolution Life Group (RLG) and the Britannic Group (Britannic), the growth of the asset management business and further fund merger activity. The results have also seen the benefits of the FSA's Policy Statement 06/14 (PS 06/14) which became effective on 31 December 2006. In particular PS 06/14 has allowed the Group to release substantial reserves and capital in its non-profit protection businesses.

The Group continues to focus on the disciplined financial management of its businesses. Borrowings of £1.3 billion were repaid within a week of completing the acquisition of Abbey's life businesses. Substantial amounts of surplus capital were released as a result of the 7 way fund merger completed on 31 December 2006 and as a result of the application of PS 06/14. Approximately £1.5 billion of cash is expected to be receivable from subsidiaries in the second quarter of 2007 providing the flexibility both to repay an element of borrowings and further invest in the business. Options under consideration include the establishment of an annuity company later in the year.

The Group's embedded value on an EEV basis is £4,197 million resulting in an EEV per share of £6.13. This represents an increase of 18% when compared to £5.19 per share at 31 December 2005 (as restated to reflect the rights issue on 9 August 2006). This increase in embedded value represents a return on embedded value (ROEV) of 23.5% for 2006.

IFRS Group results

This is the second year for which results have been reported by the Group on an IFRS basis. It has been a year in which there have been few changes to IFRS accounting standards thus allowing businesses to refine existing practices rather than continuing to respond to significant changes in line with new standards.

As in 2005, the results this year have been influenced by a major acquisition. The Group acquired Abbey's life businesses in the second half of 2006. In 2005 the accounts reflected the combination at a broadly similar time of the year of Britannic and RLG, together referred to as Life Division South (LDS). Consequently, the IFRS results for the year ended 31 December 2006 comprise the full year profits for the combined Britannic and RLG businesses but only include the profits of Abbey's life businesses, referred to as Life Division North (LDN), from 10 August 2006. Similarly, the 2005 comparative figures comprise full year results for Britannic but only include the profits of RLG from its acquisition on 6 September 2005. In order to provide a better understanding of the results the financial review focuses on the combined Britannic and RLG life businesses and separately reviews the performance of the recently acquired Abbey life businesses.

The Group acquired Abbey's life businesses with effect from 10 August 2006. The acquisition was financed by a rights issue that raised £1.55 billion, a short term bridging facility of £1.68 billion and other term facilities of £0.55 billion. After placing fair values on the assets, liabilities and contingent liabilities acquired the profit arising on acquisition was £257.2 million.

The Group's results on an IFRS basis are as follows:

Group IFRS basis financial results (after policyholder tax)

	Resolution (excluding Abbey's life businesses) year ended 31 December 2006 £m	Abbey's life businesses post acquisition £m	Profit on acquisition of Abbey's life businesses £m	Year ended 31 December 2006 £m	Year ended 31 December 2005[i] £m
Life division					
With-profit	**68.0**	**6.3**	**–**	**74.3**	22.5
Non-profit and unit-linked	**196.6**	**128.1**	**–**	**324.7**	107.0
Longer term return on equity holders' funds	**50.1**	**27.5**	**–**	**77.6**	44.4
Other income and charges	**4.3**	**(3.9)**	**–**	**0.4**	3.1
Minority interest in UK Commercial Property Trust	**2.0**	**–**	**–**	**2.0**	–
Life division operating profit after policyholder tax	**321.0**	**158.0**	**–**	**479.0**	177.0
Asset management	**32.2**	**–**	**–**	**32.2**	11.8
Management services	**15.0**	**–**	**–**	**15.0**	3.6
Group income and charges	**6.3**	**–**	**–**	**6.3**	(12.0)
Operating profit [ii]	**374.5**	**158.0**	**–**	**532.5**	180.4
Amortisation of acquired in-force business	**(85.0)**	**(144.5)**	**–**	**(229.5)**	(28.3)
Amortisation of asset management internalisation costs	**(6.8)**	**–**	**–**	**(6.8)**	–
Amortisation of fair value of distribution agreements	**–**	**(7.8)**	**–**	**(7.8)**	–
Operating profit before non-recurring items	**282.7**	**5.7**	**–**	**288.4**	152.1
Non-recurring items					
Profit on acquisition of Abbey's life businesses	**–**	**–**	**257.2**	**257.2**	–
Reserve releases related to PS 06/14	**100.0**	**434.6**	**–**	**534.6**	–
Impairment of acquired in-force business and deferred acquisition costs	**(76.5)**	**(434.6)**	**–**	**(511.1)**	–
Fund merger benefits (net)	**5.5**	**–**	**–**	**5.5**	17.1
Gain on transfer of Alba Life	**40.0**	**–**	**–**	**40.0**	–
Post 2005 merger reorganisation costs	**(18.9)**	**–**	**–**	**(18.9)**	(2.0)
Former Abbey life businesses integration costs	**(3.3)**	**(6.8)**	**–**	**(10.1)**	–
Profit related to acquisition of Century Life and Allianz Cornhill life operations	**–**	**–**	**–**	**–**	88.7
Impairment of goodwill attributed to management services	**–**	**–**	**–**	**–**	(20.0)
Release of deferred income liability	**–**	**–**	**–**	**–**	26.0
Operating profit/(loss) attributable to equity holders, based on a long term rate of investment return	**329.5**	**(1.1)**	**257.2**	**585.6**	261.9
Short term investment fluctuations	**(0.1)**	**3.9**	**–**	**3.8**	22.9
Operating profit attributable to equity holders	**329.4**	**2.8**	**257.2**	**589.4**	284.8
Financing costs	**(25.5)**	**(6.3)**	**–**	**(31.8)**	(11.7)
Profit/(loss) before tax attributable to equity holders	**303.9**	**(3.5)**	**257.2**	**557.6**	273.1
Equity holders' tax	**(27.7)**	**1.4**	**–**	**(26.3)**	(111.3)
Profit/(loss) for the period attributable to equity holders	**276.2**	**(2.1)**	**257.2**	**531.3**	161.8

(i) The results for the year ended 31 December 2005 have been adjusted so as to exclude policyholder taxation. This has no overall impact on profit for the period attributable to equity holders.

(ii) Operating profit is stated before amortisation of intangible assets, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax.

Operating profit for the year ended 31 December 2006 was £532.5 million before tax (2005: £180.4 million). This includes an operating profit from 10 August 2006 of £158.0 million in respect of Abbey's life businesses. The 2005 comparatives included an operating profit of £61.8 million arising from the acquisition of RLG in 2005.

Profit before equity holders' tax was £557.6 million (2005: £273.1 million) and profit after equity holders' tax was £531.3 million (2005: £161.8 million). This includes the profit arising from the acquisition of Abbey's life businesses of £257.2 million both before and after tax. These results also include several non-recurring items discussed in the following summary, in particular, the application of PS 06/14 and the related amortisation and impairment of acquired in-force business and deferred acquisition costs.

The IFRS basis results excluding the impact of the acquisition of Abbey's life businesses are as follows:

IFRS basis financial results excluding the acquisition of Abbey's life businesses (after policyholder tax)

	Half year to 31 December 2006 £m	Half year to 30 June 2006(i) £m	Year ended 31 December 2006 £m	Pro forma half year to 31 December 2005(i),(iii) £m	Year ended 31 December 2005(i) £m
Life division					
With-profit	**39.5**	**28.5**	**68.0**	20.5	22.5
Non-profit and unit-linked	**108.6**	**88.0**	**196.6**	87.5	107.0
Longer term return on equity holders' funds	**23.6**	**26.5**	**50.1**	31.8	44.4
Other income and charges	**(2.7)**	**7.0**	**4.3**	2.0	3.1
Minority interest	**2.0**	**–**	**2.0**	–	–
Life division operating profit after policyholder tax	**171.0**	**150.0**	**321.0**	141.8	177.0
Asset management	**17.7**	**14.5**	**32.2**	5.8	11.8
Management services	**9.4**	**5.6**	**15.0**	2.0	3.6
Group income and charges	**10.5**	**(4.2)**	**6.3**	(6.9)	(12.0)
Operating profit (ii)	**208.6**	**165.9**	**374.5**	142.7	180.4
Amortisation of acquired in-force business	**(40.8)**	**(44.2)**	**(85.0)**	(28.3)	(28.3)
Amortisation of asset management internalisation costs	**(4.5)**	**(2.3)**	**(6.8)**	–	–
Change in provision for burn through costs	**8.0**	**(8.0)**	**–**	–	–
Operating profit before non-recurring items	**171.3**	**111.4**	**282.7**	114.4	152.1
Non-recurring items					
Reserve releases related to PS 06/14	**100.0**	**–**	**100.0**	–	–
Impairment of acquired in-force business and deferred acquisition costs	**(76.5)**	**–**	**(76.5)**	–	–
Fund merger benefits (net)	**5.5**	**–**	**5.5**	17.1	17.1
Gain on transfer of Alba Life	**(6.5)**	**46.5**	**40.0**	–	–
Britannic/RLG merger costs	**–**	**–**	**–**	(22.8)	–
Post 2005 merger reorganisation costs	**(6.5)**	**(12.4)**	**(18.9)**	(2.0)	(2.0)
Former Abbey life businesses integration costs	**(3.3)**	**–**	**(3.3)**	–	–
Profit related to acquisition of Century Life and Allianz Cornhill life operations	**–**	**–**	**–**	88.7	88.7
Impairment of goodwill attributed to management services	**–**	**–**	**–**	(20.0)	(20.0)
Release of deferred income liability	**–**	**–**	**–**	26.0	26.0
Unamortised debt issue costs	**–**	**–**	**–**	(5.3)	–
Operating profit attributable to equity holders, based on a long term rate of investment return	**184.0**	**145.5**	**329.5**	196.1	261.9
Short term investment fluctuations	**1.5**	**(1.6)**	**(0.1)**	14.1	22.9
Operating profit attributable to equity holders	**185.5**	**143.9**	**329.4**	210.2	284.8
Financing costs	**(23.2)**	**(2.3)**	**(25.5)**	(15.2)	(11.7)
Profit before tax attributable to equity holders	**162.3**	**141.6**	**303.9**	195.0	273.1
Equity holders' tax	**(14.8)**	**(12.9)**	**(27.7)**	(93.2)	(111.3)
Profit for the period attributable to equity holders	**147.5**	**128.7**	**276.2**	101.8	161.8

(i) The results for the year ended 31 December 2005, the pro forma results for the half year to 31 December 2005 and the results for the half year to 30 June 2006 have been adjusted so as to exclude policyholder taxation. This has no overall impact on profit for the period attributable to equity holders.

(ii) Operating profit is stated before amortisation of intangible assets, burn through cost, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax.

(iii) The pro forma results for the half year to 31 December 2005 were prepared on the assumption that the combination of Britannic and RLG took place on 1 July 2005 except for the amortisation of acquired in-force business which is calculated from the date of acquisition, 6 September 2005.

In order to facilitate a better understanding of the performance of the life businesses, the commentary primarily compares the results for the first and second halves of 2006 and the second half of 2006 against the second half of 2005.

Life operations (excluding Abbey's life businesses)

- Life operating profit after policyholder tax before non-recurring items and equity holders' tax £321.0 million (2005: £177.0 million)
- Strong performance of the underlying book against reserving assumptions
- No persistency impact from pension changes, with overall lapse experience favourable to underlying assumptions

There was a strong performance from the division with IFRS profits from life operations for 2006 of £321 million up £144 million on 2005. While the prior year result only included the post acquisition profits of RLG of £62 million and excluded Alba Life, favourable performance of the underlying book in 2006 against assumptions contributed to an excellent year.

In 2006 the with-profit business returned a profit of £68 million of which £28.5 million was earned in the first half of the year and £39.5 million in the second half of the year. These results include a first-time contribution of £20.6 million for Alba Life following its transfer to equity holders of which £6.7 million was earned in the first half of the year and £13.9 million in the second half of the year. The Alba Life result includes the one-time release of accounting provisions totalling £19.8 million related to the unallocated surplus. Profits in the second half of the year also benefited from slightly higher terminal bonuses paid by certain life funds. The pro forma result for the second half of 2005 was a profit of £20.5 million compared to £39.5 million in the same period of 2006 with the main difference being Alba Life's profit as well as the impact of higher terminal bonuses in 2006.

Non-profit and unit-linked 2006 operating profits were £196.6 million of which £108.6 million was earned in the second half of the year. Favourable lapse and morbidity experience combined with related favourable assumption changes, particularly in respect of mortality and morbidity, were reflected in the second half of the year's result. This favourable experience was partially offset by provisions related to systems migrations. The results for the first half of the year benefited from a reserve release of £7.0 million related to mortgage compensation costs. There was only a minor impact on the results arising from mortgage compensation in the second half of the year.

The favourable experience and assumption changes in the second half of 2006 did not occur to the same extent in the comparable period of 2005 and were also much less significant in the first half of 2006. In that context these earlier periods are more typical of the non-profit and unit-linked performance albeit that favourable variances were still present. The results for the second half of 2005 include a charge of £7.6 million related to mortgage compensation costs and the underlying 2006 performance reflects a decrease in the size of the in-force book from the previous year.

The longer term return on equity holders' funds at £50.1 million is broadly consistent between the two halves of 2006 and is £5.7 million higher than the return for 2005. The return for 2005 only includes RLG's contribution of £9.7 million from the date of acquisition. The pro forma return for the second half of 2005 was £31.8 million and the reduction in return is a result of a shift in asset mix for equity holders' funds towards cash-based assets and fixed interest securities.

Asset management

- Operating profit before amortisation, non-recurring items and tax £32.2 million (2005: £11.8 million)
- Continuing strong performance in third party sales £1,060 million (2005: £343 million)

- Funds under management by the asset management business £61 billion (2005: £17 billion) including £4.5 billion of external funds

Year on year operating profits from the asset management business, before amortisation of £6.8 million, (2005: £nil) increased by over 170%. This growth in profit is mainly attributable to the transfer of the assets previously managed by F&C Asset Management plc (F&C) during the early part of 2006 but also reflects the transfer of the Century Life assets and growth in third party business. Profit for the year after tax was £16.1 million (2005: £7.6 million) which included £1.5 million (2005: £0.6 million) of non-recurring costs related to the Britannic/RLG merger.

As a result of the internalisation of the Phoenix funds, £27.0 million was paid to F&C in March 2006. This payment has been capitalised and is being amortised over 3 years. At the time of the merger between Britannic and RLG, the Group announced that profit before tax was expected to increase by £18.0 million per annum for each of the first 3 full years following internalisation of the funds and thereafter the incremental benefit would reduce to around £10.0 million per annum by 2014, assuming no changes to the management agreement are made. The reported profit is consistent with that announcement and the Group continues to expect that profits before tax from this mandate will be in line with that announcement.

During 2006 the asset management business grew significantly, driven both by the previously mentioned internalisation of life company mandates and a significant growth in third party activity. A total of £40 billion of funds were internalised, reflecting the acquisition of the mandates from F&C, finalising the acquisition of the outstanding mandates from previous acquisitions, in particular Century Life, and the appointment of the asset management business as investment manager for all life company mandates arising from the acquisition of Abbey's life businesses.

Approximately £2.5 billion of Abbey's life business investments are now managed actively by Resolution. The balance is sub-contracted primarily on a passive basis to third party providers (State Street Global Advisors and Abbey National Treasury Services). Around £500 million of Abbey funds still have to be internalised and this process is expected to be completed by the middle of 2007.

Third party gross sales grew significantly over the year with total inflows exceeding £1 billion, an increase of over 200% on 2005. Over 60% of these funds came from retail distribution channels which grew by 170% compared to the preceding year. In total approximately half of gross inflows were placed with joint ventures operated by Resolution. By the end of 2006 the asset management business had three established joint ventures managing almost £1 billion of assets. Distribution reach has been extended internationally with over 10% of business coming from international customers (primarily Europe) and it is intended to extend this distribution reach into the US and Far East over the next few years.

Management services

- Operating profit before non-recurring items and tax £15.0 million (2005: £3.6 million)

- Britannic/RLG merger and Abbey life businesses acquisition integration continue to progress well

- Continued development of plans to offshore certain business activities and further outsourcing to deliver lower and more variable costs

Operating profit from management services was up £11.4 million at £15.0 million reflecting the financial benefit of integration synergies delivered to date; savings of £20.0 million per annum are expected from the end of 2007 as previously announced of which some £10 million are reflected in the 2006 results. Total integration costs arising from the Britannic and RLG merger incurred by Resolution Management Services during 2006 were £17.4 million of which £11.2 million related to the closure of the Liverpool office. A further £8.6 million is expected to be incurred in 2007 to complete this integration activity.

Integration of Abbey's service activities is also progressing well and a new management services agreement structure has been implemented between the management services business and Abbey's life businesses thereby 'locking in' the cost per policy to the life businesses and ensuring that the benefit of synergies achieved flows to shareholders through Resolution Management Services. The business is on target to deliver the additional margin of £10 million per annum arising from the integration of Abbey's life businesses by the end of 2008.

A review on whether to offshore policy administration is well advanced and this will also consider the possibility of further outsourcing. The outcome of the review is expected to be announced in the second quarter of 2007.

Group income and charges

Group income and charges of £6.3 million comprise external interest income and interest earned on contingent loans to the with-profit funds of £27.3 million less Group costs of £21.0 million which include the cost of the head office, the cost of professional advisors and the pension scheme service costs for the Group.

Non-recurring items

In 2006, the FSA issued PS 06/14 which extended the "realistic" reporting regime already in place for with-profit business to non-profit business. The key changes applicable to Resolution's life operations that impact IFRS reporting are the application of prudent lapse rates and, in certain circumstances, allowances for negative mathematical reserves. Both changes generally reduce technical provisions. Other impacts relate to EEV capital reporting requirements. The associated release of reserves increased reported IFRS profits before tax by £100.0 million, albeit that this is partially offset by a consequential £76.5 million impairment of the value of acquired in-force business.

The Group completed a reorganisation under Part VII of the Financial Services and Markets Act 2000 on 31 December 2006 as a result of which the life funds of Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited were all transferred to Phoenix Life Limited (PLL). This resulted in a non-recurring gain of £34.4 million arising from the financial and other synergies of the reorganisation. A benefit of £5.5 million is included in profit before tax net of the costs related to the reorganisation, with the balance of £28.9 million being reflected as a tax credit. The benefit includes a gain of £7.6 million arising on the transfer of the non-profit business, previously held within the with-profit fund of Century Life, to equity holders.

During 2006 the Group transferred Alba Life, previously owned by the Britannic Assurance with-profit funds, to Resolution Life Limited (RLL), an equity holder owned subsidiary of Resolution plc. The transfer value of the business amounted to £214.9 million. The transfer gave rise to a non-recurring gain of £40.0 million arising from the transfer of risk to equity holders.

Post 2005 merger reorganisation costs of £18.9 million include £17.4 million incurred by the management services business and £1.5 million incurred by the asset management business. A further £3.3 million of integration costs were incurred by the management services business in respect of the acquisition of Abbey's life businesses.

Financing costs

Financing costs amounted to £25.5 million with second half costs in 2006 of £23.2 million compared to £2.3 million for the first half of the year. The costs for the second half of 2006 primarily comprise interest on the loans used to finance the acquisition of Abbey's life businesses. Pro forma financing costs for the second half of 2005 were £15.2 million of which a significant proportion related to RLG's senior debt which was repaid in 2005.

Taxation

The profit before tax of £303.9 million includes £47.6 million of non-taxable profits, primarily in respect of the transfer of Alba Life to equity holders.

The implied tax charge of £76.9 million is offset by tax credits arising from the 7 way fund merger (£28.9 million) and other net adjustments (£20.3 million) to give a resulting tax charge of £27.7 million. The net adjustments primarily reflect changes to the tax provision in respect of the non-profit surplus.

Abbey's life businesses

IFRS basis financial results for Abbey's life businesses (after policyholder tax)

	Pro forma half year to 31 December 2006 £m	Pro forma half year to 30 June 2006 £m	Pro forma year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Life division				
With-profit	**6.3**	**3.3**	**9.6**	5.8
Non-profit and unit-linked	**183.6**	**98.5**	**282.1**	436.9
Longer term return on equity holders' funds	**27.5**	**32.7**	**60.2**	57.3
Other income and charges	**(3.9)**	**(2.0)**	**(5.9)**	(8.5)
Operating profit(i)	**213.5**	**132.5**	**346.0**	491.5
Amortisation of acquired in-force business	**(144.5)**	**–**	**(144.5)**	(15.0)
Amortisation of fair value of distribution agreements	**(7.8)**	**–**	**(7.8)**	–
Operating profit before non-recurring items	**61.2**	**132.5**	**193.7**	476.5
Non-recurring items				
Reserve releases due to PS 06/14	**434.6**	**–**	**434.6**	–
Impairment of value of acquired in-force business due to PS 06/14	**(434.6)**	**–**	**(434.6)**	–
Enhanced controllership costs	**(6.8)**	**–**	**(6.8)**	–
Dividend from Abbey companies not acquired	**–**	**30.0**	**30.0**	10.0
Release of excess provisions	**–**	**44.2**	**44.2**	22.0
Operating profit attributable to equity holders, based on a long term rate of investment return	**54.4**	**206.7**	**261.1**	508.5
Short term investment fluctuations	**3.9**	**(1.0)**	**2.9**	3.9
Operating profit attributable to equity holders	**58.3**	**205.7**	**264.0**	512.4
Financing costs	**(6.3)**	**(7.2)**	**(13.5)**	(14.5)
Profit before tax attributable to equity holders	**52.0**	**198.5**	**250.5**	497.9
Equity holders' tax	**(22.5)**	**(66.8)**	**(89.3)**	(133.9)
Profit for the period attributable to equity holders	**29.5**	**131.7**	**161.2**	364.0

Profit for the period 1 July 2006-9 August 2006	**(55.5)**
Tax on profit for the period 1 July 2006-9 August 2006	**23.9**
Post acquisition loss	**(2.1)**

(i) Operating profit is stated before amortisation of intangible assets, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax.

Note: The results for the six months ended 31 December 2006 have been prepared on a pro forma basis so as to exclude the financial impact of fair value adjustments arising on acquisition, eliminate intercompany interest paid by the Group and only includes amortisation of acquired in-force business and intangible assets from the effective date of acquisition, 10 August 2006. The results for the first half of 2006 have also been prepared on a pro forma basis as the amortisation of acquired in-force business related to the earlier acquisition of Scottish Provident Limited has been excluded.

The following commentary compares the results for the first and second halves of 2006 and also reviews the results for the full year to 31 December 2006 against 2005. The results for all but the period from 10 August 2006 cover periods when the Group did not control this business.

Life operations (Abbey's life businesses)

- Pro forma IFRS operating profit for the second half of 2006 £213.5 million (2005 full year: £491.5 million)
- Post acquisition loss after tax attributable to equity holders of £2.1 million reflecting amortisation and impairment of acquired in-force business
- Profit arising from reserve releases related to PS 06/14 totalled £434.6 million before tax and before impairment of acquired in-force business of a similar amount

The results for the second half of 2006 are presented on a pro forma basis and exclude the financial impact of the adjustments to eliminate the fair value changes utilised in preparing the acquisition balance sheet. The results for the first half year have also been presented on a pro forma basis by eliminating amortisation related to an earlier acquisition by Abbey's life businesses.

The with-profit result for the second half of 2006 was £6.3 million compared to £3.3 million for the first half of the year. The main reason for the increase was that no contribution from Scottish Mutual Assurance was included in the first half's results whereas £2.0 million was included in the second half. Total profit for the full year of £9.6 million against £5.8 million for 2005 reflects the impact of higher terminal bonuses in 2006.

Profits from non-profit and unit-linked business were £183.6 million for the second half of 2006 compared to £98.5 million for the first half of the year and £436.9 million for the year to 31 December 2005. Profits for the first half of 2006 are after charging approximately £50 million as a result of new business strain (net of the movement in deferred acquisition costs) whereas in the second half of the year the application of reserving based on PS 06/14 virtually eliminated new business strain on an IFRS basis. The results for the first half of the year were also reduced through the expensing of additional deferred acquisition costs of £15 million. The 2005 results included new business strain of £85 million (net of the movement in deferred acquisition costs) but were also significantly influenced by a favourable benefit of £72 million arising from mortality basis changes and other favourable experience variances of £45 million mainly from lapses, critical illness and mortality.

The results for the current and later periods are also influenced by the rate at which the business runs off. As noted at the time of the acquisition the run-off profile of the funds is such that approximately 40% of existing in-force value will run-off, turning into cash, within four years.

The longer term return on equity holders' funds for the six months to 31 December 2006 was £27.5 million and for the preceding half year £32.7 million giving a total for the year of £60.2 million. By comparison the return for the whole of 2005 was £57.3 million. However, the income for the second half of the year does not reflect interest on the loans made by Abbey's life businesses to a Group company since that income is excluded as internal income. If that income had been taken into account the higher return for the second half of the year would have reflected the income on transfers made from the long term funds to equity holders in the first half of the year.

Amortisation of intangible assets

The acquired value of in-force business is being amortised in line with the run-off of the acquired business. This leads to an amortisation charge of £144.5 million in the post acquisition period.

As part of the exercise to apply fair values to the assets and liabilities of the businesses upon their acquisition, a value of £100 million was attributed to the new business capability, in particular to the distribution agreements. This intangible asset is being amortised on a straight line basis over 5 years leading to a charge for the post acquisition period of £7.8 million.

Non-recurring items

Abbey's life businesses have a significant proportion of protection business within their portfolios and consequently PS 06/14 has had a material impact on the results for the second half of 2006. Reserve releases for this period attributable to PS 06/14 amounted to £434.6 million before tax. However, the release of these reserves reduces the acquired value of in-force business by a similar amount and it is therefore necessary to impair the acquired value of in-force business. Consequently, in the Group's consolidated IFRS results the impact of the application of PS 06/14 is negligible.

Also included as a non-recurring item are costs of £6.8 million as part of a programme to enhance the controllership of the business as a number of governance functions were retained by Abbey. The total cost of the programme is expected to be approximately £25 million.

Financing costs

Financing costs of £13.5 million for the full year comprise the interest on the subordinated debt issued by Scottish Mutual Assurance together with post acquisition changes in the carrying value of the debt.

Taxation

The equity holder tax attributable to Abbey's life businesses is based on an underlying rate of 30%. However, the tax credit related to the amortisation of acquired in-force business is at an effective rate below 30% resulting in a reduced credit that impacts the tax charge by £9.8 million.

EEV pro forma Group results

The EEV results for 2006 cover the consolidated Britannic and RLG (LDS) results for a full year but the Abbey (LDN) results for only the second half of the year. The comparatives cover only the second half of the year for LDS, being the first period for which the Group prepared its results on this basis. The results for the asset management and management services businesses are for the full year ended 31 December 2006 and have been included on an IFRS basis. The consolidated results are presented on a pro forma basis as if the acquisition of LDN had taken place on 30 June 2006.

For the year ended 31 December 2006 the Group made an EEV profit before tax of £669.2 million (half year to 31 December 2005: £160.5 million). EEV profit after tax was £481.2 million (half year ended 31 December 2005: £118.4 million).

EEV operating profit was £390.9 million (half year ended 31 December 2005: £85.8 million). This includes the results of the asset management and management services businesses on an IFRS basis.

EEV per share was £6.13 at 31 December 2006 (31 December 2005: £5.93 or £5.19 after restatement for the effect of the rights issue on 9 August 2006) reflecting an increase in embedded value to £4,197 million. The growth in embedded value per share results from the acquisition of Abbey's life businesses, including the associated rights issue, the EEV profits earned for the year in respect of the existing business and the profits earned in the second half of the year for the acquired businesses.

Consolidated pro forma income statement – EEV basis

	Life Division South £m	Life Division North £m	Other £m	Year ended 31 December 2006 total £m	Half year ended 31 December 2005 total £m
Contribution from new business	1.6	23.1	–	24.7	–
Expected return on existing business					
- Expected return on value of in-force	122.1	65.5	–	187.6	47.7
- Expected return on shareholders' net worth	64.9	39.4	–	104.3	40.2
Life divisions' expected EEV profit before tax	188.6	128.0	–	316.6	87.9
Operating experience variances	44.5	(34.2)	–	10.3	39.9
Operating assumption changes	11.7	12.9	–	24.6	(42.9)
Life divisions' EEV operating profit before tax	244.8	106.7	–	351.5	84.9
Asset management	–	–	32.2	32.2	5.8
Management services	–	–	15.0	15.0	2.0
Group income and charges	–	–	(7.8)	(7.8)	(6.9)
EEV operating profit (i)	244.8	106.7	39.4	390.9	85.8
Non-recurring items:					
- Fund merger benefits	93.5	–	–	93.5	–
- Gain on transfer of Alba Life to equity holders	77.5	–	(2.7)	74.8	–
- FSA changes to reserving and capital requirements (PS 06/14)	48.9	12.4	–	61.3	–
- Post merger reorganisation costs (Britannic & RLG)	–	–	(18.9)	(18.9)	–
- Post acquisition integration costs (Abbey)	–	–	(3.3)	(3.3)	–
- 2005 non-recurring items	–	–	–	–	38.2
Amortisation of asset management internalisation costs	–	–	(6.8)	(6.8)	–
Economic experience variances	(34.7)	63.2	29.2	57.7	68.7
Effect of economic assumption changes	68.8	(9.0)	–	59.8	(17.0)
Profit before financing costs and tax	498.8	173.3	36.9	709.0	175.7
Financing costs	–	–	(39.8)	(39.8)	(15.2)
Profit/(loss) before tax	498.8	173.3	(2.9)	669.2	160.5
Attributed tax (charge)/credit	(149.8)	(44.7)	6.5	(188.0)	(42.1)
Profit after tax	349.0	128.6	3.6	481.2	118.4

(i) Operating profit is stated before non-recurring items, amortisation, economic experience variances, economic assumption changes, financing costs and tax.

Results of Life Division South

- Life division operating profit before tax £244.8 million (half year ended 31 December 2005: £84.9 million)

- Non-recurring items contribute a profit before tax of £219.9 million (half year ended 31 December 2005: £69.1 million)

Contribution from new business

The contribution from new business of £1.6 million is derived primarily from profits on vesting annuity business. It is valued at the end of the period and excludes the cost of capital and an allowance for non-market risks as the amount of new business is small.

Expected return on value of in-force

The expected return on existing business for the period of £122.1 million reflects the expected change in the present value of future profits arising from the in-force business, including the cost of capital and the cost of financial options and guarantees at 31 December 2005.

Expected return on shareholders' net worth

The expected return is the best estimate return based on real world investment return assumptions at 31 December 2005.

Operating experience variances

Operating experience variances contributed £44.5 million to profit over the year. Favourable operating experience, primarily reflecting positive lapse and morbidity experience on term and PHI business, contributed £34.5 million. Other favourable experiences enabled the Group to release provisions totalling £33.5 million primarily in respect of tax and mortgage endowments. Miscellaneous other items contributed £2.3 million.

This favourable experience has been partially offset by increased capital requirements (before allowing for the benefits of PS 06/14) due to strengthening of the Group's capital management policy. This has resulted in a charge to profits of £25.8 million.

Persistency experience on pensions business generally has been in line with assumptions.

Operating assumption changes

Changes were made to the operating assumptions at 31 December 2006 resulting in profits of £11.7 million. This profit arose primarily from a change in assumed tax rates, changes to insurance assumptions and a reduction in future costs directly payable by the life companies. This was offset by an increase in provisions, following harmonisation of the provision methodology across the life companies.

The main insurance assumption changes include reduction in lapse rates for reviewable term assurance business, strengthening of the longevity improvement factors in Britannic Retirement Solutions, a revision to guaranteed annuity option take-up rates following A-day and a change to the assumptions regarding the type of guaranteed annuity taken.

Non-recurring items

The non-recurring items comprise the following:

- The transfer of Alba Life to equity holders with effect from 1 January 2006 gave rise to a gain of £77.5 million before transaction costs. This represents an amount of £54.3 million grossed up at the equity holder tax rate of 30%

- The 7 way merger in which a number of life funds were transferred into PLL and the non-profit business owned by the with-profit funds of Century Life was transferred to equity holders of PLL gave rise to a gain of £93.5 million net of scheme costs

- The FSA changes to reserving and capital requirements (PS 06/14) gave rise to a profit of £48.9 million. This was primarily due to a reduction in the cost of capital arising from a £398 million reduction in required capital. Statutory reserves of £105 million were also released as a result of the changes to statutory reserve requirements for non-profit businesses.

Economic experience variances

Economic experience variance over the year resulted in a charge to profits of £34.7 million. This arose primarily from changes in the shape of the yield curve over the period and a corresponding increase in valuation interest rates on annuity business. This negative contribution is offset by higher future investment returns identified under economic assumption changes.

Economic assumption changes

Gilt yields rose 0.5% over the year resulting in a risk free rate of 4.7% as at 31 December 2006. This contributed £68.8 million to profits and represents the impact on the value of the in-force business of increases in the future investment return assumptions, offset by increases in the discount rate applied to future cash flows.

The positive impact of economic assumption changes was primarily driven by the increased profits on annuity business and shareholder transfers on with-profit business as a result of higher investment returns.

Attributed tax (charge)/credit

EEV profits are calculated net of tax and are grossed up at the effective equity holder tax rate of 30%.

Results of Life Division North

- Life division operating profit before tax £106.7 million

- Non-recurring items contribute a profit before tax of £12.4 million

Contribution from new business

The contribution from new business over the period from 1 July 2006 to 31 December 2006 was £23.1 million. This contribution has been valued at the end of the period using start of period economic and operating assumptions and is shown gross of equity holder tax. The contribution includes the impact of PS 06/14, the cost of capital and an allowance for non-market risk consistent with the methodology for in-force business.

Expected return on value of in-force

The expected return for the half year to 31 December 2006 of £65.5 million reflects the expected change in the present value of future profits arising from the in-force business, including the cost of capital and the cost of financial options and guarantees at 30 June 2006.
The expected return is the best estimate return for each line of business based on the real world investment return assumptions as at 30 June 2006.

Expected return on shareholders' net worth

The expected return of £39.4 million is the best estimate return based on real world investment return assumptions at 30 June 2006.

Operating experience variances

Adverse operating experience variances of £34.2 million were primarily due to higher lapse rates on with-profit bonds sold by Scottish Mutual Assurance (SMA) relative to long term assumptions and the loss of future management charges from the Abbey pension scheme.

During the first three quarters of 2006 SMA was subject to adverse persistency experience on with-profit bonds. The trend stabilised in the last quarter of the year when experience was in line with long-term assumptions for the business.

Following the acquisition, Abbey transferred the management of its pension scheme assets away from the LDN companies. This resulted in a one-time reduction in the value of in-force business reflecting the loss of future annual management charges from this business.

Persistency experience on pensions business has generally been in line with assumptions.

Operating assumption changes

Changes in operating assumptions contributed £12.9 million to operating profit. This arose primarily from an increase in the lapse assumption on the Scottish Mutual International (SMI) guaranteed investment bond, leading to a reduction in the cost of guarantees on this business, and a reduction in future expenses arising from the implementation of the management services agreement structure with the management services business.

Non-recurring items

The FSA's changes to reserving and capital requirements (PS 06/14) gave rise to a profit of £12.4 million. This was primarily due to the release of £437 million of non-profit statutory reserves (mainly in SMA) and a £208 million reduction in required capital.

Economic experience variances

Positive economic experience over the six month period contributed £63.2 million to profit. This has been driven by higher than expected investment returns over the period, harmonisation of the methodology used to generate valuation interest rates across the Group and an increase in the value of the interest rate swap asset backing the SMA bonds.

Economic assumption changes

Gilt yields fell 0.1% after 30 June 2006 resulting in a risk free rate of 4.7% as at 31 December 2006. This resulted in a charge to profits of £9.0 million and represents the impact on the value of the in-force business of lower investment return assumptions, offset by a reduction in the discount rate applied to future cash flows.

Attributed tax (charge)/credit

Life division EEV profits are calculated net of tax and grossed up at the effective equity holder tax rate of 30% for SMA, Scottish Provident Limited (SPL) and Phoenix Life Assurance Limited (PLA), and 12.5% for SMI and 0% for Scottish Provident International Life Assurance Limited (SPILA). For non-recurring items, the actual tax impact is calculated explicitly and included in the attributed tax charge.

Other components of EEV profit

	Year ended 31 December 2006 £m	Half year ended 31 December 2005 £m
Asset management	**32.2**	5.8
Management services	**15.0**	2.0
Group income and charges	**(7.8)**	(6.9)
Operating profit [i]	**39.4**	0.9
Non-recurring items	**(24.9)**	(30.9)
Amortisation of asset management internalisation costs	**(6.8)**	-
Economic experience variances	**29.2**	(19.2)
Profit/(loss) before financing costs and tax	**36.9**	(49.2)
Financing costs	**(39.8)**	(15.2)
Loss before tax	**(2.9)**	(64.4)
Attributed tax credit/(charge)	**6.5**	25.0
Profit/(loss) after tax	**3.6**	(39.4)

(i) Operating profit is stated before non-recurring items, amortisation, economic experience variances, financing costs and tax.

Asset management and management services

These results are reported on an IFRS basis as the businesses are not included as covered businesses.

Non-recurring items

The non-recurring items include a charge of £17.4 million for management services and £1.5 million for asset management primarily in respect of integration costs arising from the Britannic and RLG merger. The management services result includes £3.3 million in respect of reorganisation costs arising from the acquisition of Abbey's life businesses. The other non-recurring charge of £2.7 million is in respect of the transaction costs arising from the transfer of Alba Life to equity holders.

Amortisation

The charge to profits of £6.8 million for amortisation of asset management internalisation costs reflects nine months' amortisation of the £27 million payment to F&C Asset Management in March 2006.

Economic experience variances

All external debt has been valued on a market-consistent basis. Changes in the market-consistent value of debt resulted in a contribution to profit of £27.6 million. A decrease in the Group's cost of capital contributed an additional £1.6 million.

Financing costs

Financing costs amounted to £39.8 million comprising £20.8 million of interest paid on Resolution plc's senior debt (taken out to support the acquisition of Abbey's life businesses), £14.3 million of coupon paid on the perpetual reset capital securities, £4.7 million comprising interest paid on £85 million of senior debt (repaid in August 2006) and the amortisation of loan arrangement fees.

Attributed tax credit/(charge)

Taxation in respect of entities other than the life division has been provided for on an IFRS basis, adjusted for the tax attributable to the additional gross financing costs of £14.3 million under EEV in respect of the perpetual reset capital securities.

Increase in embedded value

Embedded value increased by £2,056.1 million over the year to £4,197.0 million at 31 December 2006. The increase was due in part to the acquisition of Abbey's life businesses, in particular the rights issue for £1,547.2 million, but also EEV profits for the year of £481.2 million less the cost of the dividends paid in the year of £93.2 million. The increase is analysed as follows:

Reconciliation of movements in consolidated shareholders' funds: EEV basis

	Year ended 31 December 2006 £m	Half year ended 31 December 2005 £m
Opening embedded value, as previously reported	**2,130.9**	2,004.2
Prior period adjustment	**10.0**	10.0
Opening embedded value as restated	**2,140.9**	2,014.2
Acquired value of Abbey's life businesses as at 30 June 2006	**3,813.6**	
Cost of acquisition of Abbey's life businesses	**(3,600.0)**	
Transaction costs	**(81.0)**	
Mark to market adjustment on debt	**(10.5)**	
Opening adjustments(i)	**(3.1)**	
Profit on acquisition of Abbey's life businesses	**119.0**	
Profit after tax	**481.2**	118.4
Dividends to ordinary shareholders	**(93.2)**	(23.8)
Share capital issued	**1,547.2**	32.8
Other movements(ii)	**1.9**	(0.7)
Embedded value at 31 December 2006	**4,197.0**	2,140.9

(i) The opening adjustment reflects changes to the consideration paid under the sale and purchase agreement as well as fair value adjustments.

(ii) Other movements include equity share options issued, actuarial losses on the pension schemes and other IFRS reserve adjustments.

Financial key performance indicators

The Group has four primary key performance indicators (KPIs) that it uses to monitor the financial performance of the business. These are:

- *EEV per share:* calculated by taking the EEV at the period end and dividing it by the number of shares in issue at the period end
- *EEV operating profit:* calculated by taking the life division EEV operating profit before tax after operating and experience variances but before non-recurring items, amortisation of intangible assets, economic experience variances, economic assumption changes and tax; this is combined with profits from the asset management and management services businesses on an IFRS basis and Group income and charges
- *Return on embedded value:* calculated by taking the components of EEV profit divided by the opening EEV where the opening EEV is adjusted to remove the goodwill on the management services and asset management businesses, and to allow for the timing of the rights issue and dividend payments
- *IFRS operating profit:* calculated by taking IFRS profit before amortisation and impairment of intangible assets, burn through costs, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax

Commentary on these KPIs is included in the preceding IFRS and EEV sections. In addition, there are KPIs related to gearing and interest cover which are explained in the "Capital, financing and treasury policy" section below. Additional KPIs related to performance within the human resources area are provided in the Corporate responsibility section.

Equity holders' cash flow statement

The cash flow statement in the consolidated financial statements for 2006 comprises all of the policyholder and equity holder cash flows of the Resolution Group as well as the post acquisition policyholder and equity holder cash flows of the acquired Abbey businesses, as required under IFRS.

As in the previous year, the Board believes that it would be helpful to provide a cash flow statement in relation to equity holders only. This statement reflects the cash flows of Resolution plc and its principal holding companies RLL and RLG. It therefore excludes all cash flows within the life, asset management and management services divisions.

Equity holders' cash flow statement for Group holding companies

	Year ended 31 December 2006		Half year ended 31 December 2005	
	£m	£m	£m	£m
Opening cash balance		**43.0**		54.0
Net cash generated from operations				
Dividends from subsidiaries	**290.0**		55.0	
Group reorganisations	**8.5**			
Receipt from asset manager in respect of F&C contract	**27.0**			
Net loan interest received from subsidiaries	**2.9**			
Capital injections to subsidiaries	**(302.9)**		(14.6)	
External interest received	**12.6**		2.1	
Net group expenses, including merger costs	**(17.2)**		(54.1)	
Payment in respect of F&C contract	**(27.0)**			
Acquisition of Abbey's life businesses	**(3,600.0)**			
Loans from Abbey's life businesses	**1,800.0**			
Transaction costs related to acquisition of Abbey's life businesses	**(81.0)**			
Net other loans from subsidiaries	**11.0**		54.0	
Tax	**28.6**			
		(1,847.5)		42.4
Capital and debt raised				
Perpetual reset capital securities			495.0	
Proceeds from rights issue	**1,547.2**			
Bridging loan	**1,680.0**			
Term loan	**550.0**			
Refinancing of bridging loan	**380.0**			
		4,157.2		495.0
Capital and debt repaid				
RLG senior debt			(480.0)	
Resolution plc senior debt	**(85.0)**		(30.0)	
RLG minority interest preference shares	**(87.3)**			
Bridging loan	**(1,680.0)**			
		(1,852.3)		(510.0)
Capital and debt servicing				
Ordinary shareholders' dividends	**(93.2)**		(23.8)	
RLG minority preference share dividends	**(13.1)**			
Senior debt and bridging loan interest	**(17.8)**		(14.6)	
Perpetual reset capital securities coupon	**(14.3)**			
		(138.4)		(38.4)
Closing cash balance		**362.0**		43.0

The principal cash and debt transactions during 2006 were in respect of the acquisition of Abbey's life businesses. The cash raised amounted to £3,777.2 million. This was comprised of a rights issue of £1,547.2 million, a bridging loan of £1,680 million and senior debt of £550 million. The purchase price of £3.6 billion left £177.2 million to cover transaction costs and repay the £85 million of pre-existing senior debt.

Subsequent to the acquisition, the acquired businesses made loans of £1.8 billion to Resolution Life Limited (RLL) of which £1.3 billion was used to repay the bridging finance and the balance of the bridging finance of £380 million was converted to senior debt.

During the year dividends totalling £290 million were received by the Group from subsidiary entities. These were used to fund the dividends to shareholders of £93.2 million, to purchase the Resolution Life Group (RLG) minority interest preference shares with associated dividends at a cost totalling £100.4 million and to support working capital.

As a result of the capital releases from the 7 way fund merger, the reduction in reserves and capital requirements facilitated by PS 06/14 and the normal operating cash flows for the year, a total of £1.5 billion is expected to be available to the Group in the second quarter of 2007 from its subsidiary life businesses. In the light of this, the Group no longer expects to initiate a Tier 2 debt issue in 2007 and will repay the senior debt raised to replace the £380 million balance of the bridging loan in the second quarter of 2007. The Group will also repay £115 million of the remaining senior debt in April 2007 in accordance with the debt agreement.

Capital, financing and treasury policy

Regulatory capital position

The Group's UK with-profit funds report individually on a realistic balance sheet basis. The overall surplus measured on this basis at 31 December 2006 for the with-profit funds together with surpluses on the non-profit funds, being the excess of capital resources available over capital requirements, is £2,862 million (2005: £1,547 million).

Gearing and interest cover

The Group's capital management policies include key performance indicators in respect of gearing and interest cover, details of which are set out below:

- ***Gearing***

  Group debt as a proportion of gross market-consistent embedded value (MCEV) not to exceed 35% and to trend towards 25% in the medium term.

  At 31 December 2006, this ratio was 28.2% (2005: 24.6%) based on total borrowings of £1,644.7 million (including perpetual reset capital securities of £504.1 million and term loans of £550 million and £380 million) and gross MCEV of £5,841.7 million.

- ***Interest cover***

  Group annual cash flows to remain more than five times the sum of interest expense and other fixed charges.

  At 31 December 2006 this ratio was 7.4 (2005: 5.9) for the year then ended, based on total cash flows for this period of £336.5 million and interest and other fixed charges of £45.2 million.

- ***Holding company liquidity to remain above 2 years' interest payments***

  At 31 December 2006, holding company liquidity was 3.5 times interest payments (2005: 1.1) based on total Group cash of £362 million and interest payments of £103.2 million.

Group borrowings

At 31 December 2006 the Group had outstanding borrowings comprising a 3 year term loan and revolving credit facility of £550 million, a short term loan repayable in 2007 of £380 million and undated subordinated debt issued by SMA with a face value of £200 million and carrying an interest rate of 7.25%. All of these borrowings arose from the acquisition of Abbey's life businesses although the SMA subordinated bonds were already in place within the acquired businesses and were not therefore part of the acquisition funding. In addition to the above, Group borrowings include £125 million of undated 8.75% subordinated debt issued by SPI Finance plc. The SPI bonds are guaranteed by Scottish Provident Limited (SPL) as the funds are used by the SPL with-profit fund. Application has been made to the FSA to cancel the listing with effect from 14 May 2007 as a result of the proposed redemption of the bonds in full on 13 May 2007. At 31 December 2005 Group borrowings comprised a term bank loan of £85 million which was repaid in 2006.

During 2006, the Group made a statement that it expected to make a proposal prior to 31 December 2006 to the holders of SMA's subordinated debt to replace those bonds with alternative bonds issued by Resolution plc on substantially the same terms. Following the subsequent issue of the FSA's Consultation Paper CP 06/16 a decision was deferred to 2007 pending an assessment of the FSA's proposals. The Group now expects to make an offer during 2007 consistent with its earlier statement.

Financial management objectives

The intention of the Board is that on an ongoing basis the financial management objectives of the Group will be consistent with credit ratings in the "A" category. In the event of no suitable acquisition opportunities arising, the Board will consider returning surplus capital to investors consistent with prudent financial management and maintaining a strong credit rating. In the event of a return of capital to investors, the Board will attribute funds proportionately to shareholders and holders of the perpetual reset capital securities to ensure equitable treatment of both groups of investors. This would entail the buy back of shares from equity shareholders and holding back a proportionate amount of cash for the ultimate redemption of the perpetual reset capital securities.

Treasury policy

The Group operates a central treasury function that has overall responsibility for managing the shareholder capital funding program as well as the central cash and liquidity positions. The aim of Resolution's capital funding program, which includes hybrid capital and syndicated bank term and revolving facilities, is to maintain strong and flexible funding capacity.

The Group uses derivatives for the purposes of efficient portfolio management particularly in respect of its policyholders' investments. The Group does not allow speculative trading in derivatives.

Group pension schemes

The principal defined benefit scheme is the Resolution Group pension scheme (formerly the Britannic Group pension scheme), a final salary scheme which is closed to new entrants and which, since 31 July 2006, incorporates the former Phoenix Life group pension scheme. The valuation of this scheme includes the provisional results of the triennial valuation as at 30 June 2006 including an estimated cost of changes in the longevity assumptions amounting to £48.6 million. The effect of this, together with other changes affecting the surplus in the scheme, has been to reduce the net surplus from £88.4 million (£93.7 million before incorporating the deficit of £5.3 million attributable to the Phoenix Life group scheme) at the preceding year end to £79.7 million at 31 December 2006.

No contributions are currently being made by the Group to the scheme as a result of the surplus. Certain of the Group's with-profit funds have indemnified the Group's equity holders in respect of any future cash contribution calls equal to approximately 90% of the cost of changes to longevity assumptions. The net impact on operating profits for the year in respect of the Resolution Group pension scheme is a charge of £4.8 million representing the servicing and interest cost. Net actuarial losses recognised in the statement of recognised income and expenses which do not affect reported profit for the period amounted to £3.9 million.

Following the acquisition of Abbey's life businesses, responsibility for the principal pension schemes was transferred to Abbey who will be liable for any future funding deficits. Estimated contributions totalling £166 million are being made to those schemes by Group companies in respect of the deficits at acquisition but are recoverable from Abbey, net of certain adjustments, under the terms of the acquisition agreement.

Dividends

An interim dividend of 6.64 pence per share (2005: 5.77 pence per share) was paid on 20 October 2006. The cost of this dividend was £45.5 million (2005: £23.8 million). A final dividend of 13.28 pence per share is being proposed and, if approved by shareholders, would become payable on 15 June 2007. The total cost of the proposed final dividend would amount to £91.0 million. Details of the new dividend policy are given in the Chairman's statement.

Principal risks and uncertainties

Full details of the Group's risk management framework and financial exposures are included in note 48 to the consolidated financial statements: "Risk management policies". The principal risks and uncertainties are those that relate to the insurance risks underwritten by the life insurance businesses but which by their nature are outside the control of the Group. These will affect the profitability of any new business and the run-off of the closed books of business which will, in turn, impact on the profitability of the Group.

The successful run-off depends to a significant extent on the value of claims paid in the future relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the future development of financial and insurance risks. It is therefore necessary to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination. Furthermore, in terms of assessing the value of future claims, actual experience may vary from the actuarially calculated obligations, particularly as these calculations may reflect expected outcomes far into the future.

The principal insurance risks comprise the following:

- Mortality – higher than expected number of death claims;
- Longevity – faster than expected improvements in mortality;
- Morbidity – higher than expected number of serious illness claims or more sickness claims which last longer;
- Lapses – the number of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- Options – unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

In addition to the above, there are financial risks associated with the delivery of management services to the life businesses. There are long-term management service structures in place with most of the Group's life businesses. These require the Group to continue to deliver services at unit prices which require tight and pro-active management of the expense base.

The Group operates in a highly regulated environment, principally under the oversight of the FSA.

Significant changes in the regulatory regime under which the Group operates could result in substantial implementation or remediation costs and may have longer term impacts on the sale or management of insurance products. In addition to regulatory changes the Group could also be affected materially by significant changes in tax legislation both in relation to corporation taxes and personal taxes.

J A Newman

Jim Newman
Group Finance Director

Board of directors


Clive Cowdery


Malcolm Williamson


Sir Brian Williamson


David Allvey


Sir David Cooksey


Paul Spencer

Clive Cowdery

Chairman, aged 43.

Clive Cowdery was previously the Chief Executive of Resolution Life Group Limited, a company that he founded in 2003. He was appointed Chairman of Resolution plc in September 2005 following the merger of Britannic Group plc and Resolution Life Group Limited. He started his career in insurance advising clients as a broker and was previously Chairman and Chief Executive of GE's primary insurance operations in Europe (GE Insurance Holdings), with over $3 billion of premium income. The businesses he led included Europe's largest credit insurer with operations in twelve countries and life and pensions companies in the UK and France. Before joining GE in 1998, he co-founded Scottish Amicable International/J. Rothschild International, a European cross-border insurance business based in Dublin and formed in 1992. He is currently Chairman of the charity the Resolution Foundation.

Malcolm Williamson

Deputy Chairman and senior independent director, aged 68.

Malcolm Williamson was appointed to the Board of Britannic Group plc in March 2002 as a non-executive director, Deputy Chairman and senior independent director. He succeeded to the position of Chairman of Britannic Group plc in October 2004, a post he held until the merger with Resolution Life Group Limited in September 2005. He is a member of the Audit, Risk and Compliance Committee and Remuneration Committee. He was formerly the President and Chief Executive of Visa International Inc, Group Chief Executive of Standard Chartered plc and a non-executive director of National Grid Group plc. He currently chairs CDC Group plc, National Australia Group Europe Limited and Signet Group plc and is a non-executive director of National Australia Bank Limited, Group 4 Securicor plc and JP Morgan Cazenove Holdings, and chairs the Advisory Board of Youth Business International. He is a member of the Board of Chairmen and a trustee of the Prince of Wales International Business Leaders Forum.

Sir Brian Williamson CBE

Non-executive director, aged 62.

Sir Brian Williamson was previously the Chairman of Resolution Life Group Limited until the merger with Britannic Group plc in September 2005. He chairs the Nominations Committee and is a member of the Audit, Risk and Compliance Committee. He is a member of the Supervisory board of Euronext NV, a senior adviser to Fleming Family and Partners, Chairman of Electra Private Equity plc and also a non-executive director of HSBC Holdings plc. He is a former Chairman of The London International Financial Futures and Options Exchange and Gerrard Group plc and a former non-executive director of The Financial Services Authority and of the Court of the Bank of Ireland.

David Allvey FCA, ATII

Non-executive director, aged 62.

David Allvey was appointed to the Board of Britannic Group plc in March 2002 as a non-executive director. From October 2004 and until the merger with Resolution Life Group Limited, he was Deputy Chairman and senior independent director. He chairs the Audit, Risk and Compliance Committee and is a member of the Nominations Committee. He was formerly Group Finance Director of Barclays Bank plc and BAT Industries plc as well as chief operating officer of Zurich Financial Services plc and a non-executive director of McKechnie plc. In addition, he was a member of the UK Accounting Standards Board for ten years. He is currently the Chairman of Arena Coventry Limited and a non-executive director of Costain Group plc, Intertek plc, My Travel Group plc and William Hill plc.

Sir David Cooksey

Non-executive director, aged 66.

Sir David Cooksey was previously a non-executive director of Resolution Life Group Limited. He chairs the Remuneration Committee and is a member of the Nominations Committee. He was appointed a non-executive director of the Establishment Investment Trust in 2002. In February 2005, he retired as a non-executive director of the Bank of England having served on the Court for eleven years and as Chairman of the committee of non-executive directors since 2001. He was Chairman of the Audit Commission from 1986 to 1995 and a Governor of the Wellcome Trust from 1995 to 1999. He retired as Chairman of Advent Venture Partners LLP in 2006, a firm that he founded in 1981. He was Chairman of the European Private Equity and Venture Capital Association in 2005/6 and remains on its board. In November 2006, he was appointed Chairman of London & Continental Railways Limited.

Paul Spencer BA, FCT, FCMA

Non-executive director, aged 57.

Paul Spencer was appointed to the Board of Britannic Group plc in August 2003 as a non-executive director. He is a member of the Remuneration Committee. He was associate director and treasurer of Hanson plc from 1986 to 1996


Aram Shishmanian


David Woods


Mike Biggs


Jim Newman


Ian Maidens


Brendan Meehan

and Group Finance Director and subsequently Chief Executive UK of Royal and Sun Alliance plc from 1996 to 2002. He is currently the Chairman of National Savings and Investments, State Street Managed Pension Funds and Sovereign Reversions plc and a non-executive director of WPP Group plc. He is a past President of the Association of Corporate Treasurers and currently Chairman of their advisory board and a Governor of the Motability charity.

Aram Shishmanian **BA, MSc**
Non-executive director, aged 55.
Aram Shishmanian was appointed to the Board of Britannic Group plc in November 2004 as a non-executive director. He is a member of the Remuneration and Nominations Committees. He has considerable financial services experience and has led the financial markets practice of Accenture. He joined the firm in 1976, becoming a senior partner in 1998 until 2003. He is currently an independent member of the International Executive Committee of the law firm Lovells LLP and an adviser to a number of companies. He is a member of the International Advisory Board of the Cass Business School and City University. He is also a trustee of Marie Curie Cancer Care.

David Woods **MA (Cantab), MSc, FIA**
Non-executive director, aged 59.
David Woods was previously a non-executive director of Resolution Life Group Limited. He is a member of the Remuneration Committee and Audit, Risk and Compliance Committee. He qualified as a Fellow of the Institute of Actuaries in 1973 and has spent more than thirty seven years working in the life insurance and investment industries both in the UK and abroad. He is currently Chairman of Royal Liver Assurance Limited, the second largest friendly society in the UK. He was Managing Director of The Scottish Provident Group from 1988 until 2002. He is also a director of Kiln plc, Edinburgh Small Companies Trust plc and The Moller Centre for Continuing Education. He is a trustee of the Xansa Group and Scottish Provident Pension Schemes and a member of the Court of Heriot Watt University.

Mike Biggs **MA (Oxon), ACA**
Group Chief Executive, aged 54.
Mike Biggs was previously Chief Financial Officer of Resolution Life Group Limited and became Group Finance Director of the enlarged Group upon the merger with Britannic Group plc. In March 2007 he was promoted to the position of Group Chief Executive. He began his career at Williams & Glyns Bank before joining Arthur Andersen where he advanced to become a manager within the Financial Services part of the practice. In 1984, he took up a role as manager of finance at Hong Kong & Shanghai Banking Corporation in the UK. After three years he left to become Group Financial Controller of Morgan Grenfell, leaving the bank in 1991 to join Norwich Union as Group Financial Controller. In 1995, he became General Manager of Norwich Union's international operations and was a member of the team that demutualised and floated the Society in 1997. He was appointed Group Finance Director of Norwich Union in that year and following the merger with CGU in 2000 that created CGNU, he was made Group Executive Director responsible for CGNU's UK general insurance business. He was promoted to Group Finance Director in 2001, a position he held until he chose to leave Aviva, the renamed CGNU business, at the end of 2003.

Jim Newman **BSc ACA**
Group Finance Director, aged 42.
Jim Newman was appointed to the Board of Resolution plc upon the promotion of Mike Biggs to Group Chief Executive in March 2007. He was previously Group Financial Controller of Resolution plc, having joined the Company in 2005 from Aviva plc. He held a number of different senior management positions at Aviva, culminating in that of Finance Director of Norwich Union Life Assurance, Aviva's UK life business. Prior to that appointment, he was responsible for managing the worldwide integration of CGU and Norwich Union businesses, following their merger in 2000.

Ian Maidens **BSc FIA FSAI ASA**
Group Chief Actuary & Head of Corporate Development, aged 42.
Ian Maidens joined Resolution Life Group Limited as Group Chief Actuary in early 2005 and took up his current role as Group Chief Actuary & Head of Corporate Development following completion of the merger between Britannic Group plc and Resolution Life Group Limited. He was appointed to the Resolution plc Board in July 2006. He was previously a Principal in the UK life consulting practice of Tillinghast, the global provider of actuarial and management consulting services where he specialised in advising companies on mergers, acquisitions and financial reconstructions, and on the financial management of with-profit funds generally. Prior to joining Tillinghast in 1997, he spent eleven years at life insurer National Provident Institution in a variety of roles, latterly that of Deputy Actuary.

Brendan Meehan **FCCA FCII**
Group Chief Operating Officer, aged 49.
Brendan Meehan joined Resolution Life Group Limited in April 2004 as Chief Operating Officer and was appointed Managing Director of Resolution Management Services Limited in 2005 following completion of the merger between Britannic Group plc and Resolution Life Group Limited. He was appointed to the Resolution plc Board in July 2006 and to the position of Group Chief Operating Officer in March 2007. He began his career in the insurance industry as a broker consultant with Eagle Star before training as an accountant with Royal Insurance. Subsequently he held both financial and operational posts with Royal Life before moving to Holland in 1991 to take up the role of Operations Director of Royal Nederland Levensverzekeringen NV, Royal's newly established life assurance operation. He returned to the UK in 1996 to join KPMG in its Insurance Consulting practice advising clients in the UK Life Industry on financial, operational and strategic issues. In 2001 he became Finance Director of AMP's UK Financial Services business where he led the closing and de-risking of the life funds, implementing revised investment strategies and managing a capital recovery programme which culminated in the successful flotation of AMP's UK assets as HHG plc.

Directors

The names of the current directors are shown on the previous pages. On 17 July 2006 Ian Maidens, Group Chief Actuary & Head of Corporate Development and Brendan Meehan, Managing Director of Resolution Management Services Limited were appointed executive directors. On 6 March 2007 Paul Thompson, who served as a director throughout 2006, left the Company and was succeeded as Group Chief Executive by Mike Biggs whose former position of Group Finance Director was filled by Jim Newman. On 26 March 2007 Brendan Meehan was appointed Group Chief Operating Officer.

In accordance with the Company's Articles of Association Ian Maidens, Brendan Meehan and Jim Newman will be offering themselves for election by shareholders at the forthcoming annual general meeting.

In addition, non-executive director Paul Spencer retires at the forthcoming annual general meeting in accordance with the Articles of Association. The Nominations Committee has initiated a process to refresh Board membership and, to facilitate this, Paul Spencer has indicated his willingness to stand down from the Board upon the next new appointment of a non-executive director. Pending such appointment, Paul Spencer offers himself for re-election. Following the annual performance evaluation of the Board and individual directors, the Board believes that Paul Spencer continues to demonstrate strong commitment to the company and to be an effective member of the Board.

The Board commends to shareholders the election of each of Ian Maidens, Brendan Meehan, Jim Newman and Paul Spencer all of whom they regard as possessing the requisite skills and attributes to continue making significant contributions in their respective roles.

To maintain an appropriate balance of directors the status of Clive Cowdery changed from that of executive to non–executive Chairman with effect from the extraordinary general meeting held on 17 July 2006, in connection with the acquisition of the Abbey National plc life businesses.

Details of directors' interests in the Company's shares are shown in the Remuneration report. Qualifying third party indemnity provisions are in place for the benefit of the directors, the directors of subsidiary companies and other senior officers in relation to certain losses and liabilities which they may potentially incur to third parties in the course of their duties. Apart from these indemnities no director had a material interest in any contract of significance to the Group's business except for Clive Cowdery in his capacity as Chairman of the charity the Resolution Foundation, which received a £400,000 charitable donation from the Company during the year.

Principal activities

The principal activities of Resolution plc and its subsidiaries are the acquisition and management of in-force life funds. Since 1 September 2006, following the completion of the acquisition of the UK and offshore life insurance businesses of Abbey National plc, the Group has also been engaged in writing life and pensions business in the UK and various offshore jurisdictions.

The Group is organised into three broad divisions: life, asset management and management services. The chief operations are in the UK with branches in the Republic of Ireland, the Isle of Man and Hong Kong.

The life division manages Resolution's operating life companies utilising the services provided by the management services division. The life division provides regulated management of the life companies through governance support functions comprising financial control, actuarial operations, legal, risk and compliance. On 31 December 2006, following High Court approval, the life assurance businesses of Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited transferred to Phoenix Life Limited. The purpose of bringing together these businesses was to simplify the operating structure of the life division and to facilitate more effective use of resources, including capital. As part of the transaction to acquire Abbey's life businesses a new business stream was established to manage the distribution relationship with Abbey National plc working within a framework of intermediary and retail distribution agreements.

The asset management division through Resolution Asset Management Limited (RAM), is a provider of asset management services to Resolution Group companies and to third parties, covering both the retail and institutional markets. The majority of the assets of the life division are managed by RAM. Additionally, RAM provides specialist pension fund management on a pooled and segregated basis and distributes a range of unit trusts, ISAs and PEPs.

The management services division through Resolution Management Services Limited (RMS), provides services to all life companies within Resolution as well as Group head office through both in-house operations and by managing relationships with outsourced providers of customer services and IT. As well as customer services and IT, RMS also provides change management, human resources and facilities support.

Business review

The audited results for the year are set out on pages 74 and 75. The detailed financial review of these results, which also includes a review of supplementary financial information provided on a European Embedded Value basis, is set out on pages 10 to 31. This Financial review includes details of the primary key performance indicators (KPIs) in the section entitled "Financial key performance indicators" on page 26. In addition KPIs relating to gearing and interest cover are set out in the "Capital, financing and treasury policy" section on page 28. The Financial review also includes details of the principal risks and uncertainties in the section entitled "Principal risks and uncertainties" on pages 30 and 31. Risk management objectives and policies are also set out in note 48 of the consolidated financial statements.

The Chairman's statement and the Group Chief Executive's operational review on pages 2 to 4 and 5 to 9 respectively review the performance of the business. Information on likely future developments is included in the "Outlook" section of the Chairman's statement on page 4 and in the Group Chief Executive's operational review under the section entitled "Management services" on page 8 in the paragraph concerning outsourcing plans.

The Group presents its policies in relation to Human Resources (including KPIs), health and safety, customer impact, community relations and charitable donations and environment in the Corporate responsibility section on pages 47 to 53.

The information referred to above fulfils the requirements of the business review provisions of the Companies Act 1985 and is incorporated by reference into, and shall be deemed to form part of, this report together with the other information referred to in this Directors' report.

Acquisitions and disposals

On 1 September 2006, the Group completed the acquisition of the UK and offshore life businesses of Abbey National plc, together with the associated new business infrastructure and service companies. The total consideration for the acquisition was £3.6 billion, which was financed by a combination of existing cash resources, a fully-underwritten rights issue of approximately £1.55 billion and new debt facilities. The terms of the rights issue were eight new for every nine existing ordinary shares at an issue price of 480 pence per new ordinary share.

Further details are provided in note 43 of the consolidated financial statements.

Changes in minority interests are provided in notes 22 and 47 of the consolidated financial statements.

Results and dividends

(restated for the effect of the rights issue on 9 August 2006)

The results for the year are set out on pages 74 to 75.

The directors propose the payment of a final dividend for the year ended 31 December 2006 of 13.28p (2005 – second interim dividend: 11.55p) per share which, together with the interim dividend of 6.64p (2005: 5.77p) per share paid on 20 October 2006, represents a dividend for the year of 19.92p (2005:17.32p) per share.

The proposed final dividend, if approved by shareholders at the annual general meeting, will be payable on 15 June 2007 to shareholders on the register of members at the close of business on 1 June 2007.

Creditor payment policy

The Group does not follow any code or standard on payment practice, but it is the Group's policy to pay its suppliers within 30 days of the invoice date or if different, in accordance with any terms agreed with suppliers. As at 31 December 2006, the amounts owed to trade creditors represented 28 days' worth of goods and services supplied to the Group (2005: 27 days). The Company, Resolution plc, had no trade creditors as at 31 December 2006.

Statement of going concern

After making enquiries the directors have formed the view, at the time of approving the financial statements, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Substantial shareholdings

As at 16 April 2007 the Company had been notified of the following direct and indirect interests in voting rights equal to or in excess of 3% of its issued share capital.

	Number of shares	Percentage of issued share capital
Aviva plc	39,131,103	5.71%
Lloyds TSB Group plc	35,791,628	5.22%
Black Rock Inc	33,501,767	4.88%
Legal and General Group plc	27,318,894	3.98%
Perry Partners International, Inc	20,919,067	3.05%
Deutsche Bank AG	20,787,378	3.03%

Disclosure of information to the Company's auditors

In the case of each of the persons who are directors of the Company at the date of approval of this report so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

2007 Annual general meeting

The annual general meeting will be held at The Cumberland, London on Wednesday 6 June 2007 at 10.30am. A Notice of Meeting and form of proxy have been included in a separate document sent to shareholders with this report. Resolutions will be proposed to declare a final dividend, receive the 2006 report and accounts, approve the 2006 Remuneration report, elect directors, reappoint Ernst & Young LLP as auditors of the Company and authorise the directors to determine the auditors' remuneration. Shareholders will also be asked to renew the general authority of the directors to issue shares, together with the authority to disapply pre-emption rights and authorise the Company to make market purchases of its own shares. In addition, a resolution will be proposed to amend the Articles of Association to reflect and take full benefit of some of the new provisions of the Companies Act 2006 and to reflect a number of other legislative, regulatory and best practice developments. The directors intend to vote in favour of each of the resolutions in respect of their own beneficial holdings.

By order of the Board

Randal Barker
Company Secretary

16 April 2007

The Board fully supports the principles of corporate governance and the code of best practice contained in the Combined Code on Corporate Governance published in 2003 by the Financial Reporting Council, and updated subsequently in 2006. The Board further supports the additional measures required by the updated Turnbull Guidance on internal control.

This statement, together with the Remuneration report, explains how the Group has complied with the governance principles as set out in section 1 of the Combined Code.

The Group is committed to maintaining a sound governance framework through which the strategy and objectives of the Group are set and the means of attaining these objectives and monitoring performance is determined.

The corporate governance framework of the Group comprises a set of policies, committees and key roles with defined delegated authorities. The Board Control Manual is the formal document which sets out the framework and terms of reference for the Board, its committees and the responsibilities of key Group level roles as well as the matters reserved for the Board and the authorities delegated by the Board to the executive directors.

Board of directors

The Board has overall responsibility for the governance of the Group. In particular the Board, led by the Chairman:

- establishes strategic objectives and a set of corporate values that are communicated throughout the Group;
- sets and enforces clear lines of responsibility and accountability throughout the Group;
- ensures that Board members and senior management are qualified for their positions, have a clear understanding of their role in corporate governance and are able to exercise sound independent judgement about the affairs of the Group;
- ensures that there is appropriate oversight of the Group's activities by senior management;
- utilises effectively the work conducted by internal and external auditors, as well as other control functions, given their critical contribution to sound corporate governance;
- ensures that compensation policies and practices are consistent with the Group's ethical values, objectives, strategy and control environment; and
- conducts corporate governance in a transparent manner.

In reviewing the Group's overall corporate governance arrangements the Board continues to give due consideration to balancing the interests of policyholders, shareholders, employees and the wider community.

In line with the requirement of sound corporate governance, there is a formal schedule of matters reserved specifically for the Board's decision. These include approval of the Group's long term strategy and business plan, annual operating and capital expenditure budgets and regular review of the Company's and its divisions' performance in the light of the Group's strategy, objectives, business plans and budgets.

The terms of reference for the Board, together with those of its committees are documented formally and are updated as necessary. The Board Control Manual sets out the principal delegated authorities to management to implement strategy, monitor regulatory and reporting requirements, approve accounts and budgets and to manage the day to day operations of the business.

The Board is also responsible for ensuring maintenance of a sound system of internal control and risk management, the approval of any changes relating to the Group's capital structure and approval of major changes to the Group's corporate, management and control structure.

The Board held thirteen meetings during the year, four of which were convened specifically to consider the acquisition of Abbey's life businesses and the associated rights issue. The Board currently comprises a non-executive Chairman, four executive and seven other non-executive directors. The non-executive directors, all of whom the Company determines to be independent, play a full role in constructively challenging and developing strategic proposals as well as chairing and being members of various Board committees. They similarly scrutinise management performance, financial controls and systems of risk management. There is a clearly documented division of responsibilities between the Chairman and Group Chief Executive, details of which are available on the Group website.

The Combined Code also recommends that the Board appoints one of its independent non-executive directors to be the senior independent director. This director is available to shareholders should they have concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate. During the year this role and that of Deputy Chairman was and continues to be fulfiled by Malcolm Williamson. Notwithstanding the fact that Malcolm Williamson was until completion of the merger of Britannic Group plc and Resolution Life Group Limited in September 2005, the independent non-executive Chairman of Britannic Group plc, the Board determined that his independent character and judgement are maintained and that he should continue as the Company's senior independent director.

Company Secretary

All directors have access to the Group Company Secretary whose role includes ensuring that Board procedures and regulations are followed. On entry into the FTSE 100 in September 2006, Randal Barker was appointed Group Company Secretary in addition to his role as Group Legal Director. The Group Company Secretary together with the Group Risk, Audit and Compliance Director is also responsible for advising the Board as a whole, through the Chairman, on all corporate governance matters, assisting the Chairman in assessing what information is required by the Board and in providing an induction programme for new directors. The appointment or replacement of the Group Company Secretary is a matter reserved for Board decision.

Directors' evaluation and training

Performance evaluation of the Board, its committees and individual directors during the year was undertaken primarily through the mechanism of formalised self assessment questionnaires. The process was designed to cover key aspects including the development and monitoring of the corporate plan and strategy, risk management and Board and Board committee effectiveness, as well as directors' performance and commitment. Key results, all of which were positive and constructive, continue to be acted on by the Chairman and the Board. The performance evaluation of the Chairman was undertaken by the non-executive directors, led by the senior independent director, Malcolm Williamson.

In conclusion, it was determined that the Board and its committees continued to operate effectively during the year and that each director continued to contribute effectively and demonstrate commitment to their role.

Specific training requirements of directors are met either directly or by the Company through awareness sessions and legal/regulatory updates. Board succession planning is kept under review by the Nominations Committee.

Board committees

The number of Resolution plc Board and committee meetings held in the year and the attendance of each director is set out below.

Audit, Risk and Compliance Committee

During the year the Audit, Risk and Compliance Committee met nine times. It is comprised solely of non–executive directors; David Allvey, Sir Brian Williamson, Malcolm Williamson and David Woods. David Allvey, a past member of the UK Accounting Standards Board, chaired the committee throughout the year.

The committee is constituted formally with written terms of reference which are available on the Group's website. The committee assists the Board in meeting its responsibilities in respect of the system of risk management and internal control, external financial reporting and all regulatory and compliance matters. This is facilitated by the committee receiving reports on ongoing activities from the finance, risk, internal audit, compliance and legal functions. Relevant executive and senior management as well as the external auditors are invited to attend as appropriate. The external auditors, the Group Risk, Audit and Compliance Director, the Group Legal Director and the heads of risk and internal audit services and compliance and legal officers have direct access to the committee Chairman without the presence of the executive directors for independent discussions.

The committee may examine any matters relating to the financial and compliance affairs of the Group and the Group's internal and external audits. This includes keeping under review the scope and results of the external audit and other services provided by the auditors and their effectiveness, independence and objectivity. The Group operates a formal policy on the provision of non-audit services by the external auditors to ensure transparency and that such matters do not impair the judgement or independence of the auditors. This includes consideration of whether the skills and experience of the audit firm make it the most suitable supplier of non-audit services as well as the nature of the work, the fees and their relation to the total audit fee. Any material

Attendance at meetings in 2006

	Group Board	Audit, Risk and Compliance Committee	Remuneration Committee	Nominations Committee
David Allvey	13 (13)	9 (9)	n/a	1 (2)
Mike Biggs	13 (13)	n/a	n/a	n/a
Sir David Cooksey	12 (13)	n/a	6 (6)	2 (2)
Clive Cowdery	13 (13)	n/a	n/a	n/a
Ian Maidens (appointed 17 July 2006)	4 (4)	n/a	n/a	n/a
Brendan Meehan (appointed 17 July 2006)	4 (4)	n/a	n/a	n/a
Aram Shishmanian	13 (13)	n/a	6 (6)	2 (2)
Paul Spencer	12 (13)	n/a	6 (6)	n/a
Paul Thompson (left 6 March 2007)	13 (13)	n/a	n/a	n/a
Sir Brian Williamson	12 (13)	6 (9)	n/a	2 (2)
Malcolm Williamson	12 (13)	7 (9)	5 (6)	n/a
David Woods	12 (13)	9 (9)	5 (6)	n/a

Figures in brackets indicate maximum number of meetings during the period in which each individual was a Board/committee member. Group Boards include four meetings specifically convened to consider the acquisition of the Abbey National plc life businesses and the associated rights issue. Jim Newman was appointed to the Board on 7 March 2007 subsequent to the year end.

non-audit services require the committee's formal approval.

The Audit, Risk and Compliance Committee also considers and reviews other risk management and control documentation, including the Group's policy on whistleblowing, fraud prevention and the results of internal and external audit and compliance reviews as well as legal reports and the terms of any letters of representation issued to the external auditors. On an annual basis the committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and that of the Head of Internal Audit, a position held currently by the Group Risk, Audit and Compliance Director. A resolution proposing the re-appointment of Ernst & Young LLP as Group auditors will be put to shareholders at the forthcoming annual general meeting.

Remuneration Committee

During the year the Remuneration Committee met six times. It is comprised solely of non–executive directors; Sir David Cooksey, Aram Shishmanian, Paul Spencer, Malcolm Williamson and David Woods. Sir David Cooksey chaired the committee throughout the year.

The committee is constituted formally with written terms of reference available on the Group's website. The committee assists the Board in discharging its responsibilities in relation to remuneration, including determining the individual remuneration and benefits of each of the executive directors in accordance with the Company's policy for executive remuneration, making recommendations and monitoring the specific remuneration packages of senior management below Board level. It is also responsible for approving the overall remuneration policy in relation to all other employees.

Nominations Committee

During the year the Nominations Committee met twice. It is comprised solely of non-executive directors; Sir Brian Williamson, David Allvey, Sir David Cooksey and Aram Shishmanian. Sir Brian Williamson chaired the committee throughout the year. The committee is constituted formally with terms of reference which are available on the Group's website.

The committee assists the Board in discharging its responsibilities relating to its structure, size and composition, including the skills, knowledge and experience required of its members. It is also responsible for consideration of succession planning for directors and other senior management, identifying and nominating for approval by the Board suitable candidates to fill Board vacancies as and when they arise. Generally, external search consultants are engaged to assist in the selection of candidates to fill Board vacancies. However, during the year two internal appointments were made which, whilst not affecting the individuals' respective roles within the Group, were deemed by the Board, upon recommendation of the Nominations Committee, to be in the best interests of the Group as they added considerable depth and strength to the then existing Board. Ian Maidens, Group Chief Actuary & Head of Corporate Development, and Brendan Meehan, formerly Managing Director of Resolution Management Services Limited, were appointed to the Board as executive directors on 17 July 2006.

Subsequent to the year end the committee recommended the promotion of Mike Biggs to the position of Group Chief Executive on 7 March 2007 and his replacement as Group Finance Director by Jim Newman, formerly Group Financial Controller. On 26 March 2007 Brendan Meehan was appointed as Group Chief Operating Officer.

All new directors appointed by the Board are required to submit themselves for election at the next annual general meeting. In addition, the Articles of Association of the Company require the directors to submit themselves for re-election to the Board at least every three years.

Group Executive, Risk and Capital Management Committees

These three committees are not Board committees but are established through the authority delegated to the Group Chief Executive.

The Group Executive Committee, chaired by the Group Chief Executive, meets monthly on a formal basis and also comprises the Group Finance Director, the divisional Managing Directors, the Group Chief Actuary & Head of Corporate Development and, since March 2007, the Group Chief Operating Officer. This committee assists the Group Chief Executive in developing strategy and by challenging and reviewing business plans and performance for ultimate consideration by the Board.

The Group Risk Committee, chaired by the Group Chief Executive, meets monthly and also comprises the Group Finance Director, the Group Chief Actuary & Head of Corporate Development and, since March 2007, the Group Chief Operating Officer. This committee assists the Group Chief Executive in the formulation of the Group's overall risk appetite, tolerances and strategies for managing all significant financial and non-financial risks facing the Group. This committee played a key role in the review and recommendation of the Group policies that were developed and implemented through 2006 and in the management of and response to the FSA's risk review (ARROW) visit and report. The committee regularly reviews management information produced by the Group Risk, Audit & Compliance Director to ensure that the business is operating within agreed risk tolerances and to modify when necessary those tolerances.

The Group Capital Management Committee, chaired by the Group Finance Director, also comprises the Group Chief Executive, the Group Chief Actuary & Head of Corporate Development and the Group Financial Controller. The committee, which meets quarterly, advises the Group Chief Executive on all aspects of the Group's capital and solvency management as well as monitoring implementation and management of related Board approved strategies and policies.

Directors' remuneration

Details of remuneration policy, service contracts and the remuneration of directors are provided in the Remuneration report on pages 54 to 64 which has been prepared in accordance with to the requirements of the Companies Act 1985.

Investor relations

The Group operates an active investor relations programme to ensure that senior management meet regularly with major shareholders, potential new investors and market analysts to discuss the Group's strategy and financial performance. The Board will consult with major institutional shareholders and representative bodies such as the Association of British Insurers and the National Association of Pension Funds on substantive issues and takes regard of institutions' corporate governance guidelines. To keep appraised of the stockmarket's views of the Group, research from market analysts is distributed to the Board together with a regular summary of institutional investors' views.

The Group also communicates with private and institutional shareholders through its annual general meeting and the interim and annual reports. Shareholders may also access the Group's website at www.resolutionplc.com which contains links to investor and corporate information, including access to webcasts of financial results and other presentations given by senior management.

Votes representing some 54% of issued share capital were cast at the 2006 annual general meeting of which votes in favour of the resolutions varied from 98% to 99%. At the extraordinary general meeting to approve the acquisition of Abbey's life businesses and the associated rights issue, votes representing 66% of issued share capital were cast with votes in favour of all resolutions in excess of 99%.

Responsibilities as institutional shareholders

As a major institutional shareholder itself, the asset management division on behalf of the Group continues to exercise its responsibility as a shareholder by using its voting rights and seeking regular contact with the management of those companies in which it is invested. Investment managers at Resolution Asset Management with responsibility for some £61 billion of funds, take into account any factor that might have a bearing on performance as part of their stock selection process including socially responsible investment issues.

Accountability and audit

The responsibilities of the directors and auditors in relation to the financial statements are set out on pages 65 and 147 and pages 66 and 148 respectively.

Risk management and internal control

The Board recognises its overriding responsibility to ensure that high standards of corporate governance apply throughout the Group. It seeks to deliver continuous improvement in the governance policies and practices in operation, important strands of which relate to risk management and internal control. To support this desire, the Board has constituted the Audit, Risk and Compliance Committee, with clear terms of reference which outline its responsibility to review, on behalf of the Board, the key risks inherent in the divisions and the systems of control in place to mitigate these risks. These duties include:

- as a minimum, an annual review of the effectiveness of the Group's system of internal control and risk management and the reporting of these matters to the shareholders;
- reviewing the Group's governance strategy and recommending how changes in guidance, legislation and regulation should be implemented;
- reviewing, and where relevant approving, the remit of internal audit across the Group, internal audit plans and findings and the appropriateness of management's response to internal audit recommendations;
- reviewing the effectiveness of the Group's policies and procedures for the management of risk and receiving regular reports highlighting material strategic, external, operational and financial risk matters and how those risks are being managed throughout the Group. This includes any material legal or regulatory proceedings to which the Group is a party; and
- reviewing and approving the compliance function's strategic and operational plans and receiving reports on material compliance issues and management's response to these issues.

During 2006, the acquisition of Abbey's life businesses created additional responsibilities for the enlarged Group. However, despite these additional responsibilities no material changes to the framework were required to accommodate the organisational changes. The structure of committees, policies, roles and delegated authorities, all of which are supported by the independent assurance functions of risk, audit and compliance, have been rolled out to the enlarged Group.

As outlined above, clear Board and Board sub-committee structures, membership and terms of reference have been implemented and adopted by all divisions within the Group.

The directors are responsible for the Group's system of risk management and internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. Due to the limitations that are inherent in any system of internal control, it is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material mis-statement or loss.

In assessing the business risks the directors take into account any benefits that may accrue from risk acceptance before making a commercial decision to ensure that risks are commensurate with the anticipated returns.

On a six monthly basis senior managers who are registered with the FSA are required to perform a review of the systems of control and management of risk in their area of responsibility. Each manager considers the scope of their role, the risks they face and how effectively the controls have operated. A declaration is made by each manager to confirm that either all risks and issues that are material to the Group have been reported through the regular reporting mechanisms or that exceptions exist. The results of this exercise for 2006, which are reported initially to divisional Audit, Risk and Compliance committees, have shown no material exceptions to report to the Group Audit, Risk and Compliance Committee.

A set of Group policies has been defined by the Group and approved by the Board. These policies cover the key risk areas that the Board determines are important to it and the Group's stakeholders. The policies set a minimum standard by which the Board expects the Group and each division to operate, thereby creating a consistent framework for management and governance across the Group and all divisions.

Systems of internal control have been developed to manage the Group's business risks. Business risk and the effectiveness of internal control are reviewed frequently by directors throughout the Group, including significant assessment activity subsequent to the acquisition of Abbey's life businesses. Weaknesses identified during the course of these reviews have been incorporated into action plans to deliver improvements. None of the weaknesses identified have given rise to material loss, contingency or uncertainty that require disclosure.

Risk identification, evaluation and management

A consistent framework for risk management across the Group enhances the internal control environment. The framework is applied through an ongoing process which requires thorough identification, evaluation and management of risk and a common basis from which significant risks can be reported to the Board, allowing comparability across the Group. The assessments also provide a key input, where relevant, to the Group and subsidiary risk based capital calculations.

Senior management are accountable for the management of risk within their operational areas. This involves the identification of the risks facing them in their operational areas, the assessment of the controls necessary to manage those risks and ensuring that these are documented, monitored and reported against on a regular basis.

The Group has established independent risk management functions which are responsible for the development and implementation of enhanced risk identification, assessment, management and reporting processes. These functions support senior management throughout the risk management process and also identify the significant risks to be reported at divisional and Group level based on defined materiality levels.

During 2006 the Group commenced the implementation of an operational risk application, covering all divisions, which will provide further assurance over the operational risk and internal control environment.

The significant control elements of risk management that operate across the Group include:

- delegated authorities to respective divisional managing directors to manage and operate their businesses within the limits and policies set by the Group Board;
- regular meetings of the Group and subsidiary executive teams to manage business activities and risks;
- risk committees, which meet at least four times a year and comprise the relevant members

of the executive teams. These committees which have been established at Group and divisional level monitor and review information from the Group's risk management processes and report their findings to the divisional Audit, Risk and Compliance Committee and, through the Group Risk, Audit and Compliance Director, to the Group Audit, Risk and Compliance Committee; and

- the application of detailed modelling techniques to analyse the financial position and the sensitivity of the Group to economic and business scenarios, in particular through developing approaches to the calculation of risk based capital and the support of the FSA's Individual Capital Assessment process.

In addition to the risk management functions the Group maintains internal audit and compliance functions with specific responsibilities to audit and review risk management and internal control processes and structures across the whole Group. These review and audit programmes are based on assessments of the risk profile of the Group and subsidiaries and results are reported formally to executive management and the Group and divisional Audit, Risk and Compliance Committees. The Group Risk, Audit and Compliance Director reports to the Chairman of the Group Audit, Risk and Compliance Committee in relation to risk management, internal audit and compliance issues, in addition to the Group Finance Director. The heads of the internal audit and compliance functions for each division report directly to the chairmen of their relevant Audit, Risk and Compliance Committees and to senior executives within each division.

The heads of risk management, compliance and internal audit from across the Group also meet on a quarterly basis, chaired by the Group Risk, Audit and Compliance Director, to ensure consistency of approach and reporting throughout the Group and sharing of material issues and management practices.

Management is responsible for ensuring that sufficient control procedures exist in relation to transaction processing and other business activities to manage risk effectively. The additional elements of the internal control structure which allow the directors to be confident that key risk areas are being managed effectively include the following:

- processes are in place at Board level to ensure that strategy is focused, remains clear, can accommodate internal corporate restructuring and can respond to the corporate development of competitors;
- the life divisions have committees to review investment strategy, asset and liability management, investment performance and the performance of asset managers. These committees, which ensure the appropriate implementation of investment and credit risk policies, report to the divisional executive management team;
- a formal function and governance process has been established for the close and regular monitoring of the Group's outsourced providers, in particular in relation to policyholder administration activities. This includes monthly review meetings with outsourcers to review performance and adherence to service level agreements;
- the Group uses derivatives, where appropriate, for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. The Group has policies in place in relation to such transactions and robust approval procedures;
- there are detailed control procedures in place at the life and pensions and new business divisions surrounding underwriting risk and the reassurance of this risk. Underwriting practices and reassurance treaties are subject to regular reassessment, review and monitoring. Specialist actuarial resource has been allocated to further developing insurance risk management;

- detailed plans, budgets and key performance indicators aligned with corporate strategy are developed and monitored by the boards and executive committees of each operating subsidiary on a regular basis. Key performance indicators cover all aspects of each division including customer service, human resources, technology, products and sales and marketing; and

- the Audit, Risk and Compliance Committee responsible for each business division within the Group receives regular reporting on internal controls and on compliance with all key regulation and legislation to which the business division is subject.

The Group Risk, Audit and Compliance Director is responsible for ensuring that the Group has appropriate insurance cover to mitigate certain risks that have been identified. Upon the acquisition of Abbey's life businesses a full review of the Group's insurance broking arrangements and insurance cover was conducted to ensure that the cover purchased fully reflected the most recent changes in the Group's business risk profile.

The risk management processes and internal control environment described above have been in place across the Group throughout 2006 including the acquired Abbey life businesses with effect from 1 September 2006 and accord with the Turnbull Guidance on internal control. These processes are subject to continual review and enhancement and further improvements are planned for 2007.

Combined Code compliance

The Board confirms that the Company complied with the provisions set out in section 1 of the Combined Code throughout the twelve months ended 31 December 2006, save that not all of the Board were available to attend the 2006 annual general meeting (Code provision D.2.3) and that the 2005 annual report was sent to shareholders less than twenty working days before the meeting (Code provision D.2.4) due to the merger of Britannic and RLG and the extended time required to complete the substantial additional disclosures arising from the adoption of International Financial Reporting Standards and the European Embedded Value methodology for the first time.

In setting its corporate standards, Resolution takes account of the significance of social, environmental and ethical matters. Any such matters of significance are also addressed through the Group's risk management framework which considers operational and reputational risks as well as those of a legal, regulatory and financial nature. The Group's corporate responsibility policy is supported by more detailed policies on issues such as human resources, health and safety and the environment.

Resolution is committed to being a responsible member of the various communities in which it operates and recognises its obligations to all its stakeholders including policyholders, shareholders and employees. The Board has designated the Group Chief Executive with specific responsibility for corporate responsibility issues, supported by the Group Company Secretary. Resolution has developed a set of values that underpin the way the Group works internally and how it interacts with its stakeholders. These values are:

Fairness – We are honest and transparent with each other and our customers. We treat all our stakeholders fairly and we act to the highest standards of integrity.

Ownership – We take responsibility for all our tasks, we own the corporate strategy and are empowered to do so.

Teamwork – We work as a team, sharing information and tasks and we nurture our talent.

Dedication – We are dedicated to success, to being the best in our sector and to beating the competition.

Human resources

The Group fully recognises both the value and significant contribution its employees make to the current and future success and growth of the business. Group Human Resources (HR) policies are therefore aligned to the business, the employees' needs, the regulatory environment and stakeholder expectations.

The stated HR strategy is to "enable the organisation to optimise the contributions of its people". To achieve this the Group HR function provides HR Business Partners to all divisions to deliver a full range of HR services. Group-wide approaches to HR issues are adopted where this supports the development of a single employer brand, where this improves operational effectiveness and where Group capability can be improved by common development and reward practices.

Robust frameworks have been developed for a wide range of people processes, including recruitment, reward, learning and development, the establishment of employee competence and performance management. All our people policies aim to meet the expectations of our employees, stakeholders, the FSA and other regulators.

Employment policy

Resolution is committed to creating an environment in which all of its people feel fully able to contribute to the future success and growth of the business.

The Group wishes to be considered an employer of choice with a commitment to recognising, retaining and appropriately rewarding its staff. To help the Group achieve this, the HR function aims to deliver robust and value-enhancing people frameworks and benchmarks itself against a range of comparable companies to ensure best practice.

Within the Group, trade unions and elected bodies are recognised for consultation and negotiation purposes with clear documented procedures and policies surrounding these activities. In addition to this, a meaningful commitment is made to employee communication with several forums and communication channels being maintained to ensure all employees are regularly updated on business progress.

Throughout the Group a variety of informal and formal means are used to gain feedback from employees. During the year confidential questionnaires providing anonymity of response are used to gather staff views on a number of cultural and similar issues. The results of the 2006 staff survey have been evaluated by an independent external agency and areas identified for management attention are being addressed through a HR business change programme.

All employment and training policies are fully compliant with appropriate employment legislation and regulatory obligations. HR practice is audited regularly and is reviewed at Board level.

Resolution is an equal opportunity employer and encourages, through the ongoing development of its HR policies, the recruitment and retention of a fully diverse workforce. Policies were reviewed and revised as necessary and workshops held for senior managers during the year with regard to new anti-age discrimination legislation. 'Family-friendly' policies are also in place to encourage flexible working and are consistent with the need to maintain effectiveness and levels of customer service. Many of these arrangements improve upon current legislative requirements.

Full and fair consideration is given to applications from, and the continuing employment, training, career development and promotion of, disabled people.

Where the Group finds it necessary to make redundancies, for example as a result of its acquisition strategy, its approach to managing such situations is to seek to meet or improve on best practice. Included in this approach is full consultation through recognised trade unions or elected consultative groups, enhanced redundancy terms incorporating statutory minimum requirements and appropriate counselling and outplacement support provided by an external supplier.

In addition, every effort is taken to reduce the impact on the established headcount. Vacancies are frozen wherever possible, the need for temporary staff is reviewed and redeployment encouraged and supported with trial periods, training and development.

Human capital metrics are produced within the Group to support the effective management of staff. This incorporates a number of people-related measurements, such as 'turnover', headcount and absence to identify trends and patterns.

The Group HR department monitors numerous people metrics across the Group throughout the year. This assists the Company in analysing people trends and performance against comparable companies. During 2006 some of the key 'people' performance indicators were:-

Key performance indicator description	Annual measure[1]
Annual staff turnover (Intended to illustrate the turnover of the population choosing to leave the company voluntarily)[2]	7%
Annual new starter turnover (Intended to illustrate the number of employees leaving voluntarily within first 12 months of employment)[2]	8%
Percentage days lost through sickness (Intended to illustrate the total days lost as a result of the absence instances in the population)[2]	1%
Percentage employees sponsored on Professional Qualification (Intended to illustrate the number of employees being sponsored, by the company, through a professional qualification in 2006)[3]	31%
Percentage employees promoted internally (Intended to illustrate the number of employees who had an internal promotion in 2006)[2]	7%

1 These figures exclude ex-Abbey National plc life business employees due to the fact that the acquisition took place in September 2006. Annual figures for the new enlarged Group will be included in future reports.

2 Source: Company HR Information System

3 Source: Resolution Learning and Development

Recruitment

The Group is committed to providing its customers with the best service, maintaining its reputation for financial integrity and complying with all legal and regulatory requirements. This includes meeting the rules of the FSA and other regulators when appointing people to certain customer facing and back office positions and senior management roles. Every divisional Managing Director is responsible for understanding the regulatory requirements relating to recruitment and ensuring that these are applied in their division as necessary.

In order to provide assurance that the Group is complying with legal and regulatory requirements and internal policies, appropriate documentation is retained within the guidelines of the Data Protection Act to ensure that the recruitment process is compliant.

The Group HR Director is responsible for developing people planning processes which ensure that the right people, based on skills and capabilities, are in place to meet current and anticipated business needs.

Learning and development

The Group is committed to the provision of appropriate learning and development for both regulated and non-regulated positions. Individual training needs are linked to the achievement of agreed business objectives and are met through a variety of training interventions.

A set of organisational competencies has been developed which are linked to the achievement of business objectives and are used by all managers and employees to assess their training and development requirements.

The Group has formal Training and Competence Schemes which are monitored regularly by the Training and Competence Manager and directed by a Corporate Governance Forum. In addition, all regulated overseers have formal competence trackers.

During the year, Scottish Provident International, which employs approximately 140 staff in the Isle of Man, was awarded Investors in People Champion status, one of only nine organisations to receive this prestigious award in 2006. This programme recognises employers that have enhanced the performance of their organisation through the way they manage and develop their employees.

Succession planning

Whilst a corporate overview is maintained by the Nominations committee via the Group Chief Executive and the Group HR Director, succession planning is managed by the divisional Managing Directors and plans are maintained for key roles within the divisions.

It is the responsibility of the Group HR Director to ensure that individuals who have been identified as possible successors for senior Group roles and key specialist Group roles have an up to date development plan and to track performance against the development plan.

Reward policy

Reward strategies are linked to market comparators, personal performance, location and overall Group performance.

In addition, Resolution adopts a ‘total reward’ approach which considers both financial and non-financial elements of valuing the contributions of employees.
In general the policy across the Group is typified by market median reward for median performance as benchmarked against the appropriate sector and the use of fixed and variable reward elements that encourage greater reward for higher performance.

Differing pensions arrangements exist across the Group with both defined benefit and defined contribution schemes, the former of which are closed to new entrants generally. A stakeholder scheme is also available to those employees who are eligible.

Health and safety policy

The Group aims to achieve best practice in all areas of health and safety, recognising that the Board as a whole has a collective role in providing health and safety leadership throughout the Group.

On behalf of the Board the Group Chief Executive is responsible for setting the overriding Group health and safety goals within which subsidiary company policies are to operate and for reviewing progress on the achievement of goals. The Group complies with relevant legislation including the Health and Safety at Work Act 1974 and all staff are given basic health and safety information upon starting employment. Training is given not only to comply with minimum statutory requirements but also to secure a continuing safe and healthy working environment for employees and all those who may be affected by the Group's activities. Induction training covers fire procedures, first aid and accident reporting and as far as appropriate for an office based concern, instruction under the Control of Substances Hazardous to Health Regulations and in the use of personal protective equipment. Particular attention is focused upon providing guidance in the usage of visual display screen equipment and workstation layout.

Customer Impact Scheme

In March 2006 the Group Board signed up to the Association of British Insurers' (ABI) Customer Impact Scheme. All participating companies have signed up to three customer commitments.

- To develop and promote products and services which meet the needs of customers.
- To provide customers with clear information and good service when they buy products.
- To maintain appropriate and effective relationships with customers, providing them with a good service after they have bought a product.

The Customer Impact Scheme is part of our industry's commitment to continuously build on customers' experiences. An annual customer telephone survey was conducted to better understand our customers' experiences and attitudes. A Customer Impact Scheme Report for 2006 has been published which details our progress towards the commitments.
This is available via the Group website at www.resolutionplc.com, or in hard copy format on request by telephoning 01564 20 2529. For more information about the scheme, please visit the ABI website www.customerimpact.org.

Community relations and charitable donations

The Group is committed to playing an active role in the wider community through sponsorship, supporting local initiatives and charitable donations. Offices are encouraged to identify and support such events and causes as they deem appropriate through various means, including enabling employees to take reasonable time off on an ad hoc basis to support such initiatives and making financial contributions to charitable causes supported by employees' generosity.

Project Ability is a community based initiative, established in 1984. The Glasgow based scheme aims to encourage and develop the artistic talents of those with special needs, assisting them in taking an active part in local and international arts events. Resolution Asset Management is in its tenth year of sponsorship of this project.

The project has provided funding and assistance to allow many new artists from socially excluded backgrounds to exhibit their works.

2006 was also the tenth successive year that Resolution Asset Management was the title sponsor of the annual Women's 10k Road Race in Glasgow. The 2006 race attracted some 15,000 runners with over £1 million being raised for charities as a result. Resolution Asset Management will continue to sponsor the event for at least a further two years through to 2008.

Scottish Provident International (Isle of Man) is in its thirteenth year of sponsorship of a children's cycling league. The league runs from April to September and then continues off

Island with many young people competing and winning in UK competitions.

At the life division's Wythall office efforts continue to build on involvement with the local community. A specific partnership approach has been developed with two secondary schools whereby assistance is given to students to facilitate the transition from school to working life. Resolution also participates in the Young Enterprise programme in which volunteers from the local business community act as mentors to a group of sixth formers who set up and run a real business for an academic year. In addition, Resolution has provided work experience placements to schools, including Queen Alexandra College in Birmingham which is a college for people with visual impairment and other disabilities. These programmes are designed to give students a meaningful experience with the Group and provide them with an insight into the business environment.

During the year £108,839 (2005: £47,235) was donated by Resolution companies for charitable purposes. This included a donation of £40,000 to the Farepack hampers appeal. Resolution also made a £400,000 (2005: £400,000) charitable donation to the Resolution Foundation. The purpose of the Foundation, which was established by Resolution Chairman Clive Cowdery, is to carry out research into the financial decisions made by, and the financial advice available to, people on limited incomes, and to provide education on financial matters and the making of responsible financial decisions.

Employee charity consultative groups are established within the Group with responsibility for co-ordinating employee fundraising and reviewing requests from employees to support specific charities.

Such fundraising events organised by staff have included raffles, dress down days and various competitions. During the year a total of £22,411 (2005: £19,521) was raised by employees around the Group.

No political donations were made during the year.

Environment

Climate change is arguably the most significant challenge facing the world in the 21st century. The scientific evidence of the causes and effects of climate change and the associated economic risks are overwhelming. Business has an immediate responsibility to help reduce carbon dioxide emissions to the atmosphere.

Although the financial services sector on its own does not generate large volumes of carbon emissions, Resolution understands that the behaviour of its own people as well as those from whom it buys in goods and services together contribute to the global carbon footprint. It is also aware that companies in which it invests are part of the same footprint. The potential influence that the financial services sector can bring to shift behaviours and business practices is clear and meaningful action is needed.

Carbon footprint

The Board has decided to take a sustainable approach to address the escalation of carbon emissions to the atmosphere. As a new FTSE 100 company in 2006, Resolution took measures to define its own carbon footprint as the first step on a journey towards carbon neutrality. Recognised experts were retained to conduct a review of carbon emissions across the main UK locations.

Programme for 2007/08

A programme of activities has been drawn up through which to achieve neutrality during 2008 whilst aiming to make significant progress during 2007. These activities include:

- ***Reducing energy consumption***

  By appointing local "green champions" at each location the Group will raise awareness of its aim to achieve neutrality. Like-for-like cost saving activities will educate and motivate people to reduce energy consumption by around 15% compared with last year.

- ***Procuring "green" energy***

  The Group has taken advice on how to procure green or renewable energy that qualifies towards its emissions reduction target. It will ensure that the source of green energy purchased is verified and accredited. As green energy currently sells at a premium, the fluctuation of supply versus demand and any premiums paid for such green energy will be monitored prudently to ensure that energy expenditure is reduced when possible. Activities will be introduced to educate staff about green energy availability and sourcing to encourage them to evaluate their own carbon footprints. It is anticipated that about 65% of emissions will be reduced through the sourcing of green energy.

- ***Obtaining certified carbon credits and offsetting***

  Having reduced energy consumption and procured the optimum amount of green energy the Group will obtain certified carbon credits for the remaining 20% of emissions. These credits will be offset within schemes that can demonstrate clearly their benefits. Resolution has retained the help of recognised experts to evaluate options for offsetting and to verify transparency. Further savings will be achieved by monitoring and reducing staff business travel. Continuation of local projects to reduce emissions through car pooling will be encouraged. Though these fall outside the Group's target footprint, it will encourage people to explore such economies as part of their individual carbon footprints.

To engage stakeholders behind the 2008 target, particularly staff and the communities where they work, a programme of integrated communication activities will be rolled out during 2007.

Resolution is already a member of the FTSE4Good index. In 2006, it was invited to join initiatives such as the Carbon Disclosure Project and to subscribe to the Principles for Responsible Investment launched by the United Nations Environment Program Finance Initiative. The Group plans to support industry initiatives and to subscribe to carefully selected environmental programmes.

As part of its journey towards carbon neutrality over the year ahead, the Group will report to shareholders on the progress it makes.

Emissions Summary[1]

Emissions Source	Total Emissions (tCO_2)	Emissions per employee (tCO_2)
Energy	10,350	2.98
Business travel	1,201	0.35
Total 'Core' Emissions	**11,551**	**3.33**
Employee commuting	2,253	0.65
Other	5,981	1.72
Total 'Other' Emissions	8,234	2.37
Total	**19,785**	**5.70**

Excluding commuting and other emissions such as those associated with the manufacture of paper consumed in offices as well as essential outsourced services, Resolution's core emissions stand at 11,551 tCO_2. This is the level of emissions over which the Group has direct control and that, through a programme of activities in 2007/08, it is committed to neutralise. Relative to other major UK financial services companies this is high, and leaves a significant opportunity for improvement. Partly, this reflects the existing practices in the businesses that have been acquired recently by Resolution and the overriding focus on integrating those businesses. The Group recognises that so-called emissions contribute to its overall carbon footprint but, as these are outside its direct control, it will continue efforts to reduce them rather by influence and the motivation of its people. Resolution's carbon footprint is presented initially as a benchmark for improvement by the Group and its people.

Note: 1 Full year emissions included for the life businesses acquired from Abbey National plc in September 2006.

Other environmental issues

Besides climate change, Resolution has an existing programme addressing environmental issues. Resolution comprises office based businesses with relatively low direct environmental impacts. The environmental programme is focused therefore on improving resource use efficiency to protect the environment and reduce operating costs.

Collection systems are in place to recycle waste paper, cardboard, cans and plastic bottles, disused fluorescent light tubes and photocopier/printer toner cartridges. In addition, during the year the Wythall catering team reduced non-food waste by more than 30% on the previous year.

Energy consumption levels are monitored in order to control energy usage, with regular reviews for example of lighting levels in non essential areas where this has been safe to do so.

The provision of a local staff bus service for the Wythall office helps reduce pollution by providing an alternative to travelling to and from work by car.

Gas and air-conditioning contracts are wherever possible placed with providers operating a refrigerant gas reclamation policy. Enquiry is also made of any new contract supplier as to whether they have and operate an environment policy and management system.

During 2006 the Wythall site continued to support the British Trust for Ornithology-Hanson Business Bird Challenge through the work in our conservation area. The BTO-Hanson Business Bird Challenge is a unique partnership between businesses, the BTO and local communities which encourages biodiversity on business and industrial sites. Other projects carried out as part of this initiative have included the installation of more nesting boxes for birds, bats, ducks and hedgehogs around the grounds, beehive and hibernation and nesting boxes for bees, lacewings, ladybirds and butterflies. The newly prepared wild flower meadow has bloomed and seeded very successfully. An annual butterfly and moth count for Butterfly Conservation was again undertaken, recording the number and species of butterflies and moths seen on site. Results show that over the last five years there has been an increase in these species and their numbers.

During 2007 work will continue to enhance planting within the grounds and to provide additional signage to emphasise the conservation area and the role it plays in the diversity of the site.

The Resolution Remuneration Committee determines overall pay policy, the remuneration packages and service contracts of individual executive directors and their direct reports, and of the managing directors of the Group's life, management services and asset management divisions. This report has been prepared in accordance with the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002. It also describes how the principles of the Combined Code on Corporate Governance are applied by the Company in relation to directors' remuneration and sets out the remuneration policy for the year ended 31 December 2006, the current year and, subject to ongoing review, future financial years.

Remuneration Committee

Details of the composition of the committee, all of whose members have been determined by the Company to be independent, are given on page 41. The Chairman and Group Chief Executive may be invited to attend meetings but are not present when their own remuneration is discussed. During the year the Group Human Resources Director presented recommendations to the committee on remuneration levels, including bonuses, in conjunction with external advice commissioned by the committee directly from its appointed remuneration consultants, New Bridge Street Consultants LLP (NBSC), which has provided no other services to the Company. Hewitt Associates act as the Group pension scheme administrators and pensions consultants as well as providing actuarial and technical advice to the Group's pensions review unit. The Group Company Secretary is secretary to the committee.

The terms of reference of the committee, its constitution and its performance were reviewed during the year. Following this review it was decided that the committee was operating effectively and no changes were required. The terms of reference of the committee and the terms of engagement between the Company and NBSC are available on the Group website or on request.

Remuneration policy

It is the Group's policy to recruit and retain high calibre executives. An annual review of remuneration is undertaken to ensure reward levels are appropriate to the duties and responsibilities of each role. This includes ensuring a suitable balance between fixed and variable performance related elements of pay. As such, policy has been to gradually enhance variable pay to a level more commensurate with a company of the Company's size and complexity, provided that performance exceeds challenging objectives. In determining salary levels for executives, due regard is given to external market data concerning all elements of remuneration, to comparisons across the financial services sector and with similarly sized companies across a range of sectors and to pay and employment conditions generally within the Group. The comparisons used are all generally related to median market reward levels. The policy also aims to match remuneration appropriately to the objectives of the respective divisions within the Group.

Short term and long term incentives are directed to providing incentives to executives to respond to the challenges of the changing financial services market as well as increasing regulatory control and supervision. Accordingly, the incentives have been directed towards a combination of internal measures aimed at delivering change in line with the corporate strategy and giving emphasis to regulatory compliance and external measures that recognise the enlarged Group's increased size, raised profile and responsibilities to customers.

Annual bonuses are related to internal cost and profit targets together with business aligned challenging personal targets. Long term incentives for senior executives have their performance targets related to a combination of total shareholder return performance against comparable FTSE companies and pre-set embedded value per share targets.

Annual bonuses and long term incentive rewards are non-pensionable.

In formulating and reviewing its policy the committee follows the provisions of Schedule A to the Combined Code on Corporate Governance and seeks to align pay with shareholder interests.

Remuneration

Base salary

The committee normally reviews salaries annually, taking into account individual and Group performance, the scope and nature of the specific role, remuneration policy within the Group and known salary levels in comparable companies. No review of executive directors' salaries was undertaken in January 2006 because salaries were set in September 2005 at the time of the Britannic/Resolution merger. Accordingly, the review taking effect in January 2007 reflected the first increase of executive directors' salaries in sixteen months.

Following the review of the executive directors' salaries the base salary of the former Group Chief Executive, Paul Thompson, was left unchanged at £525,000 (2006:£525,000); that of Group Finance Director, now Group Chief Executive, Mike Biggs was increased to £400,000 (2006:£375,000); that of Group Chief Actuary & Head of Corporate Development, Ian Maidens was increased to £360,000 (2006: £325,000); and that of Managing Director of Resolution Management Services Limited, Brendan Meehan was increased to £360,000 (2006:£325,000).

Following the year end, Paul Thompson stepped down from the role of Group Chief Executive and left the Company (details of his leaving arrangements are set out on pages 58 and 64). With effect from 7 March 2007, Mike Biggs was promoted to Group Chief Executive with a base salary of £600,000 and Jim Newman joined the Board as Group Finance Director with a base salary of £380,000. These figures were set at a slightly lower level than the prevailing mid-market levels to give scope for further increases to the appropriate level as they gain experience in their new roles. To reflect their enlarged responsibilities under the new management structure the base salaries of Brendan Meehan and Ian Maidens were also increased to £380,000 with effect from 7 March 2007.

Up until his change of status from executive to non-executive Chairman on 17 July 2006, Clive Cowdery was paid a pro-rata salary of £15,000 per annum. Thereafter he waived any fee to which he would otherwise be entitled as consideration for his chairmanship. The Company instead donated £400,000 to the charity, the Resolution Foundation, which he also chairs.

The executive directors' remuneration also includes a non-pensionable car cash allowance which is paid monthly. In place of a car allowance, the Group continues to meet the travel costs of Clive Cowdery which include the use of taxis and a chauffeur as and when requested. Non-pensionable benefits in kind also include, for the executive directors, private medical insurance.

Annual bonus

Different bonus arrangements exist for executives and management at Group and divisional levels.

The 2006 scheme for the Group Chief Executive, Paul Thompson, provided a short term bonus target of 62.5% (maximum 125%) of base salary. The committee awarded him an aggregate 125% bonus against profit targets (75% of base salary) and challenging objectives that included producing results ahead of plan, strengthening the management team and business re-organisation (50% of base salary). For 2007 his target short term bonus remained at 62.5% (maximum 125%) of base salary. On leaving the Company he received a pro-rated maximum bonus for the period up to his departure, reflecting the fact he had earned a maximum bonus for 2006 and the strong start to 2007.

For 2006 Mike Biggs, Ian Maidens and Brendan Meehan were set a short term target bonus of 50% (maximum 100%) of base salary which was split 50% against a European Embedded Value operating profit target and 50% against personal objectives that included producing results ahead of plan, strengthening the management team and business re-organisation. The committee awarded for the full year both Mike Biggs and Brendan Meehan aggregate 2006 bonuses of 97% and Ian Maidens, 100%, of base salary. For 2007 their target short term bonus has been set at 62.5% (maximum 125%) of base salary consistent with the Company's policy of moving executives to a competitive bonus opportunity for the delivery of outstanding levels of performance. Of the potential bonus, 60% is set against an European Embedded Value (EEV) operating profit target and 40% against personal objectives. Mike Biggs' salary will be pro-rated for the periods before and after his promotion to Group Chief Executive. Jim Newman's target short term bonus will also be 62.5% (maximum 125%) of base salary in respect of the period from his promotion to the Board.

Similar bonus schemes are in place for senior management around the Group. These include annual and longer term incentives designed to focus efforts on those key performance measures of greatest relevance to each Group company. Resolution Asset Management has a shadow equity long term plan for senior executives, fund managers and other appropriate staff encouraging longer term employment lock-in. The committee approves and monitors these schemes, for executives and all grades of staff, and approves any bonus payments ensuring that they are linked to quantifiable objective measures.

Neither the Chairman nor the other non-executive directors participate in a bonus plan or receive any other performance related incentives.

Long term incentives

Under the 2005 Long Term Incentive Plan (LTIP) selected executive directors and other senior executives of the Group receive, on an annual basis, performance related conditional share awards subject to a limit of 200% of base salary. In 2006, awards to executive directors ranged from 150% to 200% of base salary and, in addition, awards were made to a further twenty five senior managers of between 30% and 150% of salary. Awards will normally vest following the third anniversary of grant subject to satisfaction of performance conditions.

In 2006, a separate performance condition based on EEV was introduced whereby 50% of the award relates to EEV and 50% relates to Total Shareholder Return (TSR). Both measures are strong indicators of business performance and enforce the link between the interests of management, shareholders and policyholders.

For the awards made since 2006 the target TSR is measured against those of companies ranked by reference to market capitalisation from 51 to 150 inclusive in the FTSE All-Share Index on the dealing day prior to grant. The performance condition, which aligns the interests of directors and other senior executives with shareholders by requiring superior TSR performance, provides that 25% of this part of the award will vest if, over a single fixed three year performance period, the Company's TSR ranking against the comparator group is equal to median. 100% of this part of the award will vest if the Company's TSR is ranked within the upper quintile. Between median and upper quintile awards will vest on a straight-line basis between 25% and 100% of the shares held under an award.

The performance period operates over a single fixed three year period and there will be no provision to re-test the performance target at the end of the initial three year period.

In addition to the above, these awards will not vest unless the committee is satisfied that the Company's TSR performance during the performance period reflects the Group's underlying financial performance. The TSR condition will be independently monitored and reported to the committee.

To align the interests of participants more closely with longer term corporate strategy, the awards in April 2006 were made on the basis that 50% of each award is subject to the TSR condition explained above and 50% is subject to a separate corporate target. This second performance target attached to the other 50% of an award under the LTIP is based on Adjusted Embedded Value (Adjusted EV) per share targets, measured over three financial years from the 1 January immediately prior to the grant. 25% of the shares subject to this part of the award will vest for average growth in Adjusted EV per share of 2.5% per annum in excess of the risk free rate, increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6% per annum, in each case in excess of the risk free rate at the start of the period. In respect of 2007 awards the targets have been increased to 3.5% per annum and 7% per annum in excess of the risk free rate respectively.

The definition of Adjusted EV is based on the European Embedded Value (EEV) as set out in the supplementary reporting included in the published accounts for the Company and reviewed by the external auditors as at the end of each year and as included in interim result presentations as at 30 June of each year.

The Adjusted EV used for determining performance against targets for LTIP purposes will be adjusted from the published EEV by:

- adding to the published EEV at the end of the relevant three year period the accumulated (at the risk free rate) value of dividends paid to holders of ordinary shares during that relevant three year period; and
- adjusting to allow for the impact on published EEV per share of any bonus element of rights issues or other capital raising from holders of ordinary shares during the relevant three year period.

The "risk free rate" used for determining performance in respect of any given LTIP grant will be that used in the most recent published EEV immediately prior to the relevant LTIP grant being made. Consistent with best practice, the committee will review the appropriateness of the LTIP and the relevant performance conditions prior to each grant.

While measuring different areas of performance the Adjusted EV per share targets are intended to be no less difficult to satisfy than the TSR targets and are considered by the committee to be sufficiently challenging taking into account the outlook of the business over the next two to three years.

At the annual general meeting in 2006, shareholders approved an amendment to the Resolution 2005 LTIP rules to provide the committee with discretion to disapply pro-rating of awards in specific circumstances if they consider that to be appropriate. It was only intended to exercise such discretion by exception and it was not exercised in respect of Paul Thompson's departure save as disclosed in the Treatment of good leavers section on page 64 in respect of the 2004 award only.

Details of the accounting treatment of LTIPs and share options are disclosed in note 18 of the consolidated financial statements.

Sharesave scheme

The Group encourages employee participation through share ownership.

All UK based staff, including executive directors, are eligible under defined criteria for grants of options to acquire shares under the Resolution Savings Related Share Option Scheme (Sharesave). The scheme provides for the grant of options to subscribe for Company shares at the end of fixed three or five year periods, using the proceeds of respective three or five year savings contracts entered into when the option is granted. Options under these schemes may be granted at a discount of up to 20% of the market price at the time of the grant. Some 800 employees held options over more than 2 million shares under the Sharesave scheme as at 31 December 2006.

Share matching plan

During the year certain managers who were not eligible to participate in the LTIP received modest share awards or equivalent payments if they agreed to invest in the Company's shares.

Service contracts

Mike Biggs has a service contract dated 6 September 2005 while Ian Maidens and Brendan Meehan both have service contracts dated 17 July 2006. Jim Newman has a service contract dated 7 March 2007. In all cases their contracts are for an indefinite term and twelve months' notice of termination is required on either side. The Company can terminate without notice (or liability to pay compensation) in certain cases where a director is dismissed for cause.

Their contracts provide for payment in lieu of notice of 1.5 times base salary on termination which may be paid on a phased basis or in one amount on termination. The figure of 1.5 is stated to be a conservative pre-estimate of amounts due under employment after mitigation. There are no special arrangements arising on a change of control. Where the director is unable by reason of accident, ill-health or otherwise for a period of not less than twelve consecutive months to perform his duties under his service contract, he will be entitled to receive a payment on termination equivalent to the net value of his salary for thirteen weeks.

The only director to leave the Company during the year was Paul Thompson, who did so on 6 March 2007. He was entitled to 1.5 times his base salary under his contract on termination of employment. This sum is being paid in two equal instalments of £393,750, the first on leaving, and the second six months later on 6 September 2007. The second payment will be subject to reduction to the extent he enjoys any earnings from a third party during the period to 6 September 2007. He will not receive any other payments following his departure other than a pro-rated bonus for 2007, being treated as a good leaver in accordance with the rules of the executive share plans and a contribution of £6,000 (plus VAT) to his legal costs incurred in connection with his departure. Based on legal advice, a further payment of £60,000 was also made in settlement of any potential legal claims. Such payments were determined by reference to a salary set in September 2005 and no other compensation payments were made.

External appointments

Executive directors are not permitted to accept any other non-Group engagement or office without the prior approval of the Board. At present there are no external appointments held by any of the executive directors.

Non-executives

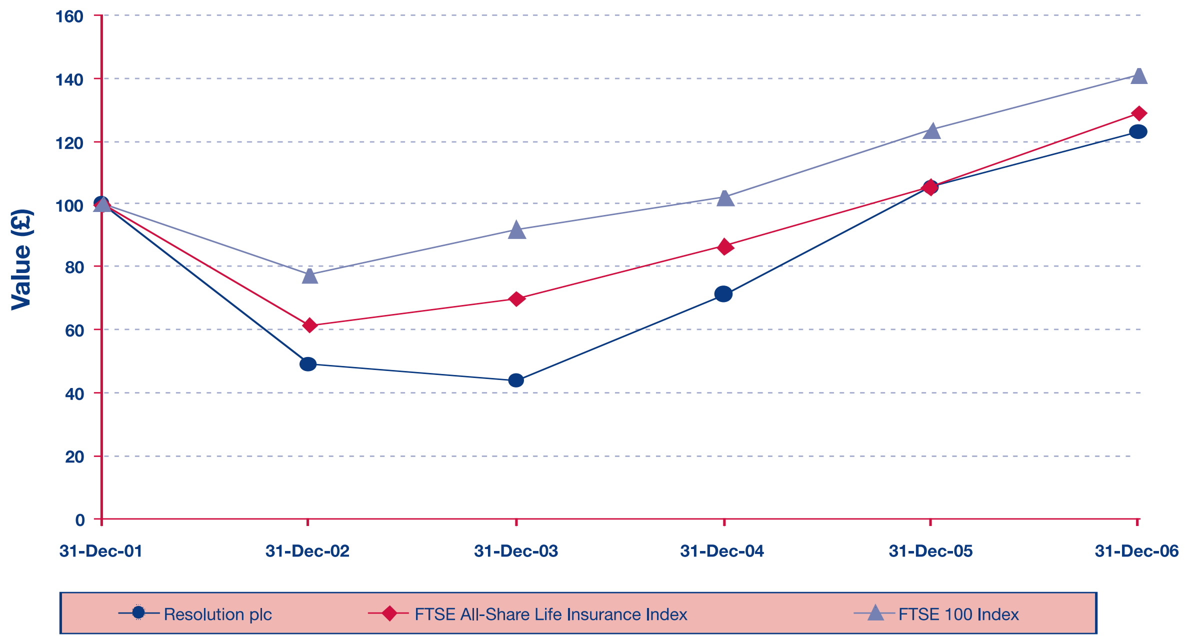
Determination of the remuneration of non-executive directors remains a matter for the whole Board (with the non-executives absenting themselves) in accordance with the Articles of Association save for the setting of expense claim policy which is delegated to the Remuneration Committee to consider. Non-executive directors do not have service contracts with the Company. They are engaged under a formal letter of appointment setting out the Company's expectations of them, including the time they are required to spend on the Company's business. They are neither eligible for bonuses nor participation in the Company share schemes. Appointment is normally for a renewable term of three years, terminable by six months' notice on either side. A summary of the current terms and conditions of appointment of non-executive directors is available on the Group website.

Pension policy

Paul Thompson was a member of the defined benefit section of the Resolution Group Pension Scheme that is currently in surplus and therefore no specific payments have been made in respect of his membership of this pension arrangement during 2006. In lieu of any contribution to a stakeholder pension scheme or an alternative approved scheme, Mike Biggs receives a monthly non-pensionable salary supplement equivalent in aggregate to 17.73% of base salary, as at 1 January of the relevant calendar year. Up until 17 July 2006 when Clive Cowdery was appointed as non-executive Chairman, although the terms of his service contract entitled him to join the Company pension scheme, no pension arrangements were made. For Paul Thompson who had been subject to the earnings cap, the Company had operated up to 5 April 2006, a funded unapproved retirement benefit scheme (FURBS) based on salary in excess of the earnings cap. The earnings cap has been written into the rules of the pension scheme following its statutory abolition on 6 April 2006 following the introduction of the new tax regime ('A' Day). From April 2006 the FURBS arrangements were replaced by a cash equivalent payment of 35% of base salary over the earnings cap. The payments are non-pensionable and non-bonusable. None of the directors were impacted directly by 'A' Day and there has been no increase in the cost of pension provision at the Company in consequence.

Ian Maidens and Brendan Meehan each received pension contributions of 20% of base salary from the Company, which were paid directly into their own defined contribution pension schemes.

Five year historical Total Shareholder Return (TSR) performance graph



This graph shows the value, by the end of 2006, of £100 invested in Resolution plc on 31 December 2001 compared with the value of £100 invested in both the FTSE All-Share Life Insurance Index and FTSE 100 Index. The other points are the values at intervening financial year-ends. The chosen indices represent broad equity market indices in which the Company is a constituent member.

Source: Thomson Financial.

Directors' interests

The interests of the directors (including family interests) in Resolution plc ordinary 5 pence shares both during the year and up to 16 April 2007 were as follows:

	As at 1 January 2006 or date of appointment if later	As at 31 December 2006 and 16 April 2007 or date of retirement if earlier*
David Allvey	**600**	**1,133**
Mike Biggs	**1,292,168**	**1,482,482**
Sir David Cooksey	**196,705**	**371,553**
Clive Cowdery	**10,839,535**	**20,548,532**
Ian Maidens (appointed 17 July 2006)	**1,292,168**	**1,482,482**
Brendan Meehan (appointed 17 July 2006)	**1,292,168**	**1,482,482**
Jim Newman (appointed 7 March 2007)	**-**	**-**
Aram Shishmanian	**-**	**-**
Paul Spencer	**2,500**	**4,777**
Paul Thompson (left 6 March 2007)	**-**	**8,784**
Sir Brian Williamson	**20,000**	**37,777**
Malcolm Williamson	**20,000**	**37,777**
David Woods	**10,000**	**11,474**

*In accordance with the directors' intentions stated in the prospectus dated 23 June 2006, each director either took up his rights to subscribe in full for new shares under the rights issue (8 shares offered for every 9 held at a price of 480p per share) or sold sufficient of his nil paid rights during the nil paid dealing period to meet the costs of taking up the balance of their entitlements to new shares. The increases shown above are due to these transactions except for Paul Thompson who exercised a Sharesave option during the period over 8,784 shares.

The auditors are required to report on the information contained in the remaining section of the Remuneration report.

Directors' remuneration

	Fees/salary £'000	Salary in lieu of benefits £'000	Benefits £'000	Bonus £'000	**2006 Total £'000**	2005 Total £'000
Chairman:						
Clive Cowdery (appointed 6 September 2005)	8	–	73	–	**81**	15
Executive directors:						
Mike Biggs (appointed 6 September 2005)	375	85	1	364	**825**	317
Ian Maidens (appointed 17 July 2006)	148	7	1	325	**481**	–
Brendan Meehan (appointed 17 July 2006)	148	7	1	315	**471**	–
Graham Singleton (resigned 6 September 2005)	–	–	–	–	**–**	457
Paul Thompson (left 6 March 2007)	525	135	1	656	**1,317**	1,168
Non-executive directors:						
David Allvey	65	–	–	–	**65**	64
Sir David Cooksey (appointed 6 September 2005)	65	–	–	–	**65**	16
Aram Shishmanian	50	–	–	–	**50**	46
Paul Spencer	50	–	–	–	**50**	53
Sir Brian Williamson (appointed 6 September 2005)	65	–	–	–	**65**	16
Malcolm Williamson	160	–	–	–	**160**	160
David Woods (appointed 6 September 2005)	50	–	–	–	**50**	13
Total	1,709	234	77	1,660	**3,680**	2,325

Notes:

1. Up until 17 July 2006 Clive Cowdery's service contract provided for an annual salary of £15,000. Mr Cowdery donated his salary, after payment of National Insurance contributions, to the charity, the Resolution Foundation, through the Give As You Earn scheme. From 17 July 2006 no fees were payable.

2. Total 2005 fees/salary include for each of David Allvey, Aram Shishmanian and Paul Spencer a sum of £6,750 in respect of their former directorships of Resolution Asset Management Limited.

3. Salary in lieu of benefits comprised a non pensionable company car cash allowance and, in the case of Mike Biggs and Paul Thompson, a salary supplement in lieu of contributions to their pension arrangements.

4. Benefits for the executive directors comprised private medical insurance. Clive Cowdery's benefits comprised travel costs associated with taxis and a chauffeur utilised for private use, together with the associated tax payable.

5. Bonuses are for the full year and therefore include for Ian Maidens and Brendan Meehan bonus payments that relate to the period prior to their appointment as directors on 17 July 2006.

6. Mike Biggs, Ian Maidens and Brendan Meehan were each paid a compromise bonus by Resolution Life Group Limited of £4 million on completion of the merger between Resolution Life Group Limited and Britannic Group plc on 6 September 2005 under the terms of an Executive Commitment Deed dated 8 June 2005 between each such director and Resolution Life Group Limited. This compensation was for the termination of their participation in the Resolution Life Group Limited share option scheme and certain changes to their service contracts. The bonus is generally repayable on a proportionate basis if: a) they resign from the Group within three years of 6 September 2005 for reasons other than constructive dismissal, as a result of permanent or long term incapacity due to ill-health, compassionate reasons approved by the Board, where they have been removed from the Executive Committee of Resolution plc without cause or b) they are summarily dismissed in circumstances where the Company is not required to make a payment in lieu of notice or to pay compensation for the cessation of their employment.

Directors' pension benefits information

The pension entitlement of the relevant director for the year was as follows:

Director	Accrued benefit at 31 Dec 2006	Increase in accrued benefits excluding inflation (A)	Increase in accrued benefits including inflation	Transfer value of (A) less directors' contributions (including death benefit risk value)	Transfer value of accrued benefits at 1 Jan 2006	Transfer value of accrued benefits at 31 Dec 2006	Increase in transfer values less directors' contributions	FURBS contributions paid or payable in respect of service during 2006
	£	£	£	£	£	£	£	£
Paul Thompson	11,086	2,653	2,946	39,118	93,845	143,372	49,527	36,896

Notes:

1. The pension entitlement is based on service to the end of the year or date of leaving if earlier, plus any service bought by amounts transferred in from schemes of previous employers.

2. The transfer values of the increase have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 after deducting directors' contributions.

3. Members of the Resolution Group Pension Scheme have the option to pay Additional Voluntary Contributions: neither the contributions nor the resulting benefits are included in the above table.

4. The funded unapproved retirement benefits scheme (FURBS) run by the Company is a defined contribution arrangement.

   For the year ended 31 December 2006 the total paid directly by the Company to the defined contribution schemes of Ian Maidens and Brendan Meehan amounted to £50,000 each.

Directors' interests in share options

The following executive directors held options to subscribe for Resolution plc ordinary shares of 5 pence each granted under the Resolution Sharesave and executive share option schemes further details of which are set out in note 18 of the consolidated financial statements:

		Options held at 1 January 2006*	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2006*	Exercise price (pence)*	Dates from which exercisable
Mike Biggs		–	–	–	–	–	–	–
Ian Maidens		–	–	–	–	–	–	–
Brendan Meehan	Sharesave[2]	–	2,055	–	–	2,055	454.76	1 June 2009
Jim Newman		–	–	–	–	–	–	–
Paul Thompson	Sharesave[2]	8,784	–	8,784	–	–	107.57	1 June 2006
	Sharesave[2]	–	2,055	–	–	2,055	454.76	1 June 2009
	Executive[1]	22,420	–	–	–	22,420	134.00	15 April 2006
	Executive[1]	185,723	–	–	–	185,723	138.00	15 April 2006

* The exercise price and the number of shares under option have been adjusted by the ratios 0.87453:1 and 1.14347:1 respectively to take into account the rights issue that completed on 9 August 2006.

Notes:

1. Options granted under the Resolution 1998 Approved and Unapproved Share Option Schemes (executive share option schemes) are exercisable from the dates specified above and ordinarily lapse within seven years of the date they first become exercisable. All performance conditions applying to Paul Thompson's options have been fully satisfied. At the date of vesting, the market price was £6.16. Paul Thompson will be required to exercise his executive options by 6 June 2007.
2. Options granted under the Resolution 1998 Sharesave ordinarily lapse within six months of maturity. As required by the relevant legislation, such grants are not subject to performance targets. The market price of the shares at 17 November 2006 was £6.67 when Paul Thompson exercised his Sharesave option over 8,784 shares. Aggregate notional gains of directors (solely relating to Paul Thompson's Sharesave exercise) were £49,140.33 (2005: £0). Paul Thompson's Sharesave option over 2,055 shares lapsed upon his leaving the Company on 6 March 2007.

Directors' interests in long term incentive plans

The following executive directors have been made notional allocations of shares under the Resolution 2002 and Resolution 2005 long term incentive plans which are subject to the attainment of the performance conditions measured over a three year period as explained on pages 56 and 57 and as set out below and in note 18 of the consolidated financial statements.

	Date granted	Rights held under plan at 1 January 2006	Rights granted during 2006	Notional price of each share on date of grant in pence*	Rights lapsed during 2006	Rights exercised during 2006	Rights held under plan at 31 December 2006*	Potential date of vesting
Mike Biggs	10 April 2006[5]	–	98,865	569.00	–	–	98,965	10 April 2009
Ian Maidens	10 April 2006[5]	–	85,760	569.00	–	–	85,760	10 April 2009
Brendan Meehan	10 April 2006[5]	–	85,760	569.00	–	–	85,760	10 April 2009
Jim Newman	6 Oct 2005[4]	74,981	–	534.00	–	–	74,981	6 Oct 2008
	10 April 2006[5]	–	65,969	569.00	–	–	65,969	10 April 2009
Paul Thompson	15 April 2003[1]	212,998	–	134.00	–	–	212,998	15 April 2006
	8 April 2004[2]	252,003	–	318.00	–	–	252,003	8 April 2007
	1 April 2005[3]	228,694	–	316.00	–	–	228,694	1 April 2008
	25 Sep 2005[4]	162,381	–	534.00	–	–	162,381	25 Sep 2008
	10 April 2006[5]	–	184,713	569.00	–	–	184,713	10 April 2009

* The notional price and the number of shares have been adjusted by the ratios 0.87453:1 and 1.14347:1 respectively to take into account the rights issue that completed on 9 August 2006.

Subsequent to the year end, on 11 April 2007 a further LTIP grant was made to the following executive directors at a notional price of 641p per share with the TSR performance period ending on 10 April 2010:- Mike Biggs (187,207), Jim Newman (118,564), Ian Maidens (118,564) and Brendan Meehan (118,564).

Notes:

Performance conditions:-

1. Share price growth compared to FTSE 250 companies over three years to 31 December 2005. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking. As at 31 December 2005, the Company was ranked 6th which resulted in 100% of the awards becoming exercisable. These awards were granted under the Resolution 2002 Long Term Incentive Plan. At the date of vesting, the market price was £6.16.
2. TSR growth compared to FTSE 250 companies over three years to 31 March 2007. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking. These awards were granted under the Resolution 2002 Long Term Incentive Plan.
3. TSR growth compared to FTSE 250 companies over three years to 31 March 2008. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking. These awards were granted under the Resolution 2002 Long Term Incentive Plan.
4. TSR growth compared to UK companies ranked 51 to 150 by reference to market capitalisation on the FTSE All-Share Index over three years to 3 July 2008. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quintile ranking. In addition, the Remuneration Committee must be satisfied that the TSR performance reflects the underlying financial performance of the Company over the performance period. These awards were granted under the Resolution 2005 Long Term Incentive Plan. The number of shares subject to an award will be increased on vesting to reflect dividend accrual over the period.

5. 50% of awards are based on TSR growth compared to UK companies ranked 51 to 150 by reference to market capitalisation on the FTSE All-Share Index over three years to 9 April 2009. 25% of shares subject to this part of the award will vest for median ranking increasing on a straight line basis to 100% vesting for top quintile ranking. In addition, the Remuneration Committee must be satisfied that the TSR performance reflects the underlying financial performance of the Company over the performance period. The number of shares subject to an award will be increased on vesting to reflect dividend accrual over the period.

   50% of awards are based on Adjusted EV per share targets measured over three financial years from 31 December 2005. 25% of shares subject to this part of the award will vest for average growth in Adjusted EV per share of 2.5% p.a. in excess of the risk free rate increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6% p.a. in excess of the risk free rate at the start of the period. These awards were granted under the Resolution 2005 Long Term Incentive Plan.

Treatment of good leavers:-

Paul Thompson was regarded as a good leaver by the Remuneration Committee under the rules of the two Long Term Incentive Plans and will be entitled to exercise those awards that have not already vested during the period from leaving to 6 June 2007 in accordance with the rules of the plans. Under the rules of those plans, awards will only vest to the extent that the performance targets are met as at 6 March 2007 and subject to a time pro-rated reduction (other than in respect of the award made on 8 April 2004 where the Remuneration Committee determined that it would not be appropriate to apply the time pro-rated reduction as no such reduction would have applied if he had left two days later). The total number of shares vesting under these good leaver provisions is 387,414 (inclusive of dividend reinvestment on the April 2006 award) representing approximately 47% of the shares subject to these awards.

On 31 December 2006, the middle market price of Resolution plc ordinary 5 pence shares was £6.41 per share, having varied during the year between a low of £5.38 (adjusted for the impact of the rights issue which completed on 9 August 2006) on 4 April 2006 and a high of £6.73 on 14 November 2006.

By order of the Board

Sir David Cooksey

Chairman of the Remuneration Committee

16 April 2007

Statement of directors' responsibilities

in respect of the consolidated financial statements

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable UK law and International Financial Reporting Standards adopted for use in the European Union (IFRS).

The directors are required to prepare consolidated financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the members of Resolution plc

We have audited the consolidated financial statements of Resolution plc for the year ended 31 December 2006 which comprise the accounting policies, the consolidated income statement, the analysis of equity holders' attributable profit, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 49. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Resolution plc for the year ended 31 December 2006 and on the information in the Remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated 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 consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the consolidated financial statements. The information given in the Directors' report includes that specific information presented in the Financial 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 Group 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's operational review, the Financial review, the Directors' report, the Corporate governance statement, the Corporate responsibility statement and the unaudited part of the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group'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 consolidated 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 consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the consolidated financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

16 April 2007

(a) Basis of preparation

The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group").

The financial statements are presented in pounds sterling, rounded to the nearest £0.1 million. They are prepared on the historical cost basis except that investment property, derivatives, equities, fixed income securities and collective investment schemes are stated at fair value.

European Union (EU) law requires that the consolidated financial statements of the Group for the year ended 31 December 2006 are prepared in accordance with international financial reporting standards adopted for use in the EU (IFRS).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(b) Critical accounting estimates and judgements

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are insurance and investment contract liabilities, determination of the fair value for financial assets and liabilities, impairment tests for intangible assets, deferred acquisition costs and income taxes.

Insurance and investment contract liability accounting is discussed in more detail in notes (e) and (h) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note 27.

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in accounting policy (r). They are valued on the basis of listed market prices in so far as this is possible. If prices are not readily determinable, fair value is based either on internal valuation models or management estimates of amounts that could be realised under current market conditions.

Intangible assets are subject to regular impairment reviews as required. Impairments are measured at the difference between the cost of a particular asset and the current fair value or recoverable amount. Impairments are recorded in the income statement in the period in which they occur. The Group's policy in relation to impairment testing is detailed in accounting policy (o).

The deferred acquisition costs policy in relation to insurance contracts is described in accounting policy (e). The accounting policy for income tax is detailed in accounting policy (n).

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings including collective investment schemes where the Group exercises overall control. Certain of the collective investment schemes have non-coterminous balance sheet dates and are consolidated on the basis of additional financial statements prepared to the balance sheet date. The third party interest in the collective investment schemes is classified as a liability and shown in the balance sheet as net asset value attributable to unit holders. Intragroup balances and income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Subsidiary undertakings are consolidated from the date that effective control is obtained by the Group and are excluded from consolidation from the date of disposal.

Following the adoption of IFRS the Group has used the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition has been measured at the fair value of the consideration plus directly attributable costs. Any excess of the cost of acquisition over the fair value of the net assets acquired has been treated as goodwill. Any excess of the fair value of the net assets acquired over the cost of acquisition has been credited to the income statement. For acquisitions prior to 1 January 2004, the date of transition to IFRS, the accounting treatment adopted under UK GAAP has been retained.

Minority interests are stated at the initial amount attributed adjusted for the relevant share of subsequent changes in equity.

(d) Classification of contracts

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

(e) Insurance contracts and investment contracts with discretionary participation features (DPF)

Premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for on a payable basis.

Claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration.

Liabilities under insurance contracts

The liabilities under insurance contracts have been computed having due regard to the principles laid down in Council Directive 92/96/EEC.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the income statement.

The Group has voluntarily adopted the provisions of the UK Accounting Standard Board's FRS 27 *Life Assurance*. In accordance with its requirements the liabilities under insurance contracts include an amount equivalent to the realistic liabilities of the Group's major with-profit funds, as reported to the UK regulator. The key aspects of this methodology are:

- liabilities to policyholders arising from with-profit life assurance business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the equity holders' share of projected future bonuses.
- acquisition costs are not deferred.
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

For non-profit business both the net premium and gross premium methods are used.

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

(f) Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profit business of the Group's life operations determined in accordance with FRS 27. For the Group's major with-profit funds, this represents amounts which have yet to be allocated to equity holders. For the Group's minor with-profit funds, this represents amounts which have yet to be allocated to policyholders or equity holders. As permitted by IFRS 4, the unallocated surplus has been classified as a liability.

The Group's major with-profit funds are closed to new business. In accordance with the principles established by FRS 27, for these funds the whole of the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts.

(g) Investment contracts without DPF

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

(h) Liabilities under investment contracts

The valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. Where the surrender value of an investment contract exceeds the financial liability the liability is increased to reflect the surrender value. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

(i) Revenue from investment contracts

Revenues from investment contracts comprise amounts assessed against policyholders' account balances for policy administration and surrender charges and are recognised as the related services are provided.

(j) Net investment income

Net investment income comprises interest, dividends and rents receivable plus fair value gains and losses on financial assets and investment property.

Interest income is recognised in the income statement as it accrues.

Dividend income is recognised in the income statement on the date the right to receive payment is established, which in the case of listed securities is the ex dividend date.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(k) Longer term investment return

The operating profit attributable to equity holders, based on a long term rate of investment return, is determined by applying the longer term rates of return to the opening equity holder invested assets adjusted for capital movements in the year, excluding subsidiary investments. The longer term rates of return on equity holder investments are determined by reference to historical rates of return and future economic and investment return expectations.

(l) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit schemes

The net surplus or deficit in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the surplus/deficit is analysed between the service cost, the net interest gain or loss and actuarial gains and losses. The latter are accounted for in the statement of recognised income and expense.

Share-based payment transactions

The Group issues ordinary shares under an all-employee save as you earn (SAYE) scheme and discretionary, performance-related executive share options (ESOS), share matching plan (SMP) and long term incentive plan (LTIP) schemes. IFRS 2 *Share-based Payment* has not been applied to those grants of ordinary shares, share options or other equity instruments that were granted before 7 November 2002. The fair value of options granted is recognised as an expense with a corresponding increase in equity.

The total amount to be expensed rateably over the vesting period is determined by reference to the fair value of the options determined at grant date, excluding the impact of any conditions not linked to the price of the ordinary shares (non-market vesting conditions). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of ordinary shares that the employee will ultimately receive.

The fair value of the SAYE, ESOS and SMP options granted is measured using a binomial model and the fair value of the LTIP options granted is measured using Monte Carlo simulations, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is revised at the balance sheet date to reflect the number of share options that have vested or are expected to vest except where changes in expectations are due to performance conditions linked to the Company share price (market conditions).

When shares are issued the proceeds are credited to share capital and share premium and the amount carried in the share option reserve relating to the shares issued is transferred to retained earnings.

(m) Borrowings

Interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the income statement over the period of the borrowing using the effective interest method.

(n) Income tax

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 it relates to items recognised in the statement of recognised income and expense, in which case it is recognised in that statement.

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

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on equity holders' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to the equity holders for the year.

(o) Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. For acquisitions prior to 1 January 2004, goodwill is included at its carrying amount under previous generally accepted accounting principles.
Goodwill is stated at cost less accumulated impairment losses. It is tested for impairment when there is evidence of possible impairment.

Acquired in-force business

Insurance and investment contracts acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting polices for such contracts is recorded as acquired in-force business.

Amortisation

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. Other intangible assets are amortised on a straight-line basis over their estimated useful lives. The carrying value of intangible assets is tested for impairment at each balance sheet date.

(p) Investment property

Investment property is stated at fair value. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Gains and losses arising from the change in fair value are recognised in the income statement.

(q) Property, plant and equipment

Owner-occupied property is stated at fair value, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Owner-occupied property is depreciated over its estimated useful life, which is taken as fifty years. Land is not depreciated. Gains and losses on owner-occupied property held by the equity holders' funds are recognised in the statement of recognised income and expense; as permitted by IFRS 4 gains and losses on owner-occupied property held by the long term business are recognised in the income statement.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives.

(r) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans are stated in the balance sheet at amortised cost less impairment losses. Equities, fixed income securities and collective investment schemes are designated as at fair value through the income statement and accordingly are stated in the balance sheet at fair value which is consistent with the Group's stated risk management policies. Resultant gains and losses are recognised in the income statement. The fair value of these assets is their quoted bid price at the balance sheet date.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value which is consistent with the Group's stated risk management policies. The gain or loss on remeasurement to fair value is recognised in the income statement.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(t) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(u) Perpetual reset capital securities

The perpetual reset capital securities are shown at the proceeds of issue. Coupons on the securities are recognised on the date of payment and are charged directly to the statement of changes in equity, net of tax relief.

(v) Earnings per ordinary share

Earnings per ordinary share are based on the earnings attributable to equity holders after deducting preference share dividends and coupons on the perpetual reset capital securities paid in the year.

(w) Dividends

Dividends declared by ordinary shareholders are recognised as a liability on the date of declaration and dividends declared by the directors are recognised on the date of payment. Dividends are charged to the statement of changes in equity.

Consolidated income statement
for the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Gross premiums written		**1,633.3**	444.8
Less: premiums ceded to reinsurers		**(151.5)**	(50.4)
Net premiums written		**1,481.8**	394.4
Fees and commissions	6	**104.0**	67.0
Net investment income	7	**3,253.1**	2,723.5
Total revenue, net of reinsurance payable		**4,838.9**	3,184.9
Other operating income	8	**313.3**	119.7
Net income		**5,152.2**	3,304.6
Policyholder claims		**4,709.4**	1,253.3
Less: reinsurance recoveries		**(369.1)**	(144.1)
Change in insurance contract liabilities		**(1,375.9)**	1,095.0
Transfer (from)/to unallocated surplus	24	**(378.4)**	152.0
Net policyholder claims and benefits incurred		**2,586.0**	2,356.2
Change in investment contract liabilities		**408.9**	196.7
Acquisition costs	9	**89.4**	20.0
Amortisation of acquired in-force business	34	**264.7**	44.9
Impairment of acquired in-force business and deferred acquisition costs	34	**522.1**	–
Administrative expenses	10	**488.1**	259.5
Net income attributable to unit holders		**216.5**	58.7
Total operating expenses		**4,575.7**	2,936.0
Operating profit before financing costs and income taxes		**576.5**	368.6
Financing costs	13	**(94.2)**	(14.6)
Profit for the year before income taxes		**482.3**	354.0
Income taxes	14	**49.0**	(192.2)
Profit for the year attributable to equity holders		**531.3**	161.8
Attributable to:			
Equity holders of the parent			
Ordinary shareholders		**494.2**	154.9
Perpetual reset capital securities		**32.9**	4.1
		527.1	159.0
Minority interests		**4.2**	2.8
		531.3	161.8
Earnings per ordinary share			
Basic earnings per ordinary share (pence)	15	**97.8p**	56.8p
Diluted earnings per ordinary share (pence)	15	**97.3p**	56.3p

Dividends on ordinary shares paid in the year	£m	£m
Second interim 2005 at 11.55p (Final 2004 at 10.84p) per share	**47.7**	24.4
Interim 2006 at 6.64p (2005 at 5.77p) per share	**45.5**	23.8
	93.2	48.2

Dividend on ordinary shares proposed after the end of the year		
Proposed final 2006 at 13.28p (2005 second interim at 11.55p) per share	**91.0**	47.7
Dividends paid to minority interests in the year	**4.9**	–

Analysis of equity holders' attributable profit

for the year ended 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Operating profit before financing costs and income taxes		**576.5**	368.6
Financing costs attributable to policyholders	13	**(62.4)**	(2.9)
Policyholders' share of income taxes	14	**75.3**	(80.9)
Operating profit attributable to equity holders, based on a long term rate of investment return, before amortisation of acquired in-force business, asset management internalisation costs and fair value of distribution agreements, non-recurring items and short term investment fluctuations		**532.5**	180.4
Amortisation of acquired in-force business		**(229.5)**	(28.3)
Amortisation of asset management internalisation costs		**(6.8)**	–
Amortisation of fair value of distribution agreements		**(7.8)**	–
Non-recurring items (net)	4	**297.2**	109.8
Short term investment fluctuations		**3.8**	22.9
Operating profit attributable to equity holders		**589.4**	284.8
Financing costs attributable to equity holders	13	**(31.8)**	(11.7)
Profit before income taxes attributable to equity holders		**557.6**	273.1
Equity holders' share of income taxes	14	**(26.3)**	(111.3)
Profit for the year attributable to equity holders		**531.3**	161.8

Consolidated statement of recognised income and expense

for the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Actuarial losses of defined benefit pension schemes	32	**(3.9)**	(3.2)
Revaluation gain on owner-occupied property		**–**	0.1
		(3.9)	(3.1)
Income taxes	14	**3.5**	(0.1)
Net expense recognised directly in equity		**(0.4)**	(3.2)
Profit for the year attributable to equity holders		**531.3**	161.8
Total recognised income and expense for the year attributable to equity holders		**530.9**	158.6
Attributable to:			
Equity holders of the parent			
Ordinary shareholders		**493.8**	151.7
Perpetual reset capital securities		**32.9**	4.1
		526.7	155.8
Minority interests		**4.2**	2.8
		530.9	158.6

Consolidated balance sheet
as at 31 December 2006

	Notes	2006 £m	2005 (restated) £m
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	**34.3**	18.1
Share premium		**1,534.3**	42.5
Perpetual reset capital securities	19	**496.5**	496.5
Reserves	20	**1,047.7**	1,045.3
Retained earnings	21	**1,267.9**	834.3
Total equity attributable to equity holders of the parent		**4,380.7**	2,436.7
Minority interests	22	**154.0**	108.2
Total equity	16	**4,534.7**	2,544.9
Liabilities			
Pension scheme deficit	32	**–**	5.3
Insurance contracts			
Liabilities under insurance contracts	23	**45,815.3**	30,370.9
Unallocated surplus	24	**702.4**	846.4
		46,517.7	31,217.3
Provisions	25	**64.5**	45.5
Financial liabilities			
Investment contracts	26	**9,264.5**	6,685.6
Borrowings	29	**1,760.1**	113.3
Derivatives	39	**2.1**	4.6
Net asset value attributable to unit holders		**911.4**	160.3
		11,938.1	6,963.8
Deferred tax	40	**1,013.4**	789.1
Reinsurance payables		**60.2**	35.0
Payables related to direct insurance contracts		**228.5**	59.0
Deferred income			
Investment contracts		**61.5**	72.3
Other		**28.3**	37.9
	30	**89.8**	110.2
Current tax	40	**168.9**	111.8
Accruals		**102.9**	37.8
Trade and other payables	31	**654.8**	463.3
Total liabilities		**60,838.8**	39,838.1
Total equity and liabilities		**65,373.5**	42,383.0

	Notes	2006 £m	2005 £m
ASSETS			
Pension scheme surplus	32	**79.7**	93.7
Property, plant and equipment	33	**55.3**	55.8
Intangible assets			
Goodwill		**209.5**	209.5
Acquired in-force business		**2,085.8**	1,095.3
Deferred acquisition costs		**71.6**	83.8
Other		**113.1**	–
	34	**2,480.0**	1,388.6
Investment property	36	**2,704.6**	2,355.7
Financial assets			
Loans and deposits	38	**731.9**	359.7
Derivatives	39	**207.8**	225.7
Equities		**10,425.1**	9,101.1
Fixed income securities		**26,405.8**	20,704.4
Collective investment schemes		**14,135.6**	2,119.8
	37	**51,906.2**	32,510.7
Insurance assets			
Reinsurers' share of insurance contract liabilities	23	**3,198.3**	3,702.6
Reinsurance receivables		**112.0**	18.9
Insurance contract receivables		**31.0**	11.0
		3,341.3	3,732.5
Current tax	40	**59.2**	7.8
Prepayments		**307.5**	301.7
Trade and other receivables		**545.5**	191.4
Cash and cash equivalents	41	**3,894.2**	1,745.1
Total assets		**65,373.5**	42,383.0

Signed on behalf of the Board by:

J A Newman

Jim Newman
Group Finance Director

Consolidated cash flow statement

for the year ended 31 December 2006

	Notes	2006 £m	2005 (restated) £m
Cash flows from operating activities			
Net (increase)/decrease in operating assets and liabilities	42	**(771.0)**	407.6
Finance costs		**(89.2)**	(10.3)
Taxation paid		**(144.6)**	(66.4)
Net cash flows from operating activities		**(1,004.8)**	330.9
Cash flows from investing activities			
Purchase of subsidiaries	42	**888.2**	508.2
Purchase of property, plant and equipment		**(0.9)**	(1.8)
Purchase of intangible assets		**(29.2)**	(4.2)
Proceeds from sale of property, plant and equipment		**5.2**	–
Net cash flows from investing activities		**863.3**	502.2
Cash flows from financing activities			
Proceeds from issue of share capital		**1,549.8**	0.4
Cost of issuing shares		**(41.8)**	(5.3)
Proceeds from issue of perpetual reset capital securities		**–**	495.0
Proceeds of issuing shares to minority shareholders in UK Commercial Property Trust Limited		**152.0**	–
Proceeds of new borrowings		**2,603.5**	–
Ordinary share dividends paid		**(93.2)**	(48.2)
Coupon on perpetual reset capital securities paid		**(14.3)**	–
Dividends paid to minority interests		**(13.1)**	–
Purchase of minority interest preference shares		**(87.3)**	–
Repayment of borrowings		**(1,765.0)**	(522.4)
Net cash flows from financing activities		**2,290.6**	(80.5)
Net increase in cash and cash equivalents		**2,149.1**	752.6
Cash and cash equivalents at the beginning of the year		**1,745.1**	992.5
Cash and cash equivalents at the end of the year	41	**3,894.2**	1,745.1

1. Financial information

The consolidated financial statements for the year ended 31 December 2006, set out on pages 68 to 144, were authorised by the Board for issue on 16 April 2007. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union (EU).

The International Accounting Standards Board has issued the following standards and interpretations which apply from the dates shown. The Group has decided not to adopt any of these standards or interpretations where early adoption is permitted. The impact of adopting them is not expected to have a material effect on the results of the Group.

- IFRS 7 *Financial Instruments: Disclosures* (2007) and IAS 1 *Amendments – Capital Disclosures* (2007). IFRS 7 makes amendments to the disclosures relating to financial assets and liabilities whilst the amendments to IAS 1 bring the capital disclosures into line with IFRS 7.
- IFRS 8 *Operating Segments* (2009). This converges international and US reporting requirements relating to segmental information.
- IFRIC 9 *Reassessment of Embedded Derivatives* (2007). This requires the status of an embedded derivative to be reassessed when an entity first becomes a party to a contract.
- IFRIC 10 *Interim Financial Reporting and Impairment* (2007). This confirms that certain impairment losses made in an interim period cannot be subsequently reversed.
- IFRIC 11 IFRS 2 *Group and Treasury Share Transactions* (2008). This addresses whether certain transactions involving shares should be treated as equity-settled or cash-settled for accounting purposes, and accounting for share-based payments within a group.

In addition, IFRIC 7 *Applying the Restatement Approach under IAS 29*, IFRIC 8 *Scope of IFRS 2 Share-based Payments* and IFRIC 12 *Service Concession Arrangements* have been issued but are not relevant to the Group.

2. Financial results

(a) Liabilities under insurance contracts

The Group has adopted the principles set out in Policy Statement 06/14 *Prudential changes for Insurers* issued by the Financial Services Authority (FSA) for determining its principal liabilities and capital requirements under life insurance contracts.

Policy Statement 06/14 permits life assurers to change the assumptions underlying the calculation of insurance contracts liabilities for their non-profit business by introducing further economic realism to that permitted under the previous regulatory basis. It also permits life assurers subject to the FSA's realistic capital regime to align further the capital requirements with the risks of the business. The revisions have been introduced in relation to the determination of solvency in accordance with the EU Solvency 1 Directive.

The changes introduced by Policy Statement 06/14 for the calculation of liabilities under insurance contracts provide for the following:

- Allowance for prudent lapses. This change allows recognition of the economic effect of making a prudent lapse rate assumption within the technical provisions for all classes of long-term business. The lapse rate assumption needs to be prudent based on recent experience of lapse rates on product groups. This change acts to reduce the amount of the insurance contract liabilities as some policies, for example term assurance, do not pay a surrender value if they lapse.

2. Financial results (continued)

- Negative values. This changes the calculation of insurance contracts liabilities for all classes of long-term business to allow contracts that do not include guaranteed surrender values in the contract wording to be valued as assets. The overall liabilities under insurance contracts must still be positive. This change acts to reduce the amount of the insurance contract liabilities.
- Expense assumptions. This change means that assumptions for expenses not directly attributable to one particular contract can be set at a homogeneous risk group level and not as previously at an individual contract level. This change acts to reduce the amount of the insurance contract liabilities.

The changes introduced by Policy Statement 06/14 for the calculation of capital requirements provide for the following:

- Recognition of future internal transfers. This allows future shareholder transfers from with-profit funds (which were previously treated as liabilities of that fund and were an inadmissible asset of the receiving fund) to be used to reduce the amount of With Profits Insurance Capital Component (WPICC) and hence enables future fund surplus to be used to reduce the capital requirement.
- Removing the resilience capital reserve. This removes the realistic capital requirement for those insurers subject to the FSA's realistic reporting regime on the basis that stresses in market valuations are already allowed for in the underlying liabilities and thus holding a resilience reserve in addition leads to an excessive capital requirement.

The Group's existing accounting policy is to base its insurance contracts liabilities for non-profit business on the regulatory basis. Accordingly, the principles outlined above for the purposes of the EU Solvency 1 Directive have also been adopted for determining the principal insurance contracts liabilities for financial reporting purposes. In accordance with the interim guidance issued by the Institute of Chartered Accountants in England and Wales in February 2007 the changes in the assumptions used for determining the insurance contracts liabilities have been treated as a change in estimate and the financial impact has emerged as part of the results for the year.

In accordance with IFRS the Group recognises as an asset the value of in-force business relating to acquisitions and also recognises the costs of writing insurance business. As a consequence of changing the assumptions for estimating the insurance contract liabilities the recoverability of the carrying values of acquired in-force business and deferred acquisition costs have been reassessed and impaired accordingly.

The financial impact for equity holders of adopting the principles set out in Policy Statement 06/14 is set out below.

	£m
Profit arising from the changes in assumptions used for determining insurance contracts liabilities	**534.6**
Impairment of acquired in-force business and deferred acquisition costs	**(511.1)**
	23.5

(b) Funds merger

On 31 December 2006 the Group rationalised its life operations through an insurance business transfer scheme (Scheme) under Part VII of the Financial Services and Markets Act 2000, approved by the High Court on 8 December 2006. Under the Scheme the life assurance business of the following entities was transferred to Phoenix Life Limited, a Group entity.

- Alba Life Limited
- Britannic Assurance plc
- Britannic Retirement Solutions Limited
- Britannic Unit Linked Assurance Limited
- Century Life plc
- Phoenix Life & Pensions Limited

As part of the Scheme the non-profit business within the with-profit fund of Century Life plc was transferred to the non-profit fund of Phoenix Life Limited (note 44(b)). In addition, the Ordinary Branch with-profit funds of Britannic Assurance plc and Century Life plc (Century) were combined and the with-profit fund of Britannic Unit Linked Assurance Limited (BULA) and the Phoenix Life Limited (PLL) 90% with-profit fund were combined, resulting in six separate with-profit funds being retained within Phoenix Life Limited.

The rationalisation of the life operations is expected to yield administrative cost savings and facilitate the Group operating a consistent policy with regard to capital support for the life assurance businesses.

The with-profit funds of BULA, Century and PLL were previously reported as minor with-profit funds for the purposes of FRS 27 *Life Assurance*. As a consequence of the Scheme these funds are now part of a major with-profit entity and accordingly a transfer of £389 million has been made from unallocated surplus to insurance contracts liabilities.

3. Prior year adjustments

The opening balance sheet at 1 January 2005 has been restated to reallocate part of the additional surplus of the Resolution (formerly Britannic) Group defined benefit pension scheme recognised on the transition to IFRS. The effect of the reallocation is to reduce unallocated surplus by £10.0 million and to increase retained earnings by £10.0 million.

In the analysis of equity holders' attributable profit the amortisation of the acquired in-force business and the related deferred tax for 2005 has been restated. Acquired in-force business included in the consolidated balance sheet is initially computed net of tax and then grossed up for both equity holder and policyholder taxes. In 2005 the policyholders' share of the amortisation charge and the related deferred tax movement were included in the equity holders' results rather than policyholders' results. The effect of this change on the comparative amounts for 2005 is to decrease the equity holders' amortisation charge from £41.6 million to £28.3 million and increase the equity holders' total tax charge from £98.0 million to £111.3 million; there is no effect on the overall profit attributable to equity holders.

In the consolidated cash flow statement the item 'net repayment to unit holders' has been included in cash flows from operating activities rather than cash flows from financing activities. This more accurately reflects the nature of this item as an operating rather than financing activity. The effect on the consolidated cash flow statement for 2005 is to decrease the net cash flows from operating activities from £333.0 million to £330.9 million and to decrease the net cash outflows from financing activities from £(82.6) million to £(80.5) million.

In addition, the balance sheet at 31 December 2005 has been restated by a reclassification of £18.7 million from trade and other payables to provisions.

4. Segment analysis

Resolution plc comprises three segments – life, asset management and management services. The Group has negligible overseas operations.

The segment information disclosed below includes the subsidiaries acquired from their respective acquisition dates. Inter-segment services are priced on an arm's length basis taking into account the risks borne by the provider. Income tax assets and liabilities are excluded from segment assets and liabilities in accordance with IAS 14 *Segment Reporting* and are shown under unallocated assets and liabilities.

4. Segment analysis (continued)

Year ended 31 December 2006

	Life £m	Asset management £m	Management services £m	Eliminations £m	Total £m
Segment revenue					
Gross premiums written	1,633.3	–	–	–	1,633.3
Premiums ceded to reinsurers	(151.5)	–	–	–	(151.5)
Net premiums written	1,481.8	–	–	–	1,481.8
Fees and commissions – external	62.9	29.3	11.8	–	104.0
– internal	–	49.6	424.3	(473.9)	–
	62.9	78.9	436.1	(473.9)	104.0
Segment result before non-recurring items	170.2	25.4	15.0		210.6
Non-recurring items	62.2	(1.5)	(20.7)		40.0
Segment result	232.4	23.9	(5.7)		250.6
Corporate expenses					(21.0)
Corporate interest income					27.3
Corporate interest expense					(31.8)
Corporate non-recurring item					257.2
Income taxes – policyholders					75.3
– equity holders					(26.3)
Profit after tax attributable to equity holders					531.3

	Life £m	Asset management £m	Management services £m	Unallocated/ Corporate £m	Total £m
Other segment information					
Segment assets employed	64,254.6	114.2	140.8	59.1	64,568.7
Goodwill	65.0	134.5	10.0	–	209.5
Unallocated corporate assets	–	–	–	595.3	595.3
Consolidated total assets	64,319.6	248.7	150.8	654.4	65,373.5
Segment liabilities	58,399.5	46.7	278.8	1,182.2	59,907.2
Unallocated corporate liabilities	–	–	–	931.6	931.6
Consolidated total liabilities	58,399.5	46.7	278.8	2,113.8	60,838.8
Acquisition of in-force business	1,694.5	–	–	–	1,694.5
In-force business on transfer from with-profit funds	103.8	–	–	–	103.8
Other intangible assets acquired	112.1	27.0	2.2	–	141.3
Other capital expenditure	–	–	0.9	–	0.9
Amortisation of acquired in-force business	(264.7)	–	–	–	(264.7)
Other amortisation and depreciation	(28.1)	(6.8)	(5.3)	–	(40.2)
Non-recurring items					
Profit on acquisition	–	–	–	257.2	257.2
Gain on transfers from the with-profit funds	47.6	–	–	–	47.6
Profit arising from the change in assumptions used for determining insurance contracts liabilities	534.6	–	–	–	534.6
Impairment of acquired in-force business and deferred acquisition costs - equity holders	(511.1)	–	–	–	(511.1)
Impairment of acquired in-force business and deferred acquisition costs - policyholders	(11.0)	–	–	–	(11.0)
Post 2005 merger reorganisation costs	–	(1.5)	(17.4)	–	(18.9)
Abbey's life businesses integration costs	(6.8)	–	(3.3)	–	(10.1)
Fund merger costs (net)	(2.1)	–	–	–	(2.1)

The non-recurring items shown above, excluding the impairment of acquired in-force business and deferred acquisition costs attributable to policyholders of £11.0 million, total £297.2 million as reported in the analysis of equity holders' attributable profit.

4. Segment analysis (continued)

Year ended 31 December 2005

	Life £m	Asset management £m	Management services £m	Eliminations £m	Total £m
Segment revenue					
Gross premiums written	444.8	–	–	–	444.8
Premiums ceded to reinsurers	(50.4)	–	–	–	(50.4)
Net premiums written	394.4	–	–	–	394.4
Fees and commissions – external	42.2	24.8	–	–	67.0
– internal	–	17.6	172.0	(189.6)	–
	42.2	42.4	172.0	(189.6)	67.0
Segment result before non-recurring items	252.5	11.8	3.6		267.9
Non-recurring items	105.8	(0.6)	4.6		109.8
Segment result	358.3	11.2	8.2		377.7
Corporate expenses					(16.0)
Corporate interest income					4.0
Corporate interest expense					(11.7)
Income taxes – policyholders					(80.9)
– equity holders					(111.3)
Profit after tax attributable to equity holders					161.8

	Life £m	Asset management £m	Management services £m	Unallocated £m	Total £m
Other segment information					
Segment assets employed	41,723.2	59.7	182.5	96.2	42,061.6
Goodwill	65.0	134.5	10.0	–	209.5
Unallocated corporate assets	–	–	–	111.9	111.9
Consolidated total assets	41,788.2	194.2	192.5	208.1	42,383.0
Segment liabilities	38,622.9	22.2	125.2	981.7	39,752.0
Unallocated corporate liabilities	–	–	–	86.1	86.1
Consolidated total liabilities	38,622.9	22.2	125.2	1,067.8	39,838.1
Acquisition of in-force business	1,114.2	–	–	–	1,114.2
Other capital expenditure	4.2	–	1.8	–	6.0
Amortisation of acquired in-force business	(44.9)	–	–	–	(44.9)
Other amortisation and depreciation	(27.3)	–	(3.7)	–	(31.0)
Non-recurring items					
Profit on acquisitions	88.7	–	–	–	88.7
Impairment of goodwill	–	–	(20.0)	–	(20.0)
Release of deferred income liability	–	–	26.0	–	26.0
Post 2005 merger reorganisation costs	–	(0.6)	(1.4)	–	(2.0)
Fund merger benefits (net of costs)	17.1	–	–	–	17.1

5. New business (gross of reinsurance)

New business is shown for life assurance business written by the Group which comprises insurance and investment contracts. The definition of new business is consistent with the Group's EEV methodology and includes new policies written through the retail and intermediary distribution channels and retained vesting retirement annuities written in the non-profit funds. New annual premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new annual premiums. New business premiums are shown for Abbey's life businesses. Other Group companies do not write material amounts of life assurance business.

	Retail 2006 £m	Intermediary 2006 £m	Total 2006 £m	Total 2005 £m
Single				
Pension	**79.0**	**–**	**79.0**	–
Life and investments				
ISAs and unit trusts	**–**	**166.3**	**166.3**	–
Life and other bonds	**182.1**	**–**	**182.1**	–
	261.1	**166.3**	**427.4**	–
Annual				
Pension	**2.7**	**–**	**2.7**	–
Life and investments				
ISAs and unit trusts	**–**	**0.2**	**0.2**	–
Term assurance and other protection	**6.7**	**18.5**	**25.2**	–
	9.4	**18.7**	**28.1**	–
Total new business	**270.5**	**185.0**	**455.5**	–
Annual premium equivalent	**35.5**	**35.3**	**70.8**	–

Annual premium equivalent is calculated as 10% of new single premiums plus new annual premiums.

6. Fees and commissions

	2006 £m	2005 £m
Fund management based fees	**29.3**	24.8
Other fees	**68.0**	6.6
Commissions	**6.7**	35.6
	104.0	67.0

7. Net investment income

	2006 £m	2005 £m
Investment income	**2,275.5**	791.7
Fair value gains	**977.6**	1,931.8
	3,253.1	2,723.5

In the analysis of equity holders' attributable profit the operating profit attributable to equity holders based on a long term rate of investment return has been calculated by applying the longer term rates of return to the opening equity holder invested assets adjusted for capital movements in the year, excluding investments in subsidiaries.

The longer term rate of return has been determined with regard to historical rates of return and future economic and investment return expectations. The principal assumptions underlying the calculation of long term investment return are 6.6% (2005: 7.1%) gross return on equity investments and 4.1% (2005: 4.6%) gross return on fixed interest investments.

8. Other operating income

	2006 £m	2005 £m
Excess of the Group's interest in the fair value of the net assets of Abbey's life businesses over cost (note 43)	**257.2**	–
Excess of the Group's interest in the fair value of the net assets of Century Group Limited and the life business of Allianz Cornhill Insurance plc over cost	**–**	88.7
Gains arising on the transfer of Alba Life Holdings Limited and its subsidiaries and on the non-profit business of Century Life from the with-profit funds to the equity holders' funds (note 44)	**47.6**	–
Gain arising on the transfer of the with-profit funds' interest in the Resolution Group defined benefit pension scheme	**–**	26.0
Other income	**8.5**	5.0
	313.3	119.7

On 1 January 2005 the majority of the risks and benefits of the Resolution Group defined benefit pension scheme that were previously borne by the with-profit funds of Britannic Assurance plc were transferred to the equity holders' funds. At the same time the management services agreement between Resolution Management Services Limited and the with-profit funds was revised to include an implicit reduction in the expense charges from 2005 for the effect of the pension contribution holiday previously attributable to the with-profit funds. The profit arising to equity holders reflects the assumption of risk by the equity holders in exchange for pricing certainty obtained by the with-profit funds.

9. Acquisition costs

	2006 £m	2005 £m
Acquisition costs paid	**69.1**	2.9
Change in deferred acquisition costs	**20.3**	17.1
	89.4	20.0

10. Administrative expenses

	Note	2006 £m	2005 £m
Staff costs and other employee related costs		**100.0**	61.0
Defined benefit pension scheme service cost		**6.3**	5.7
Contributions to defined contribution pension schemes		**8.6**	1.2
Depreciation of property, plant and equipment		**3.8**	3.7
Amortisation of other intangible assets		**16.1**	10.2
Operating lease rentals		**3.3**	1.8
Auditors' remuneration	12	**9.4**	4.8
Post 2005 merger reorganisation costs		**18.9**	2.0
Former Abbey life businesses integration costs		**10.1**	–
Impairment of goodwill		**–**	20.0
Other expenses		**311.6**	149.1
		488.1	259.5

11. Employee costs

	2006 £m	2005 £m
Wages and salaries	**91.2**	55.6
Social security contributions	**8.8**	5.4
Other pension costs	**14.9**	6.9
	114.9	67.9

	2006	2005
Average number of persons employed during the year		
Sales and distribution	**103**	48
Customer servicing	**1,228**	754
Investment, finance and administrative	**1,276**	743
	2,607	1,545

12. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates, in respect of services supplied to entities included in the consolidated financial statements is as follows. No services were provided to associated pension schemes.

	Ernst & Young 2006 £m	Ernst & Young 2005 £m	KPMG 2005 £m	Total 2005 £m
Consolidated financial statements				
Audit services	**0.4**	0.4	–	0.4
Other services	**9.0**	2.5	1.9	4.4
	9.4	2.9	1.9	4.8

The remuneration included in the consolidated financial statements for other services comprises:

	Ernst & Young 2006 £m	Ernst & Young 2005 £m	KPMG 2005 £m	Total 2005 £m
The auditing of accounts of associates of the Company pursuant to legislation	**2.6**	1.2	–	1.2
Other services supplied pursuant to such legislation:				
Audit related	**1.2**	0.4	0.4	0.8
Services as reporting accountants	**1.2**	–	0.7	0.7
Taxation	**0.4**	0.4	0.4	0.8
Corporate finance transactions	**2.4**	–	–	–
Other services:				
Audit of EEV supplementary information	**0.7**	0.4	–	0.4
Other	**0.5**	0.1	0.4	0.5
	9.0	2.5	1.9	4.4

The total remuneration of the auditors of the Company for audit and audit related services provided to the Company and its subsidiaries amounted to £4.9 million (2005: £2.8 million). The remuneration in respect of corporate finance transactions mainly comprised due diligence undertaken on the acquisition of Abbey's life businesses.

13. Financing costs

	2006 £m	2005 £m
Interest expense	**94.2**	14.6
Attributable to – policyholders	**62.4**	2.9
– equity holders	**31.8**	11.7
	94.2	14.6

14. Income taxes

(a) Current year tax charge

	2006 £m	2005 (restated) £m
Current tax:		
UK corporation tax	**96.9**	118.1
Overseas tax	**10.6**	5.2
	107.5	123.3
Adjustment in respect of prior years	**(2.2)**	(12.8)
	105.3	110.5
Deferred tax:		
Reversal/origination of temporary differences		
On non-profit surpluses	**(36.0)**	53.2
On amortisation of acquired in-force business	**(85.5)**	(20.2)
On profit arising from the changes in assumptions used for determining insurance contracts liabilities in accordance with PS 06/14	**90.8**	–
On impairment of acquired in-force business and deferred acquisition costs	**(82.9)**	–
Other	**(10.9)**	48.8
Fund merger benefits	**(28.9)**	–
Recognition of previously unrecognised tax loss/tax credit	**(0.9)**	(2.1)
Write down of deferred tax assets	**–**	2.0
	(154.3)	81.7
Total income tax (credit)/expense	**(49.0)**	192.2
Attributable to – policyholders	**(75.3)**	80.9
– equity holders	**26.3**	111.3
	(49.0)	192.2

Unrecognised tax losses of previous years have been used to reduce current tax expense and deferred tax by £nil (2005: £5.0 million) and £0.9 million (2005: £20.3 million) respectively. Funds merger benefits include the recognition of additional deferred tax assets of £85.2 million, offset by an increase in future tax on non-profit surpluses of £56.3 million. The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life insurance policyholder earnings is included in income tax expense. The tax benefit attributable to policyholder earnings was £75.3 million (2005: expense £80.9 million).

(b) Tax (credited)/charged to statement of recognised income and expense

	2006 £m	2005 £m
Current tax	**(1.9)**	–
Deferred tax	**(1.6)**	0.1
	(3.5)	0.1

The current tax credit comprises tax relief relating to share options.

14. Income taxes (continued)

(c) Reconciliation of tax (credit)/charge

	2006 £m	2005 (restated) £m
Profit before tax	**482.3**	354.0
Policyholder tax	**75.3**	(80.9)
Profit after policyholder tax	**557.6**	273.1
Tax at standard UK rate (30%)	**167.3**	81.9
Profit on acquisition of Abbey's life businesses not subject to tax	**(77.2)**	–
Gain on transfers from with-profit funds not subject to tax	**(14.3)**	–
Untaxed (income)/expenses	**(15.4)**	(21.2)
Disallowable expenses	**5.8**	2.7
Adjustment to tax charge in respect of prior years	**(2.2)**	–
Recognition of losses/tax assets not previously valued	**(85.2)**	–
Increase in deferred tax on movement in non-profit surplus	**20.3**	48.4
Impact of tax on acquired in-force amortisation at less than 30%	**13.7**	–
Other	**13.5**	(0.5)
Equity holders' tax	**26.3**	111.3
Policyholder tax	**(75.3)**	80.9
Total tax (credit)/charge for the year	**(49.0)**	192.2

15. Earnings per share

The profit attributable to ordinary shareholders for the purposes of computing earnings per share has been calculated as set out below. This is after deducting preference share dividends paid in the year, profits attributable to other minority interests and the coupon paid in the year on the perpetual reset capital securities.

	2006 £m	2005 £m
Profit for the year attributable to equity holders	**531.3**	161.8
Less: Dividends paid on minority interest preference shares	**(4.9)**	–
Profit attributable to other minority interests	**(2.0)**	–
Coupon paid on perpetual reset capital securities	**(14.3)**	–
	510.1	161.8

The basic earnings per share of 97.8p (2005: 56.8p adjusted) has been based on the profit of £510.1 million (2005: £161.8 million) and a weighted average number of ordinary shares outstanding during the year of 521,720,524 (2005: 248,939,286), calculated as follows. The comparative amount is stated after adjustment for the bonus element of the rights issue which completed on 9 August 2006.

	2006 No.	2005 No.
Issued ordinary shares at beginning of year	**361,088,494**	196,658,549
Effect of ordinary shares issued	**127,507,657**	52,280,737
Effects of bonus element of rights issue	**33,124,373**	–
Weighted average number of ordinary shares	**521,720,524**	248,939,286

The diluted earnings per share of 97.3p (2005: 56.3p adjusted) has been based on the profit of £510.1 million (2005: £161.8 million) and a diluted weighted average number of ordinary shares outstanding during the year of 524,085,976 (2005: 251,314,072) calculated as follows. The comparative amount is stated after adjustment for the bonus element of the rights issue which completed on 9 August 2006.

	2006 No.	2005 No.
Weighted average number of ordinary shares at end of year	**521,720,524**	248,939,286
Effect of ordinary share options in issue	**2,365,452**	2,374,786
Weighted average number of ordinary shares (diluted)	**524,085,976**	251,314,072

The bonus element is calculated by reference to the closing share price immediately prior to the date that the ordinary shares became ex-rights of 654.5p per ordinary share and the additional 322.4 million new ordinary shares issued at 480.0p per ordinary share.

16. Statement of changes in equity

	Share capital (note 17) £m	Share premium £m	Perpetual reset capital securities (note 19) £m	Reserves (note 20) £m	Retained earnings (note 21) £m	Minority interests (note 22) £m	Total £m
At 1 January 2006	18.1	42.5	496.5	1,045.3	834.3	108.2	2,544.9
Total recognised income and expense for the year attributable to equity holders	–	–	–	0.5	528.4	2.0	530.9
Dividends on ordinary shares	–	–	–	–	(93.2)	–	(93.2)
Coupon paid on perpetual reset capital securities, net of tax relief	–	–	–	–	(10.0)	–	(10.0)
Dividends on preference shares	–	–	–	–	(4.9)	(8.2)	(13.1)
	18.1	42.5	496.5	1,045.8	1,254.6	102.0	2,959.5
Issue of ordinary share capital – rights issue	16.1	1,531.2	–	–	–	–	1,547.3
Issue of ordinary share capital – share option schemes	0.1	2.4	–	(0.6)	0.6	–	2.5
Issue of ordinary shares to minority shareholders in UK Commercial Property Trust Limited	–	–	–	–	–	152.0	152.0
Issue costs	–	(41.8)	–	–	–	–	(41.8)
Equity share options issued	–	–	–	2.5	–	–	2.5
Purchase of minority interest preference shares	–	–	–	–	–	(87.3)	(87.3)
Gain on purchase of minority interest preference shares	–	–	–	–	12.7	(12.7)	–
At 31 December 2006	34.3	1,534.3	496.5	1,047.7	1,267.9	154.0	4,534.7

16. Statement of changes in equity (continued)

	Share capital (note 17) £m	Share premium £m	Perpetual reset capital securities (note 19) £m	Reserves (note 20) £m	Retained earnings (note 21) (restated) £m	Minority interests (note 22) £m	Total (restated) £m
At 1 January 2005, as previously reported	9.8	47.2	–	0.9	714.0	–	771.9
Transfer from unallocated surplus (note 24)	–	–	–	–	10.0	–	10.0
At 1 January 2005, as restated	9.8	47.2	–	0.9	724.0	–	781.9
Total recognised income and expense for the year attributable to equity holders	–	–	–	0.1	158.5	–	158.6
Dividends on ordinary shares	–	–	–	–	(48.2)	–	(48.2)
	9.8	47.2	–	1.0	834.3	–	892.3
Issue of ordinary share capital	8.3	0.6	–	1,043.0	–	–	1,051.9
Issue costs	–	(5.3)	–	–	–	–	(5.3)
Equity share options issued	–	–	–	1.3	–	–	1.3
Preference shares of acquired business	–	–	–	–	–	108.2	108.2
Issue of perpetual reset capital securities	–	–	500.0	–	–	–	500.0
Issue costs, net of tax relief	–	–	(3.5)	–	–	–	(3.5)
At 31 December 2005	18.1	42.5	496.5	1,045.3	834.3	108.2	2,544.9

Tax relief on the costs of issuing the perpetual reset capital securities amounts to £1.5 million.

17. Share capital

	2006 £m	2005 £m
Authorised: 1,000 million (2005: 500 million) ordinary shares of 5p each	**50.0**	25.0
Issued and fully paid: 685.2 million (2005: 361.1 million) ordinary shares of 5p each	**34.3**	18.1

	2006 million	2005 million
Shares in issue at 1 January	**361.1**	196.7
Shares issued through rights issue	**322.4**	–
Shares issued under share option schemes	**1.7**	0.2
Shares issued on acquisition of Resolution Life Group Limited	**–**	164.2
Shares in issue at 31 December	**685.2**	361.1

At an Extraordinary General Meeting of the Company held on 17 July 2006 the authorised share capital of the Company was increased by 500 million ordinary shares of 5p each to 1,000 million ordinary shares of 5p each.

On 9 August 2006 the Company completed a rights issue to qualifying ordinary shareholders. The terms of the rights issue were 8 new ordinary shares for every 9 existing ordinary shares at an issue price of 480.0p per new ordinary share. The issue price represented a discount of approximately 26.7 per cent to the closing share price immediately prior to the rights issue of 654.5p per existing ordinary share. A total of 322,359,030 new ordinary shares were issued pursuant to the rights issue and the proceeds amounted to £1.55 billion before expenses. The new ordinary shares ranked for the interim dividend declared by the directors on 19 September 2006.

Ordinary shareholders of the Company are entitled:

- To attend general meetings of the Company and to vote at such meetings. Ordinary shareholders have one vote on a show of hands if present at a general meeting or, if a poll is called, one vote for each share held.
- To receive a copy of the annual accounts, auditors' report, directors' report and any accompanying reports of the Company not less than 21 days before the date of the annual general meeting.
- To receive dividends, including interim dividends declared by the Board, except where shares are issued on terms providing that they will rank for dividend as from a particular date. The Company may not declare, pay or distribute a dividend on the ordinary shares or redeem, purchase or otherwise acquire its ordinary shares for so long as a deferred coupon payment of the perpetual reset capital securities has not been satisfied.

Where an ordinary shareholder has not been traced for a period of twelve years the Company is entitled to sell the shares of that member. The proceeds of sale are retained by the Company and the amount is held as a debt due to the former member of the Company. No interest accrues on the debt.

18. Share options

The share-based payment arrangements in existence during the year are set out below.

Following the rights issue on 9 August 2006, the number of options granted and the option prices were revised for all schemes at that date to reflect the bonus element of the rights issue. This did not result in an increase in the fair value of the share options granted under these schemes. The bonus element is calculated by reference to the closing share price immediately prior to the date that the ordinary shares became ex-rights of 654.5p per existing ordinary share and the additional 322.4 million new ordinary shares issued at 480.0p per ordinary share.

For share options granted before 7 November 2002, the recognition and measurement principles of IFRS 2 *Share-based Payment* have not been applied, as permitted by the transitional provisions in IFRS 1.

The weighted average share price of the Company in 2006 amounted to 635.6p (2005: 552.3p).

The total expense for the year arising from share-based payment transactions was £2.5 million (2005: £1.3 million), all of which relates to equity-settled share-based payments.

The share option equity reserve at 31 December 2006 was £4.7 million (2005: £2.2 million).

(a) Save As You Earn scheme (SAYE)

The SAYE scheme allows participating employees to save up to £250 each month over a period of three or five years. Employees are eligible to participate in a SAYE arrangement if they have been employed by the Group for the six months prior to the financial year end preceding the grant date of the relevant arrangement.

Under the SAYE arrangement, participants remaining in the Group's employment at the end of the three year or five year savings period are entitled to use their savings to purchase shares of the Company at the option price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

The option price is determined by the Company, which may apply up to a 20% discount on market price, taken as the average market value on the three dealing days preceding the date of invitation.

18. Share options (continued)

As at 31 December, the following options were outstanding:

Grant date	Maturity date: (exercise period ordinarily lasts six months from this date)	Exercise price (pence)	Number of 5p ordinary shares 2006	2005 (adjusted)
April 2000	June 2005	520.35	**–**	226
April 2001	June 2006	662.90	**608**	18,543
April 2002	June 2007	477.50	**22,352**	22,958
April 2003	June 2006	107.57	**–**	1,291,124
April 2003	June 2008	107.57	**773,013**	849,934
April 2004	June 2007	246.69	**259,612**	287,546
April 2004	June 2009	246.62	**135,376**	142,728
April 2005	June 2008	342.82	**181,811**	208,028
April 2005	June 2010	342.82	**87,303**	96,553
May 2006	June 2009	454.76	**435,548**	–
May 2006	June 2011	454.76	**142,177**	–
			2,037,800	2,917,640

Included in the options outstanding at the year end are options over 22,960 (2005 - adjusted: 41,727) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. Except for the effect of the rights issue referred to above these options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The options outstanding at 31 December 2006 have a weighted average remaining contractual life of 2.36 years (2005: 1.97 years).

The following table sets out the number and the weighted average exercise prices (WAEP) for the movements in employee share options during the year.

	2006 No	**2006 WAEP (pence)**	2005 No	2005 WAEP (pence)
Outstanding as at 1 January	**2,720,692**	**178.75**	2,753,974	168.44
Effect of rights issue during the year	**271,366**	**268.08**	–	–
Granted during the year	**525,916**	**454.76**	286,914	392.00
Forfeited during the year	**(127,431)**	**251.36**	(201,061)	(304.37)
Exercised during the year	**(1,333,500)**	**109.85**	(90,853)	(144.26)
Expired during the year	**(19,243)**	**628.20**	(28,282)	(556.29)
Outstanding at 31 December	**2,037,800**	**268.25**	2,720,692	178.75
Exercisable at 31 December	**32,280**	**259.92**	226	595.00

For share options granted under the SAYE scheme, the fair value estimated as at the grant date ranged from £0.27 to £1.75 per option (2005 – adjusted: £0.26 to £1.01). The weighted average fair value of options granted during the year was £1.73 (2005 – adjusted: £0.97).

This fair value has been estimated using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted.

The following information was used in the binomial option pricing model in respect of options granted in the years ended 31 December 2006 and 31 December 2005.

	2006	2005
Dividend yield (%)	**4.5**	4.5
Expected Share Price volatility (%)	**25.0**	25.0
Historical volatility (%)	**25.3**	52.3
Risk-free Interest Rate (%)	**4.8**	3.9 - 4.7
Option Life (years)	**3.3 - 5.3**	3.3 - 5.3
Exercise price (pence)	**454.8**	392.0
Forfeiture per annum range (%)	**0.4 - 7.6**	2.0 - 9.1

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome. No other features were incorporated into the measurement of fair value.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2006 amounted to £0.4 million (2005: £0.4 million) for SAYE schemes.

(b) Executive Share Option Scheme (ESOS)

Since 1999, share options have been granted to senior management with a vesting period of three years from the date of grant and with an exercise period of seven years from the earliest date of vesting. The exercise price of options under the Resolution 1998 Approved Share Option Scheme was determined as the average of the mid-market price on the three days prior to the date of grant. In the case of the Resolution 1998 Unapproved Share Option Scheme, the exercise price was determined by considering the mid-market price on the date of grant. If the mid-market price was lower than that determined in the preceding three days for the Approved options, the same exercise price was set for the Unapproved options as was set for the Approved ones; but if the mid-market price on the date of grant was higher than that set for the Approved options, the exercise price set for the Unapproved options was that higher mid-market price. No grant has ever been made under the scheme at less than market value.

Options granted in 1999 and 2000 have performance conditions based on a fixed three year performance period. Both performance conditions must be met in order for the options to vest. The first performance condition requires Embedded Value Added by New Business to match or exceed the Retail Price Index (RPI) by 3% per annum over a three year period; and the second requires the TSR to match or exceed the median of the FTSE 250, excluding investment trusts, over the same 3 year period. These performance conditions are capable of being retested and will lapse on the tenth anniversary of the grant.

Options granted in 2003 and 2004 met a performance condition by achieving an increase in operating earnings per share (EPS), before exceptional items and excluding any longer term return from the shareholders' retained capital (SRC), that matched or exceeded RPI + 6% over the 3 years ended 31 December 2005 and 31 December 2006 respectively.

Options granted in 2005 will vest if and when there is an increase in operating EPS, before exceptional items and excluding smoothed return from the SRC to match or exceed RPI + 6% over the 3 years ended 31 December 2007.

The Company has decided not to make further grants under the ESOS scheme.

All options are equity-settled; there is no cash settlement alternative.

18. Share options (continued)

Options outstanding under the ESOS schemes as at 31 December 2006:

Grant date	Exercise period ordinarily within seven years from	Exercise price (pence) (adjusted)	Number of 5p ordinary shares 2006	2005 (adjusted)
March 1999	March 2002	903	**16,005**	19,435
March 2000	March 2003	655	**26,048**	35,441
September 2002	September 2005	319	**17,435**	57,968
March 2003	March 2006	135	**38,132**	303,111
April 2003	April 2006	134	**22,420**	22,420
April 2003	April 2006	138	**185,723**	185,723
September 2003	September 2006	267	**44,645**	165,783
December 2003	December 2006	250	**12,036**	12,036
December 2003	December 2006	252	**29,777**	29,777
March 2004	March 2007	308	**189,450**	232,770
September 2004	September 2007	335	**64,537**	72,236
September 2004	September 2007	340	**70,812**	79,519
April 2005	April 2008	416	**126,664**	138,939
October 2005	October 2008	527	**126,361**	130,876
			970,045	1,486,034

The following table sets out the number and corresponding weighted average exercise prices (WAEP) for the movements in the executive share options during the year.

	2006 No	**2006 WAEP (pence)**	2005 No	2005 WAEP (pence)
Outstanding as at 1 January	**1,299,839**	**322.95**	1,369,004	339.79
Effect of rights issue during the year	**143,069**	**325.88**	–	–
Granted during the year	**–**	**–**	238,850	535.91
Forfeited during the year	**(77,764)**	**(341.64)**	(222,070)	(840.48)
Exercised during the year	**(382,207)**	**(191.53)**	(85,945)	(319.26)
Expired during the year	**(12,892)**	**(718.45)**	–	–
Outstanding at 31 December	**970,045**	**325.82**	1,299,839	322.95
Exercisable at 31 December	**350,168**	**175.81**	50,700	364.00

Included in the above are options over 59,488 (2005 - adjusted: 112,844) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. Except for the effect of the rights issue referred to above these options have not been subsequently modified; therefore, they do not need to be accounted for in accordance with IFRS 2.

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 7.13 years (2005: 7.85 years).

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2006 is £0.2 million (2005: £0.3 million) under executive share options.

(c) Long Term Incentive Plans (LTIP)

Under the Resolution 2002 LTIP and the Resolution 2005 LTIP, share options are granted to directors and senior management. Both are 'nil cost' and have a vesting period of three years, both being subject to performance criteria being met.

Once vested, the 2002 LTIP has an exercise period of three months which may be extended by up to one year at the discretion of the Company. The 2005 LTIP may be exercised during the six months following vesting, though the Trustee has discretion to extend the exercise period by up to twelve months. However no options may vest unless the measured total shareholder return (TSR) reflects underlying financial performance.

The number of shares under option is determined by reference to a maximum multiple of twice base salary and a notional share price set on the date of grant.

Options granted in 2003 are exercisable from the third anniversary subject to how the Company's share price growth over a fixed three year period ending on 30 March 2006, is ranked in a table of companies in the FTSE 250.

Options granted in April 2004 and April 2005 are exercisable from the third anniversary subject to total shareholder return (TSR) growth over three years, ending on 30 March 2007 and 30 March 2008, respectively as compared to the FTSE 250.

Under the 2002 LTIP, 25% of shares vest at median ranking, all if performance is in the top quartile and straight line pro rata if in between.

Options granted in September 2005 and October 2005 are exercisable from the third anniversary of the date of grant subject to TSR growth over three years, ending 3 July 2008, as compared to that of the companies ranked 51 to 150 in the FTSE All-share index. 25% of shares vest at median ranking, all if in the top quintile and straight line pro rata if in between.

Options granted in 2006 have 50% of the awards based on TSR and 50% based on adjusted embedded value (EV). The TSR measure is based on TSR growth compared to companies ranked 51-150 in the FTSE All-Share Index over three years from date of grant. 25% of shares subject to this part of the award will vest for median ranking, all if in top quintile and a pro-rating on a straight line basis for values in between. The EV target is measured over three financial years commencing from 31 December 2005. 25% of shares subject to this part of the award will vest for average growth in Adjusted EV per share in excess of the risk free rate of 2.5% increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6%.

At the discretion of the Remuneration committee, a cash settlement alternative may be offered however, no obligation to settle in cash existed at the balance sheet date.

Options outstanding under the LTIP schemes as at 31 December:

Exercise period ordinarily within 1 year from	Option price (pence)	**2006**	Number of 5p ordinary shares 2005 (adjusted)
April 2006	nil	**212,998**	212,998
December 2006	nil	**42,127**	42,127
April 2007	nil	**350,609**	408,460
April 2008	nil	**318,967**	413,703
September 2008	nil	**537,286**	577,860
October 2008	nil	**74,981**	74,981
April 2009	nil	**912,900**	–
April 2009	nil	**9,055**	–
October 2009	nil	**12,096**	–
Total		**2,471,019**	1,730,129

18. Share options (continued)

The following table sets out the number and movements in the LTIP share options during the year. The weighted average exercise price (WAEP) for all LTIP share options is £nil.

	2006 No	2005 No
Outstanding as at 1 January	**1,537,286**	587,577
Effect of rights issue during the year	**192,843**	–
Granted during the year	**934,051**	949,709
Forfeited during the year	**(138,941)**	–
Exercised during the year	**(54,220)**	–
Expired during the year	**–**	–
Outstanding at 31 December	**2,471,019**	1,537,286
Exercisable at 31 December	**255,125**	–

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 1.95 years (2005: 2.43 years).

For options granted in 2005 and 2006, the fair value of equity-settled share options granted has been estimated as at the date of grant using a binomial pricing option and a Monte Carlo pricing model, taking into account the terms and conditions upon which the options were granted.

The estimated fair value of each share option granted in the LTIP schemes ranges from £1.26 to £4.77 (2005-adjusted: £1.26 to £5.68). The following table lists the inputs to the model used in respect of options granted in the years ended 31 December 2006 and 31 December 2005. In addition, the share price of other members of the comparator group is a key input.

	2006	2005
Dividend yield (%)	**n/a**	4.5
Expected share price volatility (%)	**25.0**	25.0
Historical volatility (%)	**25.3**	52.3
Risk-free interest rate (%)	**4.5 - 5.0**	4.0 - 4.7
Expected life of option (years)	**3.0**	3.0
Forfeiture per annum range (%)	**0 - 7.6**	0 - 5.0

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome. No other features were incorporated into the measurement of fair value. The weighted average fair value of options granted during the year was £4.21 (2005 - adjusted: £3.17).

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2006 amounted to £1.9 million (2005: £0.6 million) under LTIPs.

(d) Share matching plan (SMP)

The SMP is a share-based payment scheme which was offered to certain senior managers in 2006. Two awards were made during 2006, the first in November and the second in December.

Participants in the scheme pledge shares in Resolution plc ('investment shares'), which they hold for the duration of the vesting period. For each investment share that is held for the entirety of the vesting period, the participant receives a matching award of shares in Resolution plc. If the employee sells any of his investment shares during the vesting period then the corresponding matching shares will lapse.

Each employee invited to participate in the scheme is able to pledge shares whose value does not exceed 6% of their gross annual income. It is the employee's responsibility to obtain their investment shares. Shares already held by the employee can be pledged as investment shares. The matching award vests after three years from the date of grant.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2006 was less than £0.1 million under the share matching plan.

19. Perpetual reset capital securities

	2006	2005
	£m	£m
At 1 January	**496.5**	–
Issued in the year	**–**	500.0
Issue costs, net of tax relief	**–**	(3.5)
At 31 December	**496.5**	496.5

The Company has in issue £500 million of perpetual reset capital securities ('the Notes') which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The proceeds of the issue amounted to £496.5 million.

The Notes are unsecured obligations of the Company and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon the Company being solvent at the time of payment and immediately following such payment and also, in respect of coupon payments, having sufficient distributable reserves.

The Notes have no fixed maturity date and interest payments may be deferred at the option of the Company; accordingly the Notes meet the definition of Equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the Financial Services Authority.

The Notes may be redeemed at par at the option of the Company on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the Financial Services Authority. In certain circumstances the Company has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, commencing in 2006, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits.

If the Company opts to defer a coupon payment the deferred coupon payment may only be satisfied by the issue of ordinary shares in the Company. For so long as a deferred coupon payment has not been satisfied the Company may not declare, pay or distribute a dividend on its securities in issue ranking junior to the Notes, including the ordinary shares or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares.

20. Reserves

	Share options reserve £m	Revaluation reserve £m	Merger reserve £m	Total £m
At 1 January 2006	**2.2**	**0.1**	**1,043.0**	**1,045.3**
Allocation from total recognised income and expense for the year attributable to equity holders	**0.6**	**(0.1)**	**–**	**0.5**
Issue of ordinary share capital	**(0.6)**	**–**	**–**	**(0.6)**
Equity share options issued	**2.5**	**–**	**–**	**2.5**
At 31 December 2006	**4.7**	**–**	**1,043.0**	**1,047.7**

	Share options reserve £m	Revaluation reserve £m	Merger reserve £m	Total £m
At 1 January 2005	0.9	–	–	0.9
Allocation from total recognised income and expense for the year attributable to equity holders	–	0.1	–	0.1
Merger reserve arising on the issue of shares for the acquisition of Resolution Life Group Limited	–	–	1,043.0	1,043.0
Equity share options issued	1.3	–	–	1.3
At 31 December 2005	2.2	0.1	1,043.0	1,045.3

The share options reserve comprises the cumulative fair value charges made to the income statement in respect of share options granted and still outstanding.

The revaluation reserve comprises the post-acquisition revaluation gain on owner-occupied properties held by the equity holders' funds.

The merger reserve is the difference between the fair value and the nominal value of the shares issued on 6 September 2005 in consideration for the acquisition of Resolution Life Group Limited.

21. Retained earnings

	Held within the long term business £m	Other retained earnings £m	Total £m
At 1 January 2006	**471.3**	**363.0**	**834.3**
Allocation from total recognised income and expense for the year attributable to equity holders	**455.9**	**72.5**	**528.4**
Transfers	**(402.0)**	**402.0**	**–**
	525.2	**837.5**	**1,362.7**
Dividends on ordinary shares	**–**	**(93.2)**	**(93.2)**
Coupon paid on perpetual reset capital securities, net of tax relief	**–**	**(10.0)**	**(10.0)**
Dividends on preference shares	**–**	**(4.9)**	**(4.9)**
Issue of ordinary share capital	**–**	**0.6**	**0.6**
Gain on purchase of preference shares	**–**	**12.7**	**12.7**
At 31 December 2006	**525.2**	**742.7**	**1,267.9**

Dividends on ordinary shares comprise the second interim dividend for 2005 of £47.7 million and the interim dividend for 2006 of £45.5million.

	Held within the long term business £m	Other retained earnings (restated) £m	Total (restated) £m
At 1 January 2005, as previously reported	513.1	200.9	714.0
Transfer from unallocated surplus (note 24)	–	10.0	10.0
At 1 January 2005, as restated	513.1	210.9	724.0
Allocation from total recognised income and expense for the year attributable to equity holders	81.8	76.7	158.5
Transfers	(123.6)	123.6	–
	471.3	411.2	882.5
Dividends on ordinary shares	–	(48.2)	(48.2)
At 31 December 2005	471.3	363.0	834.3

Dividends on ordinary shares comprise the final dividend for 2004 of £24.4 million and the first interim dividend for 2005 of £23.8 million.

Retained earnings held within the long term business comprise the equity holders' post-acquisition interests in the long term business. Other retained earnings comprises the aggregate of the post-acquisition retained earnings of subsidiary undertakings and the retained earnings of the Company. Distribution of the retained earnings held within the long term business funds and surplus assets held within the shareholders' funds of the life companies is subject to retaining sufficient funds to protect policyholder interests.

22. Minority interests

(a) Preference shares

	2006 £m	2005 £m
At 1 January	**108.2**	–
Acquired through business combinations	**–**	108.2
Dividend paid out of pre-acquisition reserves	**(8.2)**	–
Purchase by the Group	**(100.0)**	–
At 31 December	**–**	108.2

On 31 March 2006 the £50 million cash preference shares and the £50 million PIK preference shares issued by Resolution Life Group Limited were purchased by Resolution plc from Royal and Sun Alliance Insurance Group plc for a total consideration of £87.3 million, giving rise to a gain of £12.7 million for equity holders (note 16).

(b) UK Commercial Property Trust Limited

	2006 £m	2005 £m
At 1 January	**–**	–
Shares subscribed for by minority interests	**152.0**	–
Change in equity attributable to minority interests	**2.0**	–
At 31 December	**154.0**	–

22. Minority interests (continued)

In September 2006 the Group established a property investment subsidiary, UK Commercial Property Trust Limited (UKCPT), which is domiciled in Guernsey and listed on the London Stock Exchange. Approximately £498 million of investment properties were transferred to UKCPT from certain of the Group's with-profit funds in exchange for 71.3% of the ordinary shares issued by UKCPT and £125 million in cash provided from the £152 million cash subscribed by external shareholders to acquire a 28.7% interest in the ordinary shares of the company.

Since the end of the financial year a further transaction has taken place between the with-profit-funds of the Group and UKCPT. Information on this is given in note 47.

23. Insurance contracts liabilities

	Gross liabilities 2006 £m	Reinsurers' share 2006 £m
Life assurance business:		
Insurance contracts	**34,951.0**	**3,058.3**
Investment contracts with DPF	**10,724.3**	**–**
	45,675.3	**3,058.3**
General insurance business:		
Outstanding claims provision	**140.0**	**140.0**
	45,815.3	**3,198.3**
Amount due for settlement/recovery after 12 months	**41,938.9**	**2,861.3**

	Gross liabilities 2005 £m	Reinsurers' share 2005 £m
Life assurance business:		
Insurance contracts	26,541.1	3,615.9
Investment contracts with DPF	3,743.1	–
	30,284.2	3,615.9
General insurance business:		
Unearned premiums	3.2	3.2
Outstanding claims provision	83.5	83.5
	30,370.9	3,702.6
Amount due for settlement/recovery after 12 months	27,456.0	3,105.3

	Gross liabilities 2006 £m	Reinsurers' share 2006 £m
At 1 January 2006	**30,370.9**	**3,702.6**
Acquisitions through business combinations	**18,581.5**	**1,225.1**
Premiums	**1,633.3**	**151.5**
Claims	**(4,709.4)**	**(369.1)**
Other changes in liabilities	**(29.7)**	**(1,512.3)**
Foreign exchange adjustments	**(31.3)**	**0.5**
As at 31 December 2006	**45,815.3**	**3,198.3**

	Gross liabilities 2005 £m	Reinsurers' share 2005 £m
At 1 January 2005	9,153.0	1,174.8
Acquisitions through business combinations	22,293.7	4,695.3
Premiums	444.8	50.4
Claims	(1,253.3)	(144.1)
Other changes in liabilities	(267.3)	(2,073.8)
As at 31 December 2005	30,370.9	3,702.6

The general insurance business is written by a subsidiary undertaking that was previously a subsidiary undertaking of Royal & Sun Alliance Insurance Group plc (RSA). The Group has in place a fall back perpetual reinsurance arrangement under which the full economic burden and benefit of the business rests with RSA. In addition, RSA has agreed to indemnify the Group against any general insurance liabilities which are not otherwise covered by the reinsurance treaty. This indemnity is unlimited as to time and amount.

In common with others in the life assurance business, the Group has experienced a number of complaints in respect of mortgage endowment business. A provision for the estimated redress has been established within liabilities under insurance contracts. The ultimate cost may be greater or smaller than the amount provided and is dependent on the level of complaints and the period over which the policies were written.

The movement in the provision is as follows:

	2006 £m	2005 £m
At 1 January	**176.6**	19.3
Acquisitions through business combinations	**–**	95.3
Adjustments to provisions made in the year	**(67.0)**	93.0
Compensation paid	**(33.7)**	(31.0)
At 31 December	**75.9**	176.6

£45.0 million of the provision at 31 December 2006 (2005: £143.1 million) is held in the with-profit funds.

24. Unallocated surplus

	2006 (restated) £m	2005 (restated) £m
At 1 January, as previously reported	**856.4**	278.6
Transfer to retained earnings (note 21)	**(10.0)**	(10.0)
At 1 January, as restated	**846.4**	268.6
Acquisitions through business combinations	**233.3**	425.8
Foreign exchange adjustment	**1.1**	–
Transfer (to)/from income statement	**(378.4)**	152.0
At 31 December	**702.4**	846.4

25. Provisions

	Restructuring £m	Long term incentive plan £m	Pension mis-selling £m	Other £m	Total
At 1 January 2006, as previously stated	14.1	2.5	–	10.2	26.8
Prior year adjustment (note 3)	–	–	–	18.7	18.7
At 1 January 2006, as restated	14.1	2.5	–	28.9	45.5
Acquisitions through business combinations	–	–	–	8.8	8.8
Additions in the year	43.8	2.9	13.0	6.4	66.1
Utilised during the year	(41.7)	(0.3)	–	(10.5)	(52.5)
Released during the year	–	–	–	(3.4)	(3.4)
At 31 December 2006	16.2	5.1	13.0	30.2	64.5

The amount due for settlement after 12 months is £29.8 million (2005: £12.3 million), none of which has been discounted.

The long term incentive plan provision represents the estimated benefits accruing to members of the plan as per an independent valuation at the end of 2006. The scheme membership is made up of senior employees of the asset management business. There are two plans; the seven year plan provides entitlements to payments on the third anniversary of entry to the scheme with further entitlement due, in certain cases, in each of the subsequent four years. The three year plan matures after three years, with members being entitled to cash payments. Both plans provide for the ability to retain benefits beyond the seven and three year periods respectively.

26. Investment contracts liabilities

	2006 Gross liabilities £m	2006 Reinsurers' share £m
Amount due for settlement/recovery after 12 months	8,832.7	–

	2005 Gross liabilities £m	2005 Reinsurers' share £m
Amount due for settlement/recovery after 12 months	6,370.3	–

27. Insurance and investment contracts liabilities – assumptions and sensitivities

(i) Assumptions

Process used to determine assumptions

For participating business in realistic basis companies the demographic assumptions about future experience are intended to be “best estimates”. They are determined after considering the companies’ recent experience and/or relevant industry data. Economic assumptions are market-consistent.

For other business, demographic assumptions are derived by adding a prudent margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

During 2006 a number of changes were made to assumptions to reflect FSA changes to reserving regulations, to harmonise the approach across the enlarged Group, and to reflect changes to expected experience. The impact of material changes during the year or since the acquisition date for businesses acquired during the year were as follows:

	Increase/(decrease) in insurance liabilities £m
FSA changes to reserving regulations	**(535)**
Harmonisation of valuation interest rate assumptions	**(14)**

Valuation interest rate

For realistic basis companies the liabilities are determined stochastically using an appropriate number of risk neutral scenarios produced by proprietary economic scenario generators calibrated to market conditions and gilt yields as at the valuation date.

For funds not subject to realistic reporting, the method used to determine valuation interest rates generally follows the regulations set out in Section 7.3 of the Prudential Sourcebook.

Assets are firstly hypothecated to classes of business being valued. The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, reinvestment risk and investment management expenses.

Valuation interest rates (after tax for life policies) are typically in the following ranges:

Life policies	3.00% to 4.00%
Pension policies	3.25% to 4.25%

Investment contracts with discretionary participation features are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS.

Expense inflation

For all companies other than SPILA, expenses are assumed to increase at the rate of increase in the RPI plus a fixed margin in accordance with the management service agreements (MSAs) that the companies have in place with Resolution Management Services. For SPILA, expenses are assumed to increase at the rate of increase in the RPI plus 1%.

For realistic basis companies the rate of RPI inflation is determined within each stochastic scenario. For other companies it is based on the difference between the yields on long dated fixed interest gilts and long dated inflation linked gilts (2006: 3.3%). For MSAs with contractual increases set by reference to National Average Earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations is then added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

27. Insurance and investment contracts liabilities – assumptions and sensitivities (continued)

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rates

For realistic basis companies, the regular bonus rates assumed in each scenario are determined in accordance with each company's Principles and Practices of Financial Management (PPFM). Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

(ii) Sensitivities

The tables below indicate the stand alone impact of certain key assumption changes to insurance and investment contracts.

Fluctuations in with-profit business are taken to the unallocated surplus and have no direct impact on profit or equity holders' funds. Consequently these do not feature in the table below.

	Change in assumption	Impact on profit before equity holders' tax	Impact on equity holders' funds
	%	£m	£m
Fixed interest yield assumptions	-1%	47.7	33.3
Fixed interest yield assumptions	+1%	(65.7)	(45.9)
Equity and property values	-10%	(35.5)	(24.8)
Mortality assumptions for annuities	-5%	(52.3)	(36.6)
Mortality assumptions for assurances	-5%	80.0	56.0

In reality, given the correlation between the assumptions, it is not often possible to demonstrate the effect of key assumptions whilst other assumptions remain unchanged. It should also be noted that in some instances these sensitivities are non-linear.

28. Capital statement

Set out below is a statement of the Group's capital resources related to UK life assurance business at 31 December 2006. This information is presented for each of the Group's major UK with-profit funds. All of the with-profit funds fall under the Financial Services Authority's (FSA's) realistic capital regime. As stated in note 2(b), the with-profit and non-profit funds of six Group companies were transferred to Phoenix Life Limited (PLL) as of 31 December 2006. These included the with-profit funds previously falling within Britannic Assurance plc (Britannic) and Phoenix Life & Pensions Limited (Phoenix). In addition to the Britannic and Phoenix with-profit funds, the statement below covers Phoenix & London Assurance Limited (PALAL) and the significant with-profit funds arising from the acquisition of Abbey's life businesses, namely Scottish Mutual Assurance Limited (SMA) and Scottish Provident Limited (SPL). The capital resources for the remaining with-profit funds have been aggregated in other with-profit funds. The equity holders' funds of PLL and of the regulated entities which have transferred their businesses to PLL are included within the non-profit funds. Surplus funds related to PALAL are primarily held outside the long-term fund.

(a) Capital statement

31 December 2006

	SMA £m	SPL £m	PALAL £m	Phoenix with-profit fund £m	Britannic with-profit fund £m	Other with-profit funds £m	Non-profit funds £m	Total life operations £m
Equity holders' funds								
Outside long term fund	79.8	–	383.9	–	–	82.4	3,576.0	4,122.1
Inside long term fund	–	–	–	–	–	109.3	1,317.2	1,426.5
Other qualifying capital								
Subordinated debt	–	–	200.0	–	–	–	200.0	400.0
Unallocated surplus	4.3	89.2	14.2	181.6	306.5	106.6	–	702.4
Regulatory adjustments								
Assets	(0.7)	(0.6)	(1.7)	(3.2)	(10.0)	(4.6)	(2,556.4)	(2,577.2)
Liabilities	479.3	1,142.7	175.4	1,179.8	695.1	384.7	22.6	4,079.6
Total available capital resources	562.7	1,231.3	771.8	1,358.2	991.6	678.4	2,559.4	8,153.4
Capital requirement								
UK realistic basis	562.7	1,170.5	376.5	1,245.5	803.0	529.9	300.2	4,988.3
Other regulatory bases	–	–	–	–	–	53.5	249.6	303.1
Overall surplus capital over regulatory requirements at 31 December 2006	–	60.8	395.3	112.7	188.6	95.0	2,009.6	2,862.0

Analysis of policyholders' net liabilities at 31 December 2006

	SMA £m	SPL £m	PALAL £m	Phoenix with-profit fund £m	Britannic with-profit fund £m	Other with-profit funds £m	Non-profit funds £m	Total life operations £m
Insurance contracts	3,398.9	3,756.9	5,975.7	7,196.1	957.8	2,705.7	8,490.1	32,481.2
Investment contracts with DPF	2,886.0	506.0	–	–	3,572.4	369.3	2,393.2	9,726.9
Investment contracts	–	–	3.4	4.7	46.2	556.1	7,825.5	8,435.9
Total technical liabilities	6,284.9	4,262.9	5,979.1	7,200.8	4,576.4	3,631.1	18,708.8	50,644.0

28. Capital statement (continued)

31 December 2005

	PALAL £m	Phoenix £m	Britannic £m	Other with-profit funds £m	Non-profit funds £m	Total life operations £m
Total available capital resources	601.2	1,364.9	758.0	454.8	1,275.6	4,454.5
Capital requirement	355.8	1,265.7	758.0	228.8	298.8	2,907.1
Overall surplus capital over regulatory requirements at 31 December 2005	245.4	99.2	–	226.0	976.8	1,547.4

Analysis of policyholders' net liabilities at 31 December 2005

	PALAL £m	Phoenix £m	Britannic £m	Other with-profit funds £m	Non-profit funds £m	Total life operations £m
Insurance contracts	6,236.9	7,723.9	1,921.3	2,484.0	4,559.1	22,925.2
Investment contracts with DPF	–	–	3,431.5	311.6	–	3,743.1
Investment contracts	3.5	5.3	–	0.5	6,676.3	6,685.6
Total technical liabilities	6,240.4	7,729.2	5,352.8	2,796.1	11,235.4	33,353.9

Note: The above Britannic figures as at 31 December 2005 include the Britannic Industrial Branch Fund. This fund is included in other with-profit funds in the capital statement as at 31 December 2006.

Reconciliation of equity holders' funds at 31 December 2006

The equity holders' funds in the capital statement can be reconciled to Group equity holders' funds as follows:

	£m
Equity holders' funds of life businesses at 31 December 2006	**5,548.6**
Acquired value of in-force business	**615.9**
Goodwill	**209.5**
Intangible asset-distribution agreements	**92.2**
Asset management business	**64.4**
Management services business	**56.3**
Net worth of UK Commercial Property Trust	**154.0**
Other non-UK life companies, non-life companies and holding companies	**(2,206.2)**
Group equity holders' funds at 31 December 2006	**4,534.7**

The regulatory liabilities for all of the UK's with-profit funds including SMA, SPL, PALAL, the Phoenix with-profit fund and the Britannic with-profit fund have been determined taking account of the requirement in the Board of Actuarial Standards' Guidance Note, GN45, to show zero working capital for a realistic basis with-profit fund that is closed to new business. If these requirements were disregarded, the surplus capital over regulatory requirements would increase by £62.9 million, £145 million, £nil, £145 million and £232 million, respectively.

Reconciliation of technical liabilities at 31 December 2006

The total technical liabilities at 31 December 2006 exclude the liabilities of Scottish Provident International Life Assurance Limited, a company incorporated in the Isle of Man.

(b) Change in available capital

The change in available capital comprises the change for the full year in respect of the Group except for Abbey's life businesses where the change covers the period from the date of acquisition to the end of the year. The change is set out in the table below.

	SMA £m	SPL £m	PALAL £m	Phoenix with-profit fund £m	Britannic with-profit fund £m	Other with-profit funds £m	Non-profit funds £m	Total £m
Available capital resources at 1 January 2006, before reclassification	-	-	601.2	1,364.9	758.0	454.8	1,275.6	4,454.5
Reclassification of capital resources	-	-	-	(61.5)	(127.8)	81.8	107.5	-
Available capital at 1 January 2006, as reclassified	-	-	601.2	1,303.4	630.2	536.6	1,383.1	4,454.5
Available capital of Abbey's life businesses at acquisition	393.0	1,109.1	-	-	-	172.8	2,450.0	4,124.9
Changes in assumptions used to measure life insurance liabilities	-	-	275.1	143.8	(4.6)	47.9	216.9	679.1
Changes in regulatory requirements	-	-	-	-	-	5.6	440.8	446.4
Inadmissible loans to Group companies	-	-	-	-	-	-	(1,660.4)	(1,660.4)
New business and other factors	169.7	122.2	(104.5)	(89.0)	366.0	(84.5)	(271.0)	108.9
Available capital resources at 31 December 2006	562.7	1,231.3	771.8	1,358.2	991.6	678.4	2,559.4	8,153.4

Changes in assumptions used to measure life insurance liabilities

The increases in available capital resources for PALAL and the Phoenix with-profit fund of £275.1 million and £143.8 million respectively arise mainly from an increase in the valuation interest rate.

Changes in regulatory requirements

The increase in capital resources arising from changes in regulatory requirements relates mainly to changes introduced by the FSA's Policy Statement 06/14 as described in note 2(a).

Inadmissible loans to Group companies

Inadmissible loans of £1,660.4 million relate to the loans made by Abbey's life businesses to the Group and are made out of the available capital in excess of that required to meet the Group's capital management policies.

New business and other factors

The increase of £366.0 million in the Britannic with-profit fund's available capital resources is mainly due to favourable investment return and changes in inadmissible assets.

(c) Internal group financing and other arrangements

The Group has several internal Group financing arrangements in place. Details of these arrangements are set out below.

PALAL subordinated loan agreement

PALAL has a loan facility with Resolution Life Limited (RLL), the immediate parent company. Financial support is provided where it is anticipated that PALAL would have insufficient capital to meet the "Capital Test". The Capital Test requires there to be sufficient capital to meet both the Pillar 1 and Pillar 2 capital requirements with an excess of at least £50 million.

The loan is repayable at PALAL's discretion, subject to providing at least 6 months notice to RLL and to the FSA,

28. Capital statement (continued)

but only if the Capital Test is met and only then with the consent of the FSA. The amount available under the subordinated loan agreement is limited to £200 million. At the end of 2006, the company had drawn down £200 million under the facility.

PALAL internal capital support memorandum

PALAL has agreed with RLL and with the FSA that it will establish memoranda accounts within the shareholders' and long-term fund to provide financial support to the long-term fund. The amounts credited to the shareholders' memorandum account at the end of 2006 was £200 million, being the amount received under the subordinated loan agreement. Assets are transferred from the shareholders' memorandum account to the long-term funds memorandum account when the value of assets of the long term fund have fallen (or are likely to fall) below the "threshold amount". The threshold amount is £25 million in excess of the requirements under both the statutory and realistic solvency regulations.

The amount transferred from the shareholders' memorandum account to the long-term fund memorandum account at the end of 2006 was £106.4 million, including accrued interest. In relation to these transfers, £51.6 million was required to achieve a realistic basis surplus of zero.

PLL capital support

In the event that the value of the assets of any with-profit fund within PLL falls below the regulatory minimum value of assets which must be held in that fund plus 0.5% of the with-profit benefit reserve (WPBR) (or £5 million if greater), support will be provided to that fund by way of a loan arrangement from the PLL non-profit fund or the PLL shareholders' fund to the extent that the PLL board determines that there are assets in those funds available to make such a loan.

At the end of 2006, £18.2 million had been transferred from the non-profit fund to the Alba with-profit fund under a contingent loan arrangement. No support was required by any of the other with-profit funds.

Life Division North (LDN) loans to RLL

As a result of dividend restrictions surplus funds totalling £1.8 billion have been loaned by LDN companies to RLL. The loans are interest bearing, repayable on demand by the lender and RLL may repay the loans at any time.

Life Division South (LDS) loans to RLL

Loans made by PLL to RLL at 31 December 2006 totalled £487 million. The loans are interest bearing, repayable on demand by the lender and RLL may repay the loans at any time.

Internal reassurance

Internal agreements are in place which reassure a large portion of the Scottish Mutual International Limited with-profit business and all of the with-profit business of Phoenix Life Assurance Limited into the SMA with-profit fund.

Investment management agreements

As at the end of 2006, the majority of the Group's LDS businesses had entered into contractual arrangements with Resolution Asset Management, a fellow subsidiary, for the management of their assets. The financial assets of Life Division North are mostly sub-contracted to external managers, State Street Global Advisors and Abbey National Treasury Services.

Management services agreements

Most life subsidiaries of the Group have entered into contractual agreements with a fellow subsidiary, Resolution Management Services, for the provision of administrative services. Accordingly, expense risks are now generally borne by the equity holder-owned management services company.

(d) Regulatory capital requirements

Each UK life insurance company must retain sufficient capital to meet the regulatory capital requirements mandated by the FSA; life insurance businesses based in Ireland and the Isle of Man, however, have requirements set by the local regulator. The following comments apply to FSA-regulated businesses comprising the majority of the Group's total life insurance businesses.

With the exception of the with-profit businesses the regulatory capital requirement is a combination of amounts held in respect of investment, expense and insurance risks (the long-term insurance capital requirement) and additional amounts, if required, and only for companies not required to report on a realistic basis covering the more onerous of two specified stress tests. The regulatory capital requirement is deducted from the available capital resources to give 'regulatory basis excess capital'.

For the with-profit businesses, a further test is required in respect of the with-profit funds which compares the level of 'realistic basis excess capital' to the 'regulatory basis excess capital' and, in circumstances where the 'realistic basis excess capital' position is less, that company is required to hold additional capital to cover the shortfall. The 'realistic basis excess capital' is calculated as the difference between realistic assets and realistic liabilities of the with-profit fund with a further deduction to cover various stress tests. Any additional capital requirement under this test is referred to as the with-profit insurance capital component (WPICC).

As a consequence of the fund merger, a number of smaller with-profit funds that were not previously required to report on a 'realistic' basis have become subject to the FSA realistic reporting regime. Those funds are required to hold a WPICC whereas they previously were not. The impact of this change has increased the capital requirement by £390 million.

Amounts have been maintained outwith the with-profit funds in SPL (£125 million) and SMA (£220 million) in respect of risks arising in the respective with-profit funds as Risk Based Capital (RBC). These RBC amounts will only be utilised after taking into account any management actions deemed appropriate and are not expected to be utilised on a realistic basis.

(e) Basis of determining regulatory capital

The following comments again apply to FSA-regulated businesses comprising the majority of the Group's total life insurance businesses.

Available capital resources

Available capital resources represent the excess of assets over liabilities calculated in accordance with detailed regulatory rules issued by the FSA. Different rules apply depending on whether the regulatory basis or the realistic basis excess capital is being calculated. Some differences also apply to the calculation of with-profit liabilities on the regulatory basis depending on whether or not a WPICC is required.

Regulatory basis

Assets are generally valued on a basis consistent with that used for accounting purposes although there are restrictions over the admissibility of certain assets and limitations on the value of certain assets depending on such matters as risk concentration (for example, counterparty risk).

Liabilities are calculated using a projection of future cash flows after making assumptions, inter alia, on future investment returns, expenses, mortality, and, in some instances persistency, all of which include margins for adverse deviation. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets and to yields obtainable on future investments and reinvestments. Other assumptions are based on recent actual experience, supplemented by industry information where appropriate. In most cases, the assessment of liabilities does not include future bonuses for with-profit policies that are at the discretion of the company, but does include a value for policyholder options likely to be exercised.

28. Capital statement (continued)

For with-profit businesses, if a WPICC calculation is required, yields obtainable on future investments are calculated taking into account the forward yield curve at the date of the valuation and allowance is made in some cases for future early terminations.

The regulatory changes introduced by Policy Statement 06/14 reduce the regulatory capital requirement by reducing the WPICC by the present value of the future value of the shareholder transfers, taking into account the impact of the stress test applied to the realistic basis excess capital, and by removal of the resilience capital requirement for realistic reporting firms.

Realistic basis

The FSA requires each life insurance company that has with-profit liabilities exceeding £500 million to carry out a 'realistic' valuation of its with-profit funds. The word 'realistic' in this context reflects the terminology used for reporting to the FSA and is an assessment of the financial position of a with-profit fund calculated under a prescribed methodology. The methodology is intended to reflect the market value of the assets and a 'market-consistent' value of the liabilities of the fund.

The valuation of with-profit assets in the with-profit funds on the realistic basis differs from the valuation on the regulatory basis as, in respect of non-profit business written in the with-profit funds, it includes the present value of the anticipated future release of the margins for adverse deviation. Further, the realistic valuation uses the market value of admissible assets without the restrictions affecting the regulatory basis noted above. The realistic valuation of with-profit liabilities is based upon 'asset shares', which are the accumulation of premiums less charges or other deductions and additions at the earned rate of return and which are used as a guide to the final bonus rates which can be supported. The valuation of financial guarantees or options embedded within policies is carried out using a stochastic simulation model that values liabilities on a basis consistent with tradable market option contracts (a 'market-consistent' basis). The model is, however, calibrated to gilt yields plus ten basis points rather than to swap yields. The model takes account of policyholder behaviour on a best-estimate basis and includes an adjustment to reflect future uncertainties where the exercise of options by policyholders might increase liabilities.

(f) Sensitivity to market conditions of liabilities and components of capital

Shareholders' funds

Shareholders' funds outside the long-term business funds are invested in a variety of assets. Some of these assets, such as equities, are sensitive to market conditions.

With-profit funds

The with-profit realistic liabilities and the available capital for the with-profit funds are sensitive to both market conditions and changes to a number of non-economic assumptions that affect the valuation of the liabilities of the funds. The available capital resources (and capital requirements) are sensitive to the level of the stock market, with the position worsening at lower stock market levels as a result of the guarantees to policyholders increasing in value. An increase in the level of equity volatility implied by the market cost of equity put options also increases the market consistent value of the options given to policyholders and worsens the capital position.

In addition, the with-profit funds hold significant amounts of corporate bonds. Therefore, there is a significant sensitivity to changes in corporate bond spreads and to changes in interest rates and yield curves. The most critical non-economic assumptions are the level of take-up of options inherent in the contracts (higher take up rates are more onerous), mortality rates (lower mortality rates at older ages are more onerous) and lapses prior to dates at which a guarantee would apply (lower lapse rates are generally more onerous where guarantees are in the money). The sensitivity of the capital position and capital requirements of the with-profit funds is partly mitigated by the actions that can be taken by management.

Other long-term funds

Outside the with-profit funds, assets backing actuarial reserves in respect of policyholder liabilities are invested so that the assets and liabilities are broadly matched. A key non-economic assumption is mortality rates in respect of annuity business (lower mortality rates are more onerous). The Group has reduced its exposure to deteriorating mortality rates in respect of life assurance contracts through its reinsurance arrangements. The Group is also exposed to mortality risk on assured lives even though some of the risk has been mitigated through reassurance arrangements.

In addition, poor cost control would gradually deplete the available capital and lead to an increase in the valuation of the liabilities (through an increased allowance for future costs). However, this risk has largely been mitigated through the implementation of the management services agreements.

(g) Capital management policies and objectives

The capital position is monitored by management committees appointed to separately oversee Life Division North and Life Division South. These committees monitor the regulatory position using the Group's own assessment of capital resources and requirements against targets which themselves are subject to regular review to ensure that they remain appropriate to maximise value for policyholders and shareholders.

In determining the capital policies the Group takes into account the previously described realistic and regulatory requirements, alternatively described as "Pillar 1" requirements. It also takes into account the Individual Capital Assessment (ICA) methodology, described in note 48 1(c), which is an assessment of all risks borne by each regulated entity and which is commonly referred to as "Pillar 2".

This approach ensures that each Group company is able to meet regulatory requirements at all times. The Group's policies are set out below.

Life Division South
With-profit companies – PLL

Following the funds merger described in note 2(b), PLL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
The sum of:

- In respect of each with-profit fund, the proportion of the capital resources requirement (CRR) attributable to that fund, plus an amount equal to the greater of (i) any positive free assets attributable to the with-profit fund, and (ii) 200% of the proportion of the long-term insurance capital requirement (LTICR) attributable to that fund less its WPICC, and
- In respect of the non-profit fund, 125% of its CRR less 70% of the sum of any positive free assets for each with-profit fund. A negative net result is permitted.

Test 2: Pillar 2 (ICA)
The sum of:

- In respect of each with-profit fund, 140% of its ICA, subject to a minimum of the ICA plus 1% of the WPBR, and
- In respect of the non-profit fund, 140% of its ICA.

Test 3: (ICA+ICG)
The sum of:

- In respect of each with-profit fund, 110% of its ICA plus 110% of any additional capital which the FSA indicates via ICG should be held, and
- In respect of the non-profit fund, 110% of ICA plus 110% of ICG.

28. Capital statement (continued)

With-profit companies – PALAL

For PALAL, the Group has undertaken to maintain sufficient capital to cover:

- its Pillar 1 capital requirements by a margin of at least £50 million; and
- its Pillar 2 ICA capital requirements, as adjusted by any ICG, by a margin of at least £50 million.

Life Division North

For SMA and SPL's with-profit funds, sufficient capital will be held to cover the greater of:

(i) 100 per cent. of Pillar 1 CRR plus 50 per cent. of (LTICR + RCR);

(ii) 140 per cent. of ICA; and

(iii) 110 per cent. of (ICA + ICG)

For SPL's non-profit funds, sufficient capital will be held to cover the greater of:

(i) 125 per cent. of Pillar 1 CRR;

(ii) 140 per cent. of ICA; and

(iii) 110 per cent. of (ICA + ICG)

For SMA and PLAL's non-profit funds, sufficient capital will be held to cover the greater of:

(i) 135 per cent. of Pillar I CRR;

(ii) 150 per cent. of ICA; and

(iii) 110 per cent. of (ICA + ICG)

Distribution of capital and retained earnings from the Group's life insurance subsidiaries is restricted to the extent that the capital management policies as set out above are not breached. In addition, the Group has a formal commitment in place with the FSA for PALAL to retain at least £358 million of shareholders' funds in the company until the end of 2007.

(h) Assumption setting

The process for setting the assumptions used to value the liabilities takes account of a variety of factors such as market information at the valuation date on yields and volatility, the yields on the investments actually held at the valuation date and historic information on observed rates of default on corporate bonds. In addition, due cognisance is taken of actual experience of mortality, sickness, persistency and option take-up rates for some of the larger product types and generally of industry data for mortality and sickness rates.

This information is reviewed and analysed by the actuarial department (including the heads of actuarial function and with-profit actuaries where relevant) and appropriate recommendations are made to the life subsidiary boards. The boards approve the assumptions used.

(i) Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholder's discretion. These products are described below. Where the contracts are non-profit contracts, appropriate quantification is given of any potentially significant guarantees.

Most with-profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death before that date or dates. For pensions contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions contracts include guaranteed annuity options which expose the Group to interest rate and longevity risk. The total liabilities included in the with-profit funds in respect of these guarantees for Life Division South are £1,093 million and for Life Division North are £343 million.

With-profit deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

There is a block of immediate and deferred annuities within the non-profit business for Life Division South where benefits are linked to changes in the Retail Price Index (RPI) but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if the RPI falls. The liabilities in respect of such annuities in payment at 31 December 2006 was £474 million.

29. Borrowings

Non-current liabilities

	2006 £m	2005 £m
Bank loans	**435.0**	65.0
Subordinated loans	**221.8**	–
Deposits received from reinsurers	**458.1**	25.3
	1,114.9	90.3

Current liabilities

	2006 £m	2005 £m
Bank overdrafts	**–**	0.5
Bank loans	**496.1**	20.0
Subordinated loans	**124.9**	–
Deposits received from reinsurers	**24.2**	2.5
	645.2	23.0
Total borrowings	**1,760.1**	113.3

Bank loans comprises two separate loans. The first loan of £380 million is repayable in June 2007 and carries an annual interest rate of between 30 and 70 basis points above LIBOR and is currently charged at a rate of 40 basis points above LIBOR. The second loan of £550 million comprises “Facility A” of £350 million and “Facility B” of £200 million. Facility A is a term loan repayable in instalments of £115 million in April 2007, £115 million in April 2008 and £120 million in April 2009. Facility B is a revolving credit facility with a termination date of April 2009. Both facilities carry an annual interest rate of between 30 and 70 basis points above LIBOR and are currently charged at a rate of 45 basis points above LIBOR. The aggregate carrying value of the loans reflects the unamortised value of the transaction costs and accrued interest to 31 December 2006. All interest payments have been made when due.

Scottish Mutual Assurance Limited issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001. The earliest repayment date of the notes is 25 March 2021, and thereafter on each fifth anniversary so long as the notes are outstanding. The Group has entered into interest rate swap agreements with Abbey National Treasury Services plc, the effects of which are to convert the fixed interest expense on the notes to a floating rate expense. In the event of the winding-up of the Group, the right of payment under the notes shall be subordinated to the rights of the higher-ranking creditors (principally policyholders). All interest payments due under the notes have been made when

29. Borrowings (continued)

due. The carrying value is based on the fair value of the borrowing at the date of acquisition of Abbey's life businesses, after allowing for amortisation and accrued interest to 31 December 2006.

SPI Finance plc issued £125 million 8.75% undated subordinated guaranteed bonds in 1997. The earliest repayment date of the bonds is 13 May 2007 and thereafter on each fifth anniversary so long as the bonds are outstanding. In the event of the winding-up of the Company, the right of payment under the debt shall be subordinated to the rights of higher-ranking creditors (principally policyholders). All interest payments due under the debt have been made when due. The Group intends to repay the bonds on 13 May 2007.

As at the end of the year the aggregate unused overdraft facility from various banks amounted to £78.2 million (2005: £21.0 million).

30. Deferred income

	2006	2005
	£m	£m
Amount due for recovery after 12 months	**72.5**	101.4

31. Trade and other payables

	2006	2005 (restated)
	£m	£m
Trade and other creditors	**505.6**	249.7
Collateral creditors	**149.2**	213.6
	654.8	463.3
Amount due for settlement after 12 months	**165.5**	215.5

Information on the collateral creditors is given in note 39.

32. Pension schemes

(a) Defined contribution schemes

The Group participates in the defined contribution section of the Resolution (formerly Britannic) Group pension scheme and, since 6 September 2005 the defined contribution section of the Phoenix Life Group pension scheme, which merged with the Resolution Group pension scheme on 31 July 2006.

Former staff of the Abbey life businesses who were either in the Abbey matching stakeholder scheme or were not in a pension scheme are eligible to join the Resolution stakeholder scheme, a matching scheme. Former staff of Abbey's life businesses who were in a defined benefits pension scheme have been offered an enhanced defined contribution pension scheme which commenced on 1 March 2007. Prior to this date these staff were eligible to join the Resolution stakeholder (non-matching) scheme.

Contributions to defined contribution schemes amounted to £8.6 million (2005 £1.2 million).

(b) Defined benefit schemes

The Group participates in the defined benefit section of the Resolution Group pension scheme and, since 6 September 2005, the Phoenix Life Group pension scheme, which merged with the Resolution Group pension scheme on 31 July 2006.

The Resolution Group pension scheme is a final salary scheme which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme, to future service accrual.

The valuation has been based on an assessment of the liabilities of the scheme as at 31 December 2006, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method. The valuation incorporates the provisional results of the triennial valuation of the pension scheme as at 30 June 2006 including an estimated cost of changes in the longevity assumptions amounting to £48.6 million. The effect of this, together with other changes affecting the surplus in the scheme, has been to reduce the net surplus from £88.4 million to £79.7 million at the end of the year.

In accordance with an agreement dated November 2005, certain of the Group's with-profit funds have indemnified the Group's equity holders in respect of cash contribution calls equal to approximately 90% of the cost of changes to the longevity assumptions. Discussions between the Company and the Trustees and Scheme Actuary of the pension scheme on future cash contributions are ongoing pending completion of the triennial valuation. Accordingly, no provision has been made in the with-profit funds for any contribution to the cost of changes to the longevity assumptions and no contribution from the with-profit funds has been anticipated in the equity holders' funds.

The principal financial assumptions of the Resolution Group pension scheme (incorporating the Phoenix Life Group pension scheme) and the amounts recognised in the income statement and statement of recognised income and expense are set out below.

	2006 £m	2005 £m
Income statement		
Current service cost	**(6.3)**	(5.7)
Interest cost	**(48.0)**	(46.2)
Expected return on plan assets	**49.5**	45.1
	(4.8)	(6.8)
Statement of recognised income and expense		
Net actuarial losses recognised during the year	**(3.9)**	(3.2)
	(8.7)	(10.0)

The net actuarial gains and losses recognised during the year comprise the following:

	2006 £m	2005 £m
Actual return less expected return on plan assets	**(17.0)**	89.8
Experience gains and losses arising on scheme liabilities	**6.5**	(2.0)
Changes in assumptions underlying scheme liabilities	**6.6**	(91.0)
	(3.9)	(3.2)

The cumulative net actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 amounts to £13.9 million.

The amounts recognised in the balance sheet are as follows:

	2006 £m	2005 £m
Fair value of scheme assets	**1,116.8**	1,122.6
Present value of defined benefit obligation	**(1,037.1)**	(1,034.2)
Net surplus in scheme	**79.7**	88.4

32. Pension schemes (continued)

The actual return on plan assets comprises the following:

	2006 £m	2005 £m
Expected return on scheme assets	**49.5**	45.1
Actuarial (losses)/gains on scheme assets	**(17.0)**	89.8
	32.5	134.9

The change in the present value of the defined benefit obligation is as follows:

	2006 £m	2005 £m
At 1 January	**1,034.2**	877.7
Acquisitions through business combinations	**–**	46.3
Current service cost	**6.3**	5.7
Interest cost	**48.0**	46.2
Actuarial (gains)/losses	**(13.1)**	93.0
Benefits paid	**(38.3)**	(34.7)
At 31 December	**1,037.1**	1,034.2

The defined benefit obligation arises from plans that are wholly funded.

The change in the fair value of the scheme assets is as follows:

	2006 £m	2005 £m
At 1 January	**1,122.6**	979.8
Acquisitions through business combinations	**–**	42.6
Expected return on scheme assets	**49.5**	45.1
Actuarial (losses)/gains on scheme assets	**(17.0)**	89.8
Contributions by the employer	**–**	–
Benefits paid	**(38.3)**	(34.7)
At 31 December	**1,116.8**	1,122.6

The distribution of the scheme assets at the end of the year was as follows:

	2006 £m	2005 £m
Annuities	**0.9**	18.4
Bonds	**881.0**	874.6
Equities	**11.6**	13.6
Properties	**189.2**	179.2
Cash	**34.1**	36.8
	1,116.8	1,122.6

The principal assumptions used in determining pension benefit obligations are as follows:

	2006	2005
Rate of long term increase in salaries	**4.1%**	0-3.9%
Rate of increase in pensions	**3.1%**	2.75-3.0%
Discount rate	**5.2%**	4.7-4.8%
Inflation assumption	**3.1%**	2.75-2.9%
Expected rate of return on plan assets	**5.0%**	4.7-5.0%

A building block approach is used in determining the long-term rate of return on pension plan assets. Historical markets are reviewed and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation at the balance sheet date.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2026 at age 57 will live on average for a further 29.8 years after retirement if they are male and for a further 32.7 years if they are female. The expected levels of mortality before retirement have been assessed using standard tables AX92 Ultimate. The expected levels of mortality in retirement have been assessed using standard tables PXA92 projected to calendar years 2016 and 2026 for current and future pensioners respectively and allowing for future improvements in line with the P92 Medium Cohort Improvement factors.

No contributions are expected to be paid to the scheme in 2007.

Table of historical information

	2006 **£m**	2005 £m	2004 £m
Fair value of scheme assets	**1,116.8**	1,122.6	979.8
Defined benefit obligation	**(1,037.1)**	(1,034.2)	(877.7)
Net surplus in scheme	**79.7**	88.4	102.1
Experience gains/(losses) on scheme assets	**(17.0)**	89.8	15.7
Experience gains/(losses) on scheme liabilities	**6.5**	(2.0)	(1.3)

In addition, the Group participates in two defined benefit schemes as a result of the acquisition of Abbey's life businesses, the SP Institution Staff Pension Scheme for Employees in the Republic of Ireland and the SMI pension scheme. The SMI scheme is in the course of being wound up and any further contributions to the scheme will be reimbursed to the Group by Abbey National plc under an indemnity.

33. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2006	**47.7**	**51.0**	**98.7**
Acquisitions through business combinations	**–**	**10.7**	**10.7**
Additions	**–**	**0.9**	**0.9**
Disposals	**(1.1)**	**(7.2)**	**(8.3)**
At 31 December 2006	**46.6**	**55.4**	**102.0**
Depreciation			
At 1 January 2006	**–**	**42.9**	**42.9**
Charge for the year	**–**	**3.8**	**3.8**
At 31 December 2006	**–**	**46.7**	**46.7**
Carrying amount			
At 31 December 2006	**46.6**	**8.7**	**55.3**

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2005	41.1	48.1	89.2
Acquisitions through business combinations	12.6	3.3	15.9
Additions	–	1.8	1.8
Disposals	–	(2.2)	(2.2)
Revaluation loss	(6.0)	–	(6.0)
At 31 December 2005	47.7	51.0	98.7
Depreciation			
At 1 January 2005	0.7	41.4	42.1
Charge for the year	–	3.7	3.7
On disposals	(0.7)	(2.2)	(2.9)
At 31 December 2005	–	42.9	42.9
Carrying amount			
At 31 December 2005	47.7	8.1	55.8

The useful lives of plant and equipment have been taken as follows: motor vehicles 3-4 years, computer equipment 3-4 years, furniture and office equipment 5-10 years.

The carrying value of plant and equipment held under finance leases amounted to £0.1 million (2005: £nil).

The valuation of land and buildings is carried out at least every three years as at 31 December by external surveyors in accordance with the Royal Institution of Chartered Surveyors' requirements. The most recent valuations were carried out in February and December 2005 at open market value and on the basis of the lease agreements.

If the land and buildings were carried at historical cost less accumulated depreciation, the carrying amount would have been £79.6 million (2005: £81.5 million).

34. Intangible assets

	Goodwill £m	Acquired in-force business £m	Deferred acquisition costs (note 35) £m	Other £m	Total £m
Cost					
At 1 January 2006	**336.8**	**1,235.3**	**113.6**	**0.2**	**1,685.9**
Acquisitions through business combinations	**–**	**1,694.5**	**–**	**100.0**	**1,794.5**
Addition on transfer from the with-profit funds	**–**	**103.8**	**–**	**–**	**103.8**
Other additions	**–**	**–**	**12.1**	**29.2**	**41.3**
Disposal on transfer from the with-profit funds	**–**	**(121.0)**	**–**	**–**	**(121.0)**
At 31 December 2006	**336.8**	**2,912.6**	**125.7**	**129.4**	**3,504.5**
Amortisation and impairment losses					
At 1 January 2006	**127.3**	**140.0**	**29.8**	**0.2**	**297.3**
Amortisation charge for the year	**–**	**264.7**	**20.3**	**16.1**	**301.1**
Impairment losses	**–**	**518.1**	**4.0**	**–**	**522.1**
On disposal on transfer from the with-profit funds	**–**	**(96.0)**	**–**	**–**	**(96.0)**
At 31 December 2006	**127.3**	**826.8**	**54.1**	**16.3**	**1,024.5**
Carrying amount					
At 31 December 2006	**209.5**	**2,085.8**	**71.6**	**113.1**	**2,480.0**
Amount recoverable after 12 months	**209.5**	**1,763.7**	**57.2**	**84.1**	**2,114.5**

	Goodwill £m	Acquired in-force business £m	Deferred acquisition costs (note 35) £m	Other £m	Total £m
Cost					
At 1 January 2005	224.8	121.1	27.5	112.7	486.1
Acquisitions through business combinations	112.0	1,114.2	86.1	–	1,312.3
Additions	–	–	–	4.2	4.2
Disposals	–	–	–	(116.7)	(116.7)
At 31 December 2005	336.8	1,235.3	113.6	0.2	1,685.9
Amortisation and impairment losses					
At 1 January 2005	107.3	95.1	12.7	–	215.1
Amortisation charge for the year	–	44.9	17.1	10.2	72.2
Impairment losses	20.0	–	–	–	20.0
Disposals	–	–	–	(10.0)	(10.0)
At 31 December 2005	127.3	140.0	29.8	0.2	297.3
Carrying amount					
At 31 December 2005	209.5	1,095.3	83.8	–	1,388.6
Amount recoverable after 12 months	209.5	980.4	79.1	–	1,269.0

34. Intangible assets (continued)

Goodwill is not amortised. Other intangible assets have finite lives. Acquired in-force business and deferred acquisition costs are amortised over periods of up to 50 years on a basis which reflects the anticipated emergence of profits from the underlying business written.

Additions to other intangible assets include £100.0 million attributed to the distribution agreements arising from the acquisition of Abbey's life businesses and £27.0 million relating to the cost of internalising the management of the Resolution Life Group assets. These are being amortised over 5 years and 3 years respectively on a straight line basis. The amortisation charge for the year is included in administrative expenses within the income statement with the exception of the amortisation of acquired in-force business which is shown as a separate line item within the income statement. Impairment losses on acquired in-force business and deferred acquisition costs are also shown as a separate line item; they arise from the adoption of Policy Statement 06/14 to the principal insurance contracts of the Group (note 2(a)). The recoverable amount of acquired in-force business is its value in use.

In 2005 other intangible assets included the payment made to secure the rights to the economic benefits of the UK life business of Allianz Cornhill Insurance plc (ACI). The reassurance treaty between the Group and ACI was terminated on 30 September 2005 when the assets and liabilities were acquired by the Group by way of a transfer under Part VII of the Financial Services and Markets Act 2000.

The goodwill impairment in 2005 related to the management services business.

Information relating to the recoverable goodwill of the Group's cash generating units is given below.

Life division

The carrying amount of goodwill allocated to the life division is £65.0 million. The recoverable amount has been determined on the value in use basis, by comparison with the value of the in-force business of the life division, calculated in accordance with European Embedded Value (EEV) methodology, after deducting the carrying value of the acquired in-force business, less deferred tax. Detailed information on the Group's EEV assumptions and valuation is contained in the supplementary information on pages 164 to 186.

Asset management

The carrying amount of goodwill allocated to the asset management business is £134.5 million . The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cashflows are movements in funds under management, fee income, inflation and discount rate. The funds under management relating to the policyholder assets of the Group are assumed to decrease in line with the expected run-off of the related policies. Other funds under management are assumed to increase in line with inflation. Fee income and expense inflation have been set with reference to past experience and are consistent with external rates.

The cashflows have been projected for 25 years, reflecting the continuing nature of the underlying funds under management, including those of the policyholder assets of the Group. The cashflows have been discounted at 7%.

Management services

The carrying amount of goodwill allocated to the management services business is £10.0 million. The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cashflows are fee income, inflation and the discount rate. Fee income is assumed to decline gradually in line with the run off of policyholder liabilities under the existing management services agreement structure with the life division. The cashflows have been projected for 10 years and have been discounted at 7%.

35. Deferred acquisition costs

	Insurance contracts £m	Investment contracts £m	Total £m
At 1 January 2006	**36.8**	**47.0**	**83.8**
Additions	**–**	**12.1**	**12.1**
Amortisation charge	**(6.0)**	**(14.3)**	**(20.3)**
Impairment losses	**(4.0)**	**–**	**(4.0)**
At 31 December 2006	**26.8**	**44.8**	**71.6**

	Insurance contracts £m	Investment contracts £m	Total £m
At 1 January 2005	2.6	12.2	14.8
Acquisitions through business combinations	47.0	39.1	86.1
Amortisation charge	(12.8)	(4.3)	(17.1)
At 31 December 2005	36.8	47.0	83.8

The impairment losses arise from the adoption of Policy Statement 06/14 to the principal insurance contracts of the Group (note (2a)).

36. Investment property

	2006 £m	2005 £m
At 1 January	**2,355.7**	659.5
Acquisitions through business combinations	**–**	1,702.2
Additions	**253.2**	32.7
Improvements	**9.6**	15.1
Disposals	**(141.1)**	(202.3)
Net fair value gains	**227.2**	148.5
At 31 December	**2,704.6**	2,355.7

Investment property is stated at fair value and is independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of the open market value of such properties.

The rental income arising from investment properties during the year amounted to £69.6 million (2005: £74.6 million), which is included in net investment income. Direct operating expenses (included within other administrative expenses) in respect of such properties amounted to £1.3 million (2005: £4.6 milllion).

37. Financial assets

	2006 £m	2005 £m
Amount recoverable after 12 months	**27,379.8**	19,766.6

38. Loans and deposits

	2006 £m	2005 £m
At 1 January	**359.7**	8.1
Acquisitions through business combinations	**376.8**	288.5
Additions	**246.4**	66.1
Repayments	**(251.0)**	(3.0)
At 31 December	**731.9**	359.7
Amount due for recovery after 12 months	**193.2**	27.0

Substantially all of the loans and deposits are at variable interest rates. The carrying amounts approximate to fair value at the balance sheet date.

39. Derivatives

The Group purchases derivative financial instruments in connection with the management of its insurance contracts and investment contracts liabilities.

Where the Group has entered into collateral arrangements to provide security against the maturity proceeds of derivative financial instruments, which include a legal right of set off and it is intended that settlement will be made on a net basis, the value of the derivatives and the related collateral are presented on a net basis within net derivative assets or net collateral creditors as appropriate (note 31). For all such arrangements, interest is payable on the amounts owed based on 3 month LIBOR.

The fair values of derivative financial instruments at the end of 2006, for which no collateral arrangements have been made, are as follows:

	2006 Assets £m	2006 Liabilities £m	2005 Assets £m	2005 Liabilities £m
Options on interest rate swaps	**178.0**	**–**	222.9	–
OTC options	**20.3**	**–**	–	–
Exchange traded futures	**6.4**	**–**	–	–
Stock index futures	**3.1**	**–**	2.7	3.9
Swaps	**–**	**2.1**	–	–
Forward currency instruments	**–**	**–**	0.1	0.7
	207.8	**2.1**	225.7	4.6

The amount recoverable after one year is £178.7 million (2005: £214.0 million). The amount payable after one year is £nil (2005: £nil).

Options on interest rate swaps

Options on interest rate swaps are used to help protect against adverse movements in the cost of guaranteed annuity options as a result of falls in interest rates and stock option futures in various European and world stock exchanges to hedge against adverse movements in holdings of the underlying investments.

Hedges for policy guarantees (OTC options)

As a result of the acquisition of the Abbey life businesses, the Group holds Over The Counter (OTC) derivative contracts with nominal values totalling £3.3 billion with Abbey National Treasury Services plc, to provide financial protection against a range of embedded policy guarantees. The contracts take the form of a number of options, specified to capture the material elements of the economic exposure of the with-profit funds to costs of guarantees attributable to equity returns, interest rate movements and foreign exchange rate movements. The terms of the options have been determined to match as closely as possible central expectations regarding asset management, management actions and customer choices.

The option types and range of maturity dates are set out below.

Option guarantee type	Option type	Maturity date range
Maturity guarantees on conventional with-profit (CWP) policies and Market Value Adjustment (MVA), free guarantees on unitised with-profit (UWP) policies	European put	28.12.07 – 03.11.31
CWP pensions maturity guarantees with guaranteed annuity options	Bespoke payoff	30.06.09 – 31.03.32
CWP deferred annuity contracts without guaranteed commutation options	Bespoke payoff	30.06.09 – 30.06.31
CWP deferred annuity contracts without guaranteed commutation options	Bespoke payoff	29.06.07 – 30.11.29

The premium payable for the purchase of these options was £613.6 million.

As at 31 December 2006, there was an unrealised loss of £242.7 million on the options held.

Exchange traded futures

These are held for efficient portfolio management purposes.

Stock index futures

These are held to hedge against movements in the value of policyholder guarantees associated with certain with-profit bond contracts.

Swaps

A small number of currency swaps are held as a hedge against currency movements.

Collateral creditor arrangements

At 31 December 2006, the Group held a series of investment assets with Abbey National Treasury Services plc. As these balances have a legal right of set off against the relevant derivative; and because it is intended that settlement will be on a net basis, all collateral creditors are presented on a net basis within trade and other payables (note 31).

At 31 December 2006, the Group had entered into the following derivative contracts and associated collateral arrangements:

- Equity forward contracts valued at £346.0 million at the year end. As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc has lent to the Group sums amounting to £357.8 million, resulting in a collateral creditor of £11.8 million.
- Hedges for policy guarantees valued at £370.9 million at the year end. As security for the maturity proceeds of a selection of derivatives used to hedge policy guarantees, Abbey National Treasury Services plc lent the Group sums amounting to £473.2 million. This creditor, combined with a net product loan creditor of £1.4 million, resulted in a net collateral loan at the year end of £103.7 million.
- Option contracts with Abbey National Treasury Services plc. Under these contracts, at specified dates, the Group could require Abbey National Treasury Services plc to pay the value of under-performance of certain indices below defined levels. A premium of £56.5 million was paid to purchase these options.

  The value of the options at the year end was £11.8 million. As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc has lent the Group £15.7 million, resulting in a collateral creditor of £3.9 million.

39. Derivatives (continued)

- Other option contracts valued at £194.7 million at the year end. As collateral for the maturity proceeds on the option contracts, Abbey National Treasury Services plc lent the Group £224.5 million, resulting in a net collateral creditor of £29.8 million.

  Details of the above option contracts are set out below:

  The options held were guaranteed options hedges. These structured derivatives were held within the with-profit funds to hedge various guarantees attaching to certain with-profit policies:

  - *Type 1* A schedule of European vanilla put options with a combined equity and fixed interest index as the underlying instruments. The options represent hedges of cash guarantees (i.e. maturity guarantees for CWP and MVA free guarantees for UWP business).
  - *Type 2* A schedule of two-asset compound options with a combined equity and fixed interest index and a reference annuity index as the underlying instruments. The options represent hedges of guaranteed annuity options on top of with-profit maturity guarantees.
  - *Type 3* A schedule of two-asset exchange options with a combined equity and fixed interest index and a reference annuity index as the underlying instruments. The options represent hedges of maturity guarantees in respect of deferred annuity contracts (without guaranteed commutation options).

  The nominal amount is distributed according to the structured derivative type as follows:

Type 1	67%
Type 2	17%
Type 3	16%
Total	100%

At 31 December 2005, the with-profit funds held a series of investment assets with Goldman Sachs International (GSI), as collateral, to cover the value of derivatives contracts. The corresponding liability was shown as collateral creditors within trade and other payables. These derivatives were held to protect against future changes in interest rates that would particularly affect the value of certain guaranteed annuity option liabilities. At 31 December 2006, these arrangements were no longer in place.

40. Tax assets and liabilities

	2006 £m	2005 £m
Current tax receivables	**59.2**	7.8
Total tax assets	**59.2**	7.8
Current tax payables	**(168.9)**	(111.8)
Net deferred tax liabilities	**(1,013.4)**	(789.1)
Total tax liabilities	**(1,182.3)**	(900.9)

Deferred tax assets comprise:

	2006 £m	2005 £m
Losses, expenses and deferred acquisition costs carried forward	**106.0**	57.4
Provisions and other timing differences	**19.6**	31.0
Other	**4.5**	5.5
Total deferred tax assets	**130.1**	93.9

Deferred tax liabilities comprise:

	2006 £m	2005 £m
Acquired in-force business	**(758.3)**	(528.8)
Unrealised gains on investments	**(152.5)**	(180.3)
Surplus within the non-profit funds	**(130.9)**	(143.7)
On profit arising from the changes in assumptions used for determining insurance contracts liabilities in accordance with PS 06/14	**(90.8)**	–
Other	**(11.0)**	(30.2)
Total deferred tax liabilities	**(1,143.5)**	(883.0)
Net deferred tax liabilities	**(1,013.4)**	(789.1)

Movements in deferred tax assets/(liabilities) comprise:

	2006 £m	2005 £m
At 1 January	**(789.1)**	(57.5)
Acquisitions through business combinations	**(397.0)**	(649.8)
Amounts charged to the income statement	**154.3**	(81.7)
Amounts (charged)/credited to the statement of recognised income and expense	**1.6**	(0.1)
Other adjustments	**16.8**	–
At 31 December	**(1,013.4)**	(789.1)

40. Tax assets and liabilities (continued)

Deferred tax has been provided on the surpluses within the non-profit funds on the assumption that all such surpluses will eventually be distributed to equity holders.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

Deferred income tax assets have not been recognised in respect of tax loss carry forwards of £686.2 million (2005: £80.0 million) and excess expenses and deferred acquisition costs carried forward of £401.3 million (2005: £nil) as there is insufficient certainty as to the availability of future profits. In addition the Group has unrecognised capital tax losses of £59.7 million (2005: £6.2 million) which can only be offset against capital gains. These have no expiry date.

41. Cash and cash equivalents

	2006 £m	2005 £m
Bank and cash balances	**2,073.7**	324.9
Short term deposits (including demand and time deposits)	**1,820.5**	1,420.2
	3,894.2	1,745.1

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the balance sheet date.

42. Cash flows

(a) Cash flows from operating activities

	2006 £m	2005 (restated) £m
Profit before tax for the year	**482.3**	354.0
Non-cash movements in profit before tax for the year		
Loss/(profit) on the sale of:		
Investment property	**11.0**	(3.7)
Financial assets	**(2,268.5)**	(335.2)
Fair value (gains)/losses on:		
Property, plant and equipment	**–**	6.0
Investment property	**(227.2)**	(148.5)
Financial assets	**1,507.1**	(1,450.4)
Depreciation of property, plant and equipment	**3.8**	3.7
Amortisation of intangible assets	**301.1**	72.2
Impairment of intangible assets	**522.1**	20.0
Net (increase)/decrease in working capital	**(1,102.7)**	1,889.5
Net (increase)/decrease in operating assets and liabilities	**(771.0)**	407.6

(b) Cash flows on acquisition of subsidiaries

	2006 £m	2005 £m
Consideration settled in cash	**3,600.0**	53.5
Acquisition costs	**34.0**	-
	3,634.0	53.5
Cash and cash equivalents of acquiree	**(4,522.2)**	(561.7)
	(888.2)	(508.2)

43. Acquisition

On 1 September 2006 the Group completed the acquisition of 100% of the life businesses of Abbey National plc ('Abbey'). The principal entities acquired were Scottish Mutual Assurance plc (now Scottish Mutual Assurance Limited), Abbey National Life plc (now Phoenix Life Assurance Limited), Scottish Provident Limited, Scottish Mutual International plc (now Scottish Mutual International Limited) and Scottish Provident International Life Assurance Limited.
The acquisition was effected by Resolution Life Limited, a Group company, for an initial consideration of £3.6 billion, paid in cash. The consideration was funded by a combination of borrowings and the proceeds of a rights issue by Resolution plc.

Adjustments have been made to the consideration for estimated amounts due from Abbey to Resolution Life Limited, principally comprising £146.1 million relating to liabilities to certain defined benefit pension schemes retained by Abbey as part of the acquisition. The adjusted cost of the acquisition amounts to £3,480.9 million, including costs of £34.0 million.

For financial reporting purposes the date of acquisition is 10 August 2006, the date on which all regulatory pre-approval requirements in respect of the acquisition were met and control passed to the Group. The initial accounting for the acquisition has been completed on a provisional basis as the adjustments referred to above are subject to revision.
On this basis, the Abbey life businesses were acquired at a discount to the fair value of their net assets which has given rise to an excess of the acquirer's interest in the fair value of the net assets over cost of £257.2 million. This amount has been included in other operating income in the income statement.

The acquiree's net assets at the date of acquisition were as follows:

	Carrying amounts £m	Fair value adjustments £m	Fair values £m
Property, plant and equipment	10.7	–	10.7
Intangible assets – acquired in-force business	869.0	825.5	1,694.5
– other	79.3	20.7	100.0
Financial assets	20,495.3	–	20,495.3
Insurance assets	1,225.1	–	1,225.1
Cash and cash equivalents	4,522.2	–	4,522.2
Other assets	813.5	–	813.5
Pension scheme deficit	(111.1)	111.1	–
Insurance contract liabilities	(18,581.5)	–	(18,581.5)
Unallocated surplus	(244.0)	10.7	(233.3)
Provisions	(8.4)	(0.4)	(8.8)
Financial liabilities	(3,306.4)	–	(3,306.4)
Deferred tax	(265.9)	(104.7)	(370.6)
Bank overdrafts and loans	(324.7)	(15.4)	(340.1)
Other liabilities	(2,115.8)	(166.7)	(2,282.5)
Net identifiable assets and liabilities	3,057.3	680.8	3,738.1

43. Acquisition (continued)

	Fair values £m
Fair value of consideration	
Consideration settled in cash	**3,600.0**
Adjustment relating to pension scheme obligations	**(146.1)**
Other adjustments	**(7.0)**
Acquisition costs incurred	**34.0**
	3,480.9
Excess of the acquirer's interest in the fair value of the net assets of Abbey's life businesses over cost	**257.2**
	3,738.1

The principal fair value adjustment relates to the value of the acquired in-force business which totalled £1,694.5 million before policyholder tax of £nil and equity holder tax of £377.8 million. In addition, fair value adjustments have been made for £166.0 million, before tax relief, relating to the estimated debts due to former defined benefit pension schemes, calculated in accordance with section 75 of the Pensions Act 1995, which crystallised on the sale of the Abbey life businesses to the Group, to eliminate the previous pension scheme deficits of £111.1 million and to recognise an intangible asset of £100.0 million attributed to the distribution agreements arising from the acquisition.

The losses incurred by Abbey's life businesses for the period from the date of acquisition to 31 December 2006 amounted to £2.1 million after income taxes. If the acquisition had taken place with effect from 1 January 2006 the estimated gross premiums written and profit after income taxes of the enlarged Group for the year would have been £2.2 billion and £407 million respectively. The profit after income taxes of £407 million excludes the profit on the acquisition of Abbey's life businesses and the pre-acquisition dividend received from a subsidiary not acquired by the Group. It also does not take into account the financial impact of the fair value adjustments that would have been made if the acquisition had taken place at the beginning of the financial year as this information is not readily ascertainable.

44. Transfers from with-profit funds

(a) Transfer of Alba Life Holdings Limited

On 31 March 2006 the entire ordinary share capital of Alba Life Holdings Limited and 21 million preference shares issued by its principal subsidiary, Alba Life Limited (together, the Alba Life Holdings group) were transferred from the with-profit funds of Britannic Assurance plc to the equity holders' funds. The terms of the transfer were subject to review by an independent actuary. In accordance with the terms of the transfer agreement the profits and losses of the Alba Life Holdings group accrue to equity holders from 1 January 2006 and have been included within equity holders' profits for the year.

The transfer value of the Alba Life Holdings group amounted to £214.9 million including transaction costs of £1.8 million. This includes the initial consideration of £164.9 million, further consideration of £28.2 million paid following completion of new calculations to determine the EEV of the Alba Life Holdings group, and deferred consideration of up to £30.0 million. Deferred consideration of £10.0 million was paid on 31 December 2006 on the completion on that date of the transfer under Part VII of the Financial Services and Markets Act 2000 of the long term insurance business of Britannic Assurance plc and Alba Life Limited to Phoenix Life Limited, a group company. Additional deferred consideration of up to £20.0 million is payable on 31 March 2008 based on the extent to which certain existing provisions are not required. A provision of £10 million has been established as at 31 December 2006 representing the current best estimate of the amount of deferred consideration that will become payable.

The transfer of the business of the Alba Life Holdings group gave rise to a gain to equity holders of £40.0 million. This amount has been included in other operating income in the income statement. The impact of the transaction on the Britannic Assurance plc with-profit funds has been recognised in the change in insurance contract liabilities for the year.

(b) Transfer of Century Life plc non-profit business

On 31 December 2006 the non-profit business within the with-profit fund of Century Life plc, a Group company, was transferred from the with-profit fund of Century Life plc to the equity holders' funds of Phoenix Life Limited, a Group company. The transfer was undertaken as part of the 2006 funds merger (note 2(b)) and the terms of the transfer were subject to review by an independent actuary.

The transfer value amounted to £62.5 million and gave rise to a gain to equity holders of £7.6 million after costs of £2.5 million. This amount has been included in other operating income in the income statement. The impact on the Century Life plc with-profit fund has been recognised in the change in insurance contract liabilities for the year.

45. Operating lease commitments

As at 31 December 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	2006 £m	2005 £m
Not later than one year	**4.9**	1.1
Later than one year and no later than five years	**3.9**	1.1
Later than five years	**3.7**	–

The principal operating lease commitments include:

A lease relating to Britannic Court, Glasgow currently occupied by Resolution Asset Management (RAM). The lease expires in December 2014, but there are break clauses at the end of both 2007 and 2012. At either of these times RAM can vacate the building without penalty. There is no purchase option within the lease. The rent is based on current market value and is reviewed on a five yearly basis. The current rental figure was set in November 2004.

A lease relating to St.Vincent Street, Glasgow currently occupied by the life division. The lease expires in December 2020. There are no exit clauses in the lease. It is based on current market value and is reviewed twice yearly in each year of the term. The current rental figure was set in August 2006.

46. Related party transactions

The Group has related party relationships with its pension schemes, the Resolution Foundation, Citibank International plc (formerly Citicorp Trustees Company Limited), directors and other members of the Group Executive Committee.

Information on transactions with the pension schemes is included in note 32.

(a) Transactions with key management personnel

Major Group decisions are made by the Board and the Group Executive Committee. Transactions with directors are given in the remuneration report and transactions with other Group Executive Committee members are as follows:

	2006 £000	2005 £000
Remuneration including salaries, bonuses and other benefits	**1,962**	1,411

46. Related party transactions (continued)

Pension benefits

	Accrued benefit at 31 December 2006 £000	Accrued benefit at 31 December 2005 £000
Defined benefit scheme	**19**	23

	Contributions made in the year 31 December 2006 £000	Contributions made in the year 31 December 2005 £000
Defined contribution scheme	**139**	14

Directors and Group Executive Committee members are also eligible to participate in the share option schemes described in note 18. Details of the directors' interests in share options are given in the Remuneration report; the other Group Executive Committee members have the following share options:

	Share save options at		Executive share options		LTIP share options	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005	**31 December 2006**	31 December 2005
Interests in share options	**22,629**	26,794	**41,813**	209,417	**466,024**	447,949

Directors and Group Executive Committee members hold long term insurance and/or investment contracts with subsidiary companies of the Group. These policies are on the same or similar terms that are available to other employees of the Group. The Board has considered the financial effect of such insurance policies and other transactions with Group companies and has concluded that they are not material to the Group or the individuals concerned and, if disclosed, would not influence decisions made by users of these financial statements.

(b) Transactions with the Resolution Foundation

The Resolution Foundation was set up by the Chairman of Resolution plc, Clive Cowdery, as a separate entity. It uses some Resolution plc services and facilities, and shares office accommodation at the Group's head office in London. These services are charged on an arms length basis which in 2006 amounted to £24,000 (2005: £4,000). The Foundation was awarded charitable status in June 2006. During the year the Group made a contribution to the Foundation of £400,000 (2005: £400,000).

(c) Transactions with Citibank International plc

The Group's investment management subsidiary, Resolution Fund Managers Limited, derives its income as a manager of Resolution Unit Trusts. The aggregate total transactions with Citibank International plc, the trustee for the unit trusts, were £4,179 million (2005: £1,022 million) for unit creations and £1,852 million (2005: £723 million) for unit liquidations. The amount due to Citibank International plc at 31 December 2006 was £21.0 million (2005: £3.1 million).

47. Events after the balance sheet date

On 28 February 2007 the Group's partly-owned listed property investment subsidiary, UK Commercial Property Trust Limited (UKCPT), issued 350 million new ordinary £1 shares of which 97 million ordinary shares were issued to external shareholders and 253 million shares were issued to Phoenix Life Limited, a Group company, in exchange for the transfer to the company of investment properties for an aggregate consideration of approximately £341 million and a cash payment of £81 million. The Group's interest in UKCPT remains at approximately 70%.

On 2 April 2007 the Board approved a proposal to put before the annual general meeting of ordinary shareholders, to be held on 6 June 2007, a resolution to declare a final dividend per ordinary share of 13.28p for the year ended 31 December 2006. The cost of this dividend, £91.0 million, has not been recognised as a liability in the financial statements for 2006 and will be charged to the statement of changes in equity in 2007.

48. Risk management policies

The Group is exposed to a number of risks in its business including those arising from underlying assets and liabilities and its capital position. This section summarises these risks and the risk management approaches and methodologies the Group applies.

1. Risk management overview

(a) Risk governance framework

The primary objective of the Group's governance framework is to protect it from events that hinder the sustainable achievement of the Group's performance objectives, including the failure to exploit opportunities. The directors recognise the critical importance of having efficient and effective risk management systems in place.

The Group has an established risk management function along with clear terms of reference for the Board, its committees and the associated executive management committees. A clear organisation structure with documented, delegated authorities and responsibilities from the Board to executive management committees and senior managers is in place. A Group policy framework is also in place, which sets out the risk appetite of the Group, together with risk management, internal control and business conduct standards for the Group's operating units. Each policy is the responsibility of a member of senior management who is charged with overseeing compliance with the policy throughout the Group.

The Board has approved the Group risk management policies and meets regularly to approve any commercial, regulatory and internal organisational requirements arising from the policies. The policies define:

- the Group's identification of risk and its interpretation;
- required structures to ensure the appropriate quality and diversification of assets in the context of the liabilities;
- alignment of the reinsurance strategy to the corporate goals;
- the Group's approach to ensuring that its customers are treated fairly; and
- reporting requirements.

(b) Regulatory framework

A significant element of the Group's life insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed, keeping in view their investment objectives and constraints.

The Group's business is subject to regulation by the Financial Services Authority (FSA). The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. The FSA is responsible for ensuring that Group companies treat customers fairly, including the investigation of past marketing and sales practices.

The FSA is also responsible for ensuring that the Group and its individual regulated companies maintain an appropriate level of capital to enable them to meet liabilities arising from reasonably foreseeable extreme events.

The directors believe each of the regulated businesses within the Group dedicates sufficient resources to its compliance programme; responds to regulatory enquiries in an appropriate way; and takes corrective action when warranted.

48. Risk management policies (continued)

(c) Capital management framework

The Group has developed a capital management framework using Individual Capital Assessment (ICA) principles for identifying the risks to which each of its business units and the Group as a whole are exposed and quantifying their impact on capital. The ICA process estimates the level of capital the Group should retain to ensure that there is only an extremely small risk that the Group will be unable to meet its liabilities. The capital required is calculated based on extreme but foreseeable risk events over a 1-year timeframe. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group and all of its insurance businesses should have available.

Internal capital support arrangements

The Group has in place capital support arrangements with certain of its subsidiary companies. Details of these arrangements are given in note 28.

(d) Asset liability management (ALM) framework

The Group's life division has entered into contracts that transfer insurance or investment risk or both from policyholders to the Group. Investment risks undertaken by the Group are managed by selecting appropriate asset matching strategies. These strategies seek to eliminate or reduce the risks the Group is exposed to but some residual exposures may remain. In some instances the Group may decide to deviate from close asset matching strategies but will ensure that the risks and rewards of taking such action are appropriate.

The Group has substantial exposure to fixed interest securities, equity and property through its constituent life insurance companies. While the investment risk is often borne by or shared with, policyholders, fluctuations in the fixed income and equity and property markets will directly or indirectly affect the Group's financial results, the embedded value of the life operations and the capital requirements of the life business.

Within the asset management business, income is primarily derived from an ad valorem charge on the assets under management. If the value of assets is adversely affected by movements in markets or by performance within the funds this may lead to reduced operating profit within the business of the Group.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

2. Financial and insurance risk management

(a) Financial risk

Transactions in financial instruments may result in the Group assuming financial risks. This includes credit risk, market risk and liquidity risk. Each of these is described below, together with a summary of how the Group manages them.

i. Credit risk

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

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

- Credit risk resulting from investment activities, including investments in fixed interest, property, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits;

- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the purchase of derivatives;
- Credit risk resulting from investment activities associated with the Group's free resources; and
- Credit risk resulting from contingent liabilities arising as a result of new acquisitions.

The Group manages the level of credit risk it accepts through comprehensive divisional credit risk tolerances.

Credit risk of the Group at 31 December 2006 for fixed interest securities (excluding unit-linked funds) according to credit ratings of the counterparties is set out below:

As at 31 December 2006

	AAA £m	AA £m	A £m	BBB £m	Other rated £m	Not rated £m	Total £m
Fixed Interest securities	**17,049**	**1,585**	**4,675**	**1,151**	**37**	**628**	**25,125**

As at 31 December 2005

	AAA £m	AA £m	A £m	BBB £m	Other rated £m	Not rated £m	Total £m
Fixed Interest securities	14,161	2,227	3,384	552	95	285	20,704

(source of credit ratings – Standard & Poors/Moodys.)

Concentration of credit risks

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

The long term business the Group writes is not generally exposed to significant concentrations of credit risk due to the restrictions imposed by regulatory requirements and limits set for investments in individual assets and asset classes.

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

ii. Liquidity risk

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and the requirements of its divisions. The Group's divisions have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements.

The Board has defined a number of governance objectives and principles and the liquidity risk frameworks of each division are designed to ensure that:

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

48. Risk management policies (continued)

The Group's policy is to maintain sufficient liquid assets at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner.

iii. Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group has exposure to market risk as a result of:

- The mismatch between liability profiles and the related asset investment portfolios;
- The investment of 'free resources' including shareholder reserves yet to be distributed, free resources within the with-profits funds and assets held to meet regulatory capital and solvency requirements;
- The asset management and investment activities undertaken by the asset management business under the authorisation of Investment Management Agreements (IMAs) it has received; and
- The investment activities undertaken in respect of the asset management business' own products, such as its unitised funds, which are defined in the relevant fund particulars.

The Group structures levels of market risk it accepts through a Group market risk policy that determines: the constituents of market risk for the Group; the basis used to fair value financial assets and liabilities; the asset allocation and portfolio limit structure; diversification from benchmarks by type of instrument and geographical area; the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and activities; monitoring of compliance with market risk policy; and review of market risk policy for pertinence to the changing environment. All operations comply with regulatory requirements relating to the taking of market risk.

Currency risk

The Group's principal transactions are carried out in pounds sterling and therefore its exposure to foreign exchange risk is limited.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. 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 and, indirectly, from the earnings of UK companies arising abroad.

Within the life operations with-profits funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification.

The Group's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

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

The following table summarises the expected pre-tax income from the assets assuming assets are held to redemption and deductions in respect of policyholder and other net liabilities of the non-profit funds of the life divisions as at 31 December 2006. (excluding contractual liabilities met from the unit-linked funds).

Summary by period 31 December 2006	0-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	20-25 years £m	25-40 years £m
Assets	2,265	2,227	1,821	1,341	1,305	2,785
Liabilities	(1,233)	(1,191)	(1,174)	(1,076)	(915)	(1,539)
Assets less liabilities	1,032	1,036	647	265	390	1,246

Summary by period 31 December 2005	0-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	20-25 years £m	25-40 years £m
Assets	1,194	1,025	908	838	840	1,683
Liabilities	(966)	(897)	(866)	(754)	(623)	(1,105)
Assets less liabilities	228	128	42	84	217	578

The above tabular disclosure relates only to non-profit and non-linked funds. With-profit business and non-profit business within with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. The profit or loss arising from mismatches between such assets and liabilities is largely or completely offset by increased or reduced discretionary policyholder benefits.

Price risk

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

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

Equity and property price risk is primarily undertaken in respect of assets held in with-profit or unit-linked funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. The impact on equity holders' of with-profit fund bonuses is covered under the Insurance Risk section. In addition some equity investments are held in respect of equity holders' funds.

At 31 December 2006, traded equity securities of £10,425 million (2005: £9,101 million) and £2,705 million (2005: £2,355 million) of property assets were held.

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives, this exposure applies to with-profit funds, unit-linked funds, non-profit funds (where risks and rewards fall wholly to equity holders) and to equity holders' funds.

Hedges for policy guarantees (OTC options)

During the financial year, the Group held the following structured derivatives (the "OPAL Hedge") within the with-profit funds to hedge various guarantees attaching to certain with-profit policies.

48. Risk management policies (continued)

These derivatives contracts take the form of a number of options, designed to provide more certainty to match the material elements of the economic exposure of the with-profit funds to costs of guarantees within specified with-profit policies attributable to equity returns, interest rate movements and foreign exchange rate movements. The terms of the options have been determined to match as closely as possible central expectations regarding asset management, management actions and customer choices.

These options were purchased in 2004 and rebalanced in 2005. The Group acquired these options through the acquisition of Abbey's life businesses. The premium payable at the last rebalance date for the purchase of these options was £913.1 million.

As at 31 December 2006, the aggregate nominal amount and value of the options were £5.4 billion and £577.9 million, respectively. The unrealised loss on the options held at 31 December 2006 is £335.2 million.

As security for the maturity proceeds of these derivatives, the Group has received cash collateral loans amounting to £713.8 million. As there is a legal right of set off for the derivative assets and related collateral loans, and it is intended that settlement will be made on a net basis, the derivatives and collateral loans are presented as net derivative assets or net collateral loans as appropriate on the balance sheet.

(b) Insurance risk

Long term insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Group's Life division contracts include the following sources of insurance risk:

- Mortality – Higher than expected number of death claims on assurance products and occurrence of one or more large claims;
- Longevity - Faster than expected improvements in life expectancy on immediate and deferred annuity products;
- Morbidity – Higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
- Expenses – Policies cost more to administer than expected;
- Lapses – The numbers of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- Options – Unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Risk management objectives and policies for mitigating insurance risk

The Group manages insurance risk with underwriting and pricing limits and by the monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long term insurance businesses within the Group depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

New business written in the open long term insurance businesses within the Group is predominantly protection but also encompasses some unit linked investment business. The success of new protection business depends on setting the premiums to be paid by the policyholder at a level to meet future benefits payable and expenses incurred while generating a profit in return for risk borne and capital provided by the shareholder. For unit linked investment business the charges taken must be sufficient to meet expenses and profit. The premiums and charges are assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the boards of directors of the life divisions to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination. While the boards of directors of the companies which hold the life business seek to ensure that such decisions are consistent with their regulatory obligations to treat customers fairly, there is a risk that policyholders, regulators or consumer groups may argue that policyholders' interests or reasonable expectations have been adversely affected by such decisions.

Assumptions

The Group monitors the actual claims, persistency and expense experience against the assumptions used and refines the assumptions for the future assessment of liabilities. Experience may vary from estimates, the more so the further into the future it is projected. The life insurance companies evaluate their liabilities at least annually.

Changes in assumptions may also lead to changes in the level of capital required. To the extent that actual experience is less favourable than the underlying assumptions, or it is necessary to increase provisions due to more onerous assumptions, the amount of additional capital required (and therefore the amount of capital which can be released from the businesses) and the ability of the Group to manage its businesses in an efficient manner may be materially adversely affected.

New business premiums are set using assumptions regarding future experience which are generated with reference to the Group's own experience as well as that of the industry as a whole. Writing new business can often be capital intensive and volumes are monitored in conjunction with capital available including that released from existing business.

Underwriting and claims management strategy

Closed long term insurance businesses within the Group accept new business where they are contractually obliged to do so and consequently underwriting has been considered in the initial contract development and subsequent monitoring.

Open long term insurance businesses within the Group actively sell new business, the majority of which is protection products with features set out in the product section below. Underwriting of lives accepted takes place in line with set criteria and a large proportion of the insurance risk is mitigated through the use of reinsurance.

The Group maintains clear policies and procedures in relation to the management and payment of claims including the presentation of suitable reports and certificates to support claims, appropriate payment authorisation limits and regular monitoring of the level of claims received and paid across major product groups.

Reinsurance and other risk reduction strategies

Reinsurance is a mechanism by which the Group transfers away excess risk, especially the risk of very large single death or sickness claims. The Group's strategy is to maintain in force all material reinsurance contracts. New contracts are considered where the risk reduction is justified by the terms.

Guarantees and options

Most life insurance policies contain an element of guarantee and many contain options. These guarantees vary considerably in both quantum and likelihood of being applied. The guarantees and options for material product lines are set out under the different product sections below.

48. Risk management policies (continued)

(c) Managing product risk

The following sections give an assessment of the risks associated with the Group's main life insurance products and the ways in which it manages those risks.

(i) Protection products

Product features

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

Profits and/or losses mainly arise from claims experience differing from that expected.

The table below indicates the split of protection liabilities at 31 December 2006 between those written in with-profit funds and those directly influencing shareholders in non-profit funds and also indicates the liabilities and corresponding reinsurance assets:

31 December 2006	**Liability £m**	**Reinsurance asset £m**
With-profit funds	**241.2**	**93.5**
Non-profit funds	**1,280.7**	**397.1**

31 December 2005	Liability £m	Reinsurance asset £m
With-profit funds	285.0	113.3
Non-profit funds	1,653.7	378.9

Management of product risks

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy, the use of reinsurance and a clear process for admitting claims.

(ii) Immediate annuities

Product features

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. They may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

Profits and/or losses arise mainly when longevity and investment experience vary from that expected.

New annuity contracts are underwritten but only in conjunction with deferred annuity policies which reach the point of retirement.

The table below indicates the split of immediate annuity liabilities at 31 December 2006 between those written in with-profit funds and those directly influencing shareholders in non-profit funds and also indicates the liabilities and corresponding reinsurance assets:

31 December 2006	**Liability £m**	**Reinsurance asset £m**
With-profit funds	**2,112.3**	**729.8**
Non-profit funds	**4,564.2**	**1,431.8**

31 December 2005	Liability £m	Reinsurance asset £m
With-profit funds	3,278.8	2,221.6
Non-profit funds	2,963.5	799.1

Management of product risks

The main risks associated with this product are longevity and investment risks. Longevity risk arises as the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa).

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed by the Asset/Liability Management Committee. Asset/liability modelling is used to monitor this position on a regular basis. Details of default risk have been covered under the credit risk section.

(iii) Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies would contain an element of guarantee expressed in the form that the contract is written in i.e. cash or annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms, these are known as Guaranteed Annuity Rate (GAR) policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option (GCO) policies.

48. Risk management policies (continued)

The table below indicates the split of liabilities into these policy types and whether the policies sit in with-profit or non-profit funds:

31 December 2006	**Policies with cash benefits**		**Policies with annuity benefits**	
	Non-GAR	**GAR**	**Non-GCO**	**GCO**
	£m	**£m**	**£m**	**£m**
With-profit funds				
Basic policy liability	**3,346.5**	**3,691.4**	**1,557.0**	**1,586.1**
Option provisions	**–**	**1,436.1**	**–**	**102.4**
Non-profit funds				
Basic policy liability	**3,212.6**	**25.6**	**209.7**	**10.6**
Option provisions	**9.2**	**5.3**	**–**	**–**

31 December 2005	Policies with cash benefits		Policies with annuity benefits	
	Non-GAR	GAR	Non-GCO	GCO
	£m	£m	£m	£m
With-profit funds				
Basic policy liability	3,239.1	3,506.0	800.0	1,481.1
Option provisions	–	1,231.9	–	2.0
Non-profit funds				
Basic policy liability	3,558.6	92.9	36.5	65.8
Option provisions	12.2	11.6	–	–

In relation to deferred annuities there are no material reinsurance assets other than £381.9 million (£382.9 million) for the ex Alba Life fund within Phoenix Life Limited.

Management of product risks

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are not currently valuable.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long term funds in this respect.

(iv) Insurance contracts with discretionary participation features

Product features

The Group operate a number of with-profit funds in the UK, in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-profit business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates (GARs).The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest and shares and/or property in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

Management of product risks

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in principles and practices of financial management ("PPFM") for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each company which has a with-profit fund. Compliance with the PPFM is reviewed annually and reported to the FSA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and nil for others.

49. Group entities

The principal subsidiary undertakings of the Group whose results or financial position affected the amounts shown in the consolidated financial statements are listed below. All of these are incorporated in the UK except where otherwise stated. All subsidiary undertakings have been included in the consolidated financial statements.

Subsidiary	Principal activity	% of equity and votes held	% of non-equity shares held **
Alba Life Limited	Life assurance	100	n/a
Britannic Assurance plc	Life assurance	100	n/a
Britannic Finance Limited	Finance, leasing and other related insurance services	100	n/a
Britannic Retirement Solutions Limited	Life assurance	100	100
Britannic Unit Linked Assurance Limited	Life assurance	100	n/a
Century Life plc	Life assurance	100	n/a
Phoenix & London Assurance Limited	Life assurance	100	n/a
Phoenix Life Assurance Limited	Life assurance	100	n/a
Phoenix Life Limited	Life assurance	100	n/a
Phoenix Life & Pensions Limited	Life assurance	100	n/a
Resolution Asset Management Limited*	Holding company	100	n/a
Resolution Fund Managers Limited	Unit trust management	100	n/a
Resolution Investment Services Limited	Asset management	100	n/a
Resolution Life Limited	Holding company	100	n/a
Resolution Life Group Limited*	Holding company	100	n/a
Resolution Management Services Limited*	Management services	100	n/a
RMS (Glasgow) Limited	Management services	100	n/a
RMS (Ireland) Holdings (incorporated in the Republic of Ireland)	Holding company	100	n/a
Scottish Mutual Assurance Limited	Life assurance	100	n/a
Scottish Mutual International Limited (incorporated in the Republic of Ireland)	Life assurance	100	n/a
Scottish Provident International Life Assurance Limited (incorporated in the Isle of Man)	Life assurance	100	n/a
Scottish Provident Limited	Life assurance	100	n/a
UK Commercial Property Trust Limited (incorporated in Guernsey)	Property investment	71	n/a

* Directly held by Resolution plc.

** The preference shares carry no voting rights

	Presented under UK GAAP 2002 £m	2003 £m	2004 £m	Presented under IFRS 2004 £m	2005 £m	**2006 £m**
Gross premiums	1,058.8	919.6	526.3	526.3	444.8	**1,633.3**
Profit before non-recurring items						
With-profit	9.8	15.4	13.6	10.8	22.5	**74.3**
Non-profit and unit-linked	(79.0)	12.6	21.4	24.5	107.0	**324.7**
Longer term return on equity holders' funds	65.0	39.9	38.8	38.0	44.4	**77.6**
Other income and charges	2.3	0.8	0.9	1.4	3.1	**0.4**
Minority interest in results of UK Commercial Property Trust Limited	–	–	–	–	–	**2.0**
Life	(1.9)	68.7	74.7	74.7	177.0	**479.0**
Asset management	9.9	9.1	10.0	10.0	11.8	**32.2**
Management services	–	–	–	–	3.6	**15.0**
Mortgage operations	(5.2)	(1.3)	–	–	–	**–**
Group income less charges	(8.0)	(4.2)	(3.8)	(0.6)	(12.0)	**6.3**
	(5.2)	72.3	80.9	84.1	180.4	**532.5**
Amortisation of acquired in-force business	–	–	–	–	(28.3)	**(229.5)**
Amortisation of asset management internalisation costs	–	–	–	–	–	**(6.8)**
Amortisation of fair value of distribution agreements	–	–	–	–	–	**(7.8)**
	(5.2)	72.3	80.9	84.1	152.1	**288.4**
Non-recurring items						
Life – profit on acquisitions	–	–	–	–	88.7	**257.2**
Life – gains on transfers from with-profit funds				–	–	**47.6**
Life – profit arising from changes in assumptions used for determining insurance contracts liabilities	–	–	–	–	–	**534.6**
Life – impairment of acquired in-force business and deferred acquisition costs	–	–	–	–	–	**(511.1)**
Life – restructuring expenses	–	(8.3)	(4.0)	(4.0)	–	**–**
Asset management – goodwill impairment	(50.0)	(4.3)	(50.0)	(8.0)	–	**–**
Asset management – restructuring expenses	(1.7)	–	–	–	–	**–**
Management services - goodwill impairment	–	–	–	–	(20.0)	**–**
Release of deferred income liability	–	–	–	–	26.0	**–**
Post 2005 merger reorganisation costs	–	–	–	–	(2.0)	**(18.9)**
Former Abbey life businesses integration costs	–	–	–	–	–	**(10.1)**
Funds merger benefits/(costs) (net)	–	–	–	–	17.1	**(2.1)**
Mortgage operations	(35.7)	–	–	–	–	**–**
Loss on disposal of mortgage operations	–	(25.1)	–	–	–	**–**
	(92.6)	34.6	26.9	72.1	261.9	**585.6**
Short term investment fluctuations	(214.1)	33.7	56.9	14.7	22.9	**3.8**
Change in equalisation provision	0.4	0.5	0.5	0.5	–	**–**
Operating profit attributable to equity holders	(306.3)	68.8	84.3	87.3	284.8	**589.4**
Financing costs	(6.9)	(8.4)	(8.3)	(8.3)	(11.7)	**(31.8)**
Profit before taxes attributable to equity holders	(313.2)	60.4	76.0	79.0	273.1	**557.6**
Equity holders' share of income tax	52.2	(13.1)	(31.9)	4.2	(111.3)	**(26.3)**
Profit for the year attributable to equity holders	(261.0)	47.3	44.1	83.2	161.8	**531.3**

Five year review

profits attributable to equity holders (continued)

Presented under UK GAAP 2002 £m	2003 £m	2004 £m		Presented under IFRS 2004 £m	2005 £m	**2006 £m**
			Attributable to:			
			Equity holders of the parent			
(261.0)	47.3	44.1	Ordinary shareholders	83.2	154.9	**494.2**
–	–	–	Perpetual reset capital securities	–	4.1	**32.9**
(261.0)	47.3	44.1		83.2	159.0	**527.1**
–	–	–	Minority interests	–	2.8	**4.2**
(261.0)	47.3	44.1		83.2	161.8	**531.3**
(116.2)p	21.1p	19.6p	**Basic earnings per share (pence)**	37.0p	56.8p	**97.8p**
(116.2)p	20.9p	19.3p	**Diluted earnings per share (pence)**	36.6p	56.3p	**97.3p**

The basic and diluted earnings per share for 2005 and prior years have been restated to reflect the bonus element effect of the rights issue which completed on 9 August 2006. The bonus element is calculated by reference to the closing share price immediately prior to the date that the ordinary shares became ex–rights of 654.5p per ordinary share and the additional 322.4 million new ordinary shares issued at 480.0p per ordinary share.

The financial information presented under IFRS is not directly comparable with that presented under UK GAAP due to the application of different measurement bases. In addition, the financial information presented under IFRS for 2005 is not fully comparable with that presented under IFRS for 2004 as IAS32 *Financial Instruments: Disclosure and Presentation,* IAS 39 *Financial Instruments: Recognition and Measurement,* IFRS 4 *Insurance Contracts* and FRS 27 *Life Assurance* were adopted from 1 January 2005 without restating the comparative amounts for 2004.

Statement of directors' responsibilities

in respect of the parent company financial statements

The directors are responsible for preparing the Annual Report and the parent company 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the parent company financial statements of Resolution plc for the year ended 31 December 2006 which comprise the accounting policies, the balance sheet and the related notes 1 to 16. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of Resolution plc for the year ended 31 December 2006.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration report to be audited 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 parent company financial statements. The information given in the Directors' report includes that specific information presented in the Financial 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 parent company financial statements. The other information comprises only the Chairman's Statement, the Group Chief Executive's operational review, the Financial review, the Directors' report, the Corporate Governance statement, the Corporate Responsibility statement and the unaudited part of the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Remuneration report to be audited 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 parent company financial statements and the part of the Remuneration report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

16 April 2007

a) Basis of preparation

The parent company financial statements are prepared in accordance with Schedule 4 to the Companies Act 1985 and applicable UK accounting standards. The financial statements are also prepared in accordance with the historical cost convention.

b) Net investment income

Net investment income comprises interest and dividends receivable.

Interest income is recognised in the profit and loss account as it accrues. Dividend income is recognised in the profit and loss account on the date the right to receive payment is established.

c) Employee benefits

Defined contribution schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the profit and loss account as incurred.

Defined benefit plans

The net surplus in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The net surplus and the movement in the surplus are currently allocated in the ratio 36:64 between the Company and its subsidiary, Resolution Management Services Limited, the joint sponsoring employers of the pension scheme. The surplus is shown net of the associated deferred tax liability.

Share-based payment transactions

The Company issues ordinary shares under an all-employee save as you earn (SAYE) scheme and discretionary, performance-related Executive Share Options (ESOS), share matching plan (SMP) and long term incentive plan (LTIP) schemes. FRS 20 *Share-based payment*, has not been applied to those grants of ordinary shares, share options or other equity instruments that were granted before 7 November 2002. The fair value of options granted is recognised as an expense with a corresponding increase in equity.

The total amount to be expensed rateably over the vesting period is determined by reference to the fair value of the options determined at grant date, excluding the impact of any conditions not linked to the price of the ordinary shares (non-market vesting conditions). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive.

The fair value of the SAYE, ESOP and SMP options granted are measured using a binomial model and the fair value of the LTIP options granted is measured using Monte Carlo simulations, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is revised at the balance sheet date to reflect the actual number of share options that vest except to reflect changes due to performance conditions which are linked to the price of the shares of the Company (market conditions).

When shares are issued the proceeds are credited to share capital and share premium and the amount carried in the share option reserve relating to the shares issued is transferred to retained earnings.

d) Borrowings

Interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the profit and loss account over the period of the borrowing using the effective interest method.

e) Investments in group undertakings

Investments in group undertakings are held at cost less impairment losses. They are tested for impairment when there is evidence of possible impairment and the carrying value is adjusted appropriately.

f) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. It is recognised in the profit and loss account except to the extent that it relates to items recognised in the statement of total recognised gains and losses.

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

Deferred tax comprises the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws which have been substantively enacted by the balance sheet date.

g) Perpetual reset capital securities

The perpetual reset capital securities are shown at the proceeds of issue. Coupons on the securities are recognised on the date of payment and are charged to the reconciliation of equity holders' funds.

h) Dividends

Dividends declared by ordinary shareholders are recognised as a liability on the date of declaration and dividends declared by the directors are recognised on the date of payment. Dividends are charged to the reconciliation of equity holders' funds.

Parent company balance sheet

as at 31 December 2006

	Notes	2006 £m	2005 £m
Fixed asset investments			
Investments in group undertakings	4	**718.8**	247.5
Loans to group undertakings	5	**1,852.0**	459.0
		2,570.8	706.5
Current assets			
Debtors (all falling due within one year)			
Amounts owed by group undertakings		**398.7**	3.9
Other debtors		**3.0**	7.0
Prepayments and accrued income		**–**	0.1
		401.7	11.0
Cash at bank and in hand		**305.1**	17.7
		706.8	28.7
Creditors: amounts falling due within one year			
Bank loans	6	**(496.1)**	(20.0)
Other creditors – corporation tax		**(3.3)**	–
Accruals and deferred income		**(0.4)**	(3.0)
		(499.8)	(23.0)
Net current assets		**207.0**	5.7
Total assets less current liabilities		**2,777.8**	712.2
Creditors: amounts falling due in more than one year			
Bank loans	6	**(435.0)**	(65.0)
		(435.0)	(65.0)
Provisions for liabilities and charges			
Deferred taxation	7	**–**	(0.5)
Net assets excluding pension asset less total liabilities		**2,342.8**	646.7
Pension asset	8	**21.0**	23.7
Total assets less total liabilities		**2,363.8**	670.4
Capital and reserves			
Called up share capital	10	**34.3**	18.1
Share premium account		**1,534.3**	42.5
Perpetual reset capital securities	12	**496.5**	496.5
Other reserves		**4.1**	2.2
Profit and loss account	13	**294.6**	111.1
	9	**2,363.8**	670.4

Signed on behalf of the Board by:

J A Newman

Jim Newman
Group Finance Director

1. Financial information

The parent company financial statements for the year ended 31 December 2006, set out on pages 150 to 161, were approved by the Board on 16 April 2007.

2. Profit and loss account

In accordance with the provisions of section 230 of the Companies Act 1985 a separate profit and loss account of the Company has not been reproduced. The profit of the Company for the financial year amounted to £291.9 million (2005: £53.8 million).

3. Auditors' remuneration

The remuneration receivable by the Company's auditors for auditing the accounts amounted to £0.1 million (2005: £0.1 million). The consolidated financial statements of the Company are required to comply with paragraph 1 of the Companies (Disclosure of Remuneration for Non-Audit work) Regulations 2005 and accordingly the remuneration of the auditors for other services provided to the Company is included in the disclosures given in those financial statements.

4. Investments in group undertakings

	2006 £m	2005 £m
Cost		
At 1 January	**347.5**	341.1
Additions	**87.3**	94.4
Disposals	**–**	(35.1)
Capital contribution made	**675.0**	–
Capital contribution repaid	**(341.0)**	(52.9)
At 31 December	**768.8**	347.5
Impairment		
At 1 January	**100.0**	100.0
Reversal of impairment losses	**(50.0)**	–
At 31 December	**50.0**	100.0
Carrying amount		
At 31 December	**718.8**	247.5

On 31 March 2006 the Company purchased from Royal and Sun Alliance Insurance Group plc the £50 million cash preference shares and £50 million PIK preference shares issued by Resolution Life Group Limited, at a cost of £87.3 million. The preference shares were subsequently converted into ordinary shares of Resolution Life Group Limited.

The capital contribution of £675 million was made to Resolution Life Group Limited in connection with the acquisition by its subsidiary, Resolution Life Limited, of the life businesses of Abbey National plc. Of this amount, £341 million was subsequently paid back by Resolution Life Group Limited.

4. Investments in group undertakings (continued)

The impairment relates to the Company's investment in Resolution Asset Management Limited, a wholly-owned subsidiary. An evaluation of the recoverable amount of the investment in Resolution Asset Management Limited at 31 December 2006 has been undertaken by reference to the expected cash flows arising from the business in the future, as a result of which previous impairment losses totalling £50 million have been reversed.

5. Loans to group undertakings

	2006 £m	2005 £m
Loans to Resolution Life Limited	**1,852.0**	459.0

The loans to Resolution Life Limited comprise (i) an unsecured loan of £459 million (2005: £459 million) with no fixed date of repayment and carrying interest of 7% per annum; and (ii) an unsecured loan of £1,393 million (2005: £nil) with no fixed date of repayment and carrying interest at 12 month LIBOR plus 1% per annum.

6. Bank loans

	2006 £m	2005 £m
Current liabilities		
Bank loans	**(496.1)**	(20.0)
Liabilities: amounts falling due in more than one year		
Bank loans	**(435.0)**	(65.0)
	(931.1)	(85.0)
Borrowings are repayable as follows		
Within one year or on demand	**(496.1)**	(20.0)
Between one and two years	**(115.0)**	(20.0)
Between two and five years	**(320.0)**	(45.0)
	(931.1)	(85.0)

Bank loans comprise two separate loans. The first loan of £380 million is repayable in June 2007 and carries an annual interest rate of between 30 and 70 basis points above LIBOR and is currently charged at a rate of 40 basis points above LIBOR. The second loan of £550 million comprises “Facility A” of £350 million and “Facility B” of £200 million. Facility A is a term loan repayable in instalments of £115 million in April 2007, £115 million in April 2008 and £120 million in April 2009. Facility B is a revolving credit facility with a termination date of April 2009. Both facilities carry an annual interest rate of between 30 and 70 basis points above LIBOR and are currently charged at a rate of 45 basis points above LIBOR. The aggregate carrying value of the loans reflects the unamortised value of the transaction costs and accrued interest to 31 December 2006. All interest payments have been made when due.

7. Deferred taxation

	2006 £m	2005 £m
At 1 January	**(0.5)**	–
Amounts (charged)/credited to current tax payable	**0.9**	(0.5)
At 31 December	**0.4**	(0.5)

Deferred tax assets are included in other debtors in the balance sheet.

8. Pension schemes

(a) Defined contribution schemes

The Company participates in the defined contribution section of the Resolution (formerly Britannic) Group pension scheme. Contributions in the year ended 31 December 2006 amounted to £0.1 million (2005: £0.3 million).

(b) Defined benefit schemes

The Company and its subsidiary, Resolution Management Services Limited, are joint sponsoring employers of the Resolution Group pension scheme. The Resolution Group pension scheme is a final salary scheme which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme, (which merged with the Resolution Group pension scheme on 31 July 2006), to future service accrual. The Company does not bear any of the costs of the Phoenix Life Group pension scheme.

The valuation has been based on an assessment of the liabilities of the scheme as at 31 December 2006, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method. The valuation incorporates the provisional results of the triennial valuation of the pension scheme as at 30 June 2006 including an estimated cost of changes in the longevity assumptions amounting to £48.6 million of which £17.5 million relates to the Company. The effect of this, together with other changes affecting the surplus in the scheme, has been to reduce the net surplus from £88.4 million to £79.7 million at the end of the year. The Company's share in the pension scheme surplus amounts to £30.0 million (2005 £33.8 million).

The principal financial assumptions of the Resolution Group pension scheme (incorporating the Phoenix Life Group pension scheme) and the amounts recognised in the profit and loss account and the statement of total recognised gains and losses of the Company are set out below.

	2006	2005	2004
Rate of long term increase in salaries	**4.1%**	3.9%	3.9%
Rate of increase in pensions	**3.0-3.1%**	2.8-3.0%	2.7-3.0%
Discount rate	**5.2%**	4.7%	5.3%
Inflation assumption	**3.1%**	2.9%	2.9%

A building block approach is used in determining the long-term rate of return on pension plan assets. Historical markets are reviewed and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation at the balance sheet date.

8. Pension schemes (continued)

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2026 at age 57 will live on average for a further 29.8 years after retirement if they are male and for a further 32.7 years if they are female. The expected levels of mortality before retirement have been assessed using standard tables AX92 Ultimate. The expected levels of mortality in retirement have been assessed using standard tables PXA92 projected to calendar years 2016 and 2026 for current and future pensioners respectively and allowing for future improvements in line with the P92 Medium Cohort Improvement factors.

The amounts recognised in the profit and loss account and the statement of total recognised gains and losses are set out below.

	2006 £m	2005 £m
Profit and loss account		
Current service cost	**(2.3)**	(2.1)
Interest cost	**0.6**	(0.4)
	(1.7)	(2.5)
Statement of total recognised gains and losses		
Actual return less expected return on plan assets	**(6.0)**	32.1
Experience gains and losses arising on scheme liabilities	**2.3**	(0.6)
Changes in assumptions underlying the present value of scheme liabilities	**1.6**	(32.1)
Net actuarial losses recognised during the year	**(2.1)**	(0.6)

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses since 1 January 2004 amounts to £5.2 million.

The amounts credited to other finance income are set out below.

	2006 £m	2005 £m
Expected return on scheme assets	**18.9**	16.7
Interest on pension scheme liabilities	**(18.3)**	(16.4)
	0.6	0.3

Reconciliation to the amounts recognised in the balance sheet is as follows:

	2006 £m	2005 £m
Total market value of assets	**387.0**	389.4
Present value of defined benefit obligation	**(357.0)**	(355.6)
Surplus in the scheme	**30.0**	33.8
Deferred tax	**(9.0)**	(10.1)
Net pension asset	**21.0**	23.7

The movement in surplus during the year is as follows:

	2006 £m	2005 £m
At 1 January	**33.8**	36.9
Current service cost	**(2.3)**	(2.1)
Other finance income	**0.6**	(0.4)
Actuarial losses	**(2.1)**	(0.6)
At 31 December	**30.0**	33.8

The distribution of the scheme assets at the end of the year was as follows:

	2006 Long term rate of return expected %p.a.	2006 £m	2005 Long term rate of return expected % p.a.	2005 £m	2004 Long term rate of return expected % p.a	2004 £m
Corporate bonds	**4.6**	**306.4**	4.1	311.4	4.5	283.8
Equities	**n/a**	**–**	n/a	–	7.0	0.1
Properties	**7.1**	**68.3**	6.6	64.7	7.0	42.3
Cash	**4.5**	**12.3**	4.5	13.3	3.5	27.5
		387.0		389.4		353.7

There were no contributions paid into the scheme in 2006 and no contributions are expected to be paid to the scheme in 2007.

Table of historical information

	2006	2005	2004
Difference between expected and actual return on scheme assets (£m)	**(6.0)**	32.1	5.7
Percentage of scheme assets (%)	**1.6**	8.2	1.6
Total amount recognised in the statement of recognised gains and losses (£m)	**(2.1)**	(0.6)	(2.5)
Percentage of the present value of the scheme liabilities (%)	**0.6**	0.2	0.8
Experience losses on scheme liabilities (£m)	**2.3**	(0.6)	(0.5)
Percentage of the present value of the scheme liabilities (%)	**0.6**	0.2	0.2

9. Reconciliation of equity holders' funds

	Share capital (note 10) £m	**Share premium £m**	**Perpetual reset capital securities (note 12) £m**	**Other reserves – share options £m**	**Profit and loss account (note 13) £m**	**Total £m**
At 1 January 2006	**18.1**	**42.5**	**496.5**	**2.2**	**111.1**	**670.4**
Profit for the year	**–**	**–**	**–**	**–**	**291.9**	**291.9**
Other recognised gains and losses	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Dividends on ordinary shares	**–**	**–**	**–**	**–**	**(93.2)**	**(93.2)**
Coupon paid on perpetual reset capital securities	**–**	**–**	**–**	**–**	**(14.3)**	**(14.3)**
	18.1	**42.5**	**496.5**	**2.2**	**294.0**	**853.3**
Issue of ordinary share capital – rights issue	**16.1**	**1,531.2**	**–**	**–**	**–**	**1,547.3**
Issue of ordinary share capital – share option schemes	**0.1**	**2.4**	**–**	**(0.6)**	**0.6**	**2.5**
Issue costs	**–**	**(41.8)**	**–**	**–**	**–**	**(41.8)**
Equity share options issued	**–**	**–**	**–**	**2.5**	**–**	**2.5**
At 31 December 2006	**34.3**	**1,534.3**	**496.5**	**4.1**	**294.6**	**2,363.8**

	Share capital (note 10) £m	Share premium £m	Perpetual reset capital securities (note 12) £m	Other reserves – share options £m	Profit and loss account (note 13) £m	Total £m
At 1 January 2005	9.8	47.2	–	0.9	105.9	163.8
Profit for the year	–	–	–	–	53.8	53.8
Other recognised gains and losses	–	–	–	–	(0.4)	(0.4)
Dividends on ordinary shares	–	–	–	–	(48.2)	(48.2)
	9.8	47.2	–	0.9	111.1	169.0
Issue of ordinary share capital – share option schemes	8.3	0.6	–	–	–	8.9
Issue costs	–	(5.3)	–	–	–	(5.3)
Equity share options issued	–	–	–	1.3	–	1.3
Issue of perpetual reset capital securities	–	–	500.0	–	–	500.0
Issue costs, net of tax relief	–	–	(3.5)	–	–	(3.5)
At 31 December 2005	18.1	42.5	496.5	2.2	111.1	670.4

The share options reserve comprises the cumulative fair value charges made to the profit and loss account in respect of share options granted and still outstanding.

10. Called up share capital

	2006 £m	2005 £m
Authorised: 1,000 million (2005: 500 million) ordinary shares of 5p each	**50.0**	25.0
	£m	£m
Allotted, called up and fully paid 685.2 million (2005: 361.1 million) ordinary shares of 5p each	**34.3**	18.1

At an Extraordinary General Meeting of the Company held on 17 July 2006 the authorised share capital of the Company was increased by 500 million ordinary shares of 5p each to 1,000 million ordinary shares of 5p each.

On 9 August 2006 the Company completed a rights issue to qualifying ordinary shareholders. The terms of the rights issue were 8 new ordinary shares for every 9 existing ordinary shares at an issue price of 480p per new ordinary share. The issue price represented a discount of approximately 26.7 per cent to the closing share price immediately prior to the rights issue of 654.5p per existing ordinary share. A total of 322,359,030 new ordinary shares were issued pursuant to the rights issue and the proceeds amounted to £1.55 billion before expenses. The new ordinary shares ranked for the interim dividend declared by the directors on 19 September 2006.

Ordinary shareholders of the Company are entitled:

- To attend general meetings of the Company and to vote at such meetings. Ordinary shareholders have one vote on a show of hands if present at a general meeting or, if a poll is called, one vote for each share held.
- To receive a copy of the annual accounts, auditors' report, directors' report and any accompanying reports of the Company not less than 21 days before the date of the annual general meeting.
- To receive dividends, including interim dividends declared by the Board, except where shares are issued on terms providing that they will rank for dividend as from a particular date. The Company may not declare, pay or distribute a dividend on the ordinary shares or redeem, purchase or otherwise acquire its ordinary shares for so long as a deferred coupon payment of the perpetual reset capital securities has not been satisfied.

Where an ordinary shareholder has not been traced for a period of twelve years the Company is entitled to sell the shares of that member. The proceeds of sale are retained by the Company and the amount is held as a debt due to the former member of the Company. No interest accrues on the debt.

11. Share options

Information on share options is given in note 18 to the consolidated financial statements.

12. Perpetual reset capital securities

	2006 £m	2005 £m
At 1 January	**496.5**	–
Issued in the year	**–**	500.0
Issue costs, net of tax relief	**–**	(3.5)
At 31 December	**496.5**	496.5

The Company has in issue £500 million of perpetual reset capital securities (the Notes) which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The proceeds of the issue amounted to £496.5 million.

The Notes are unsecured obligations of the Company and are subordinate to the claims of senior creditors. Payments in respect of the Notes are conditional upon the Company being solvent at the time of payment and immediately following such payment and also, in respect of coupon payments, having sufficient distributable reserves.

The Notes have no fixed maturity date and interest payments may be deferred at the option of the Company; accordingly the Notes meet the definition of equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the Financial Services Authority.

The Notes may be redeemed at par at the option of the Company on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the Financial Services Authority. In certain circumstances the Company has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, commencing in 2006, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits.

If the Company opts to defer a coupon payment the deferred coupon payment may only be satisfied by the issue of ordinary shares in the Company. For so long as a deferred coupon payment has not been satisfied the Company may not declare, pay or distribute a dividend on its securities in issue ranking junior to the Notes, including the ordinary shares or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares.

13. Profit and loss account

	Distributable reserves £m	Pension reserve £m	Total £m
At 1 January 2006	**87.4**	**23.7**	**111.1**
Profit for the year	**293.1**	**(1.2)**	**291.9**
Other recognised gains and losses	**–**	**(1.5)**	**(1.5)**
	380.5	**21.0**	**401.5**
Dividends on ordinary shares	**(93.2)**	**–**	**(93.2)**
Coupon paid on perpetual reset capital securities	**(14.3)**	**–**	**(14.3)**
Equity share options issued	**0.6**	**–**	**0.6**
At 31 December 2006	**273.6**	**21.0**	**294.6**

Dividends on ordinary shares comprise the second interim dividend for 2005 of £47.7 million and the interim dividend for 2006 of £45.5 million.

	Distributable reserves £m	Pension reserve £m	Total £m
At 1 January 2005	80.1	25.8	105.9
Profit for the year	55.5	(1.7)	53.8
Other recognised gains and losses	–	(0.4)	(0.4)
	135.6	23.7	159.3
Dividends	(48.2)	–	(48.2)
At 31 December 2005	87.4	23.7	111.1

Dividends on ordinary shares comprise the final dividend for 2004 of £24.4 million and the first interim dividend for 2005 of £23.8 million.

14. Contingent liabilities

The Company has guaranteed the due performance by its subsidiary undertaking, Resolution Management Services Limited (RMS), of a management services agreement (MSA) under which RMS has agreed to provide certain services to the Phoenix regulated companies. The Company has agreed to extend its guarantee to such of its subsidiary companies which from time to time may enter into Participation Agreements and receive services under the MSA.

The Company has guaranteed the obligations of its subsidiary undertaking, Resolution Life Limited, in connection with the Retail Distribution and Intermediary Distribution Agreements entered into between Resolution Life Limited and Abbey National plc on 7 June 2006.

15. Related party disclosures

Related party transactions are disclosed in note 46 to the consolidated financial statements.

16. Events after the balance sheet date

On 2 April 2007 the Board approved a proposal to put before the annual general meeting of ordinary shareholders, to be held on 6 June 2007, a resolution to declare a final dividend per ordinary share of 13.28p for the year ended 31 December 2006. The cost of this dividend, £91.0 million, has not been recognised as a liability in the financial statements for 2006.

Independent auditors' report

to the directors of Resolution plc on the pro forma supplementary European Embedded Value information

We have audited the pro forma supplementary information on pages 164 to 186 in respect of the year ended 31 December 2006, which comprises a European Embedded Value basis summary pro forma consolidated income statement, reconciliation of movements in consolidated shareholders' funds, summary consolidated balance sheet, detailed pro forma consolidated income statement and the related notes on pages 168 to 186. The pro forma supplementary information has been prepared in accordance with the CFO Forum Principles dated May 2004 and the Additional Guidance on European Embedded Value Disclosures published by the CFO Forum in October 2005 as described on page 168, with the exception of the exclusion of Resolution Management Services and Resolution Asset Management from the definition of covered business for the reasons given in note 2, and using the methodology and assumptions set out on pages 168 to 171 and 181 to 183. The pro forma supplementary information has also been prepared as if the acquisition of the Abbey life businesses by Resolution plc took place on 30 June 2006.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the pro forma supplementary information on the above European Embedded Value basis.

Our responsibilities, as independent auditors, in relation to the pro forma supplementary information are established in the UK by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the pro forma supplementary information has been properly prepared in accordance with the European

Embedded Value basis. We also report to you if we have not received all the information and explanations we require for our audit of the pro forma supplementary 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 pro forma supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the pro forma supplementary information, and of whether the accounting policies are appropriate to the Group'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 pro forma supplementary information stated on the European Embedded Value basis is 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 the pro forma supplementary information.

Opinion

In our opinion the pro forma supplementary information for the year ended 31 December 2006 has been properly prepared in accordance with the European Embedded Value basis, using the methodology and assumptions set out on pages 168 to 171 and 181 to 183.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

16 April 2007

Summary pro forma consolidated income statement – EEV basis

	Life Division South £m	Life Division North £m	Other £m	Year ended 31 December 2006 total £m	Half year ended 31 December 2005 total £m
Contribution from new business	**1.6**	**23.1**	**–**	**24.7**	–
Expected return on existing business					
- Expected return on value of in-force	**122.1**	**65.5**	**–**	**187.6**	47.7
- Expected transfer to net worth	**–**	**–**	**–**	**–**	–
Expected return on shareholders' net worth	**64.9**	**39.4**	**–**	**104.3**	40.2
Life divisions' expected EEV profit before tax	**188.6**	**128.0**	**–**	**316.6**	87.9
Operating experience variances	**44.5**	**(34.2)**	**–**	**10.3**	39.9
Operating assumption changes	**11.7**	**12.9**	**–**	**24.6**	(42.9)
Life divisions' EEV operating profit before tax	**244.8**	**106.7**	**–**	**351.5**	84.9
Asset management	**–**	**–**	**32.2**	**32.2**	5.8
Management services	**–**	**–**	**15.0**	**15.0**	2.0
Group income and charges	**–**	**–**	**(7.8)**	**(7.8)**	(6.9)
Operating profit (i)	**244.8**	**106.7**	**39.4**	**390.9**	85.8
Non-recurring items	**219.9**	**12.4**	**(24.9)**	**207.4**	38.2
Amortisation of asset management internalisation costs	**–**	**–**	**(6.8)**	**(6.8)**	–
Economic experience variances	**(34.7)**	**63.2**	**29.2**	**57.7**	68.7
Effect of economic assumption changes	**68.8**	**(9.0)**	**–**	**59.8**	(17.0)
Profit before financing costs and tax	**498.8**	**173.3**	**36.9**	**709.0**	175.7
Financing costs	**–**	**–**	**(39.8)**	**(39.8)**	(15.2)
Profit/(loss) before tax	**498.8**	**173.3**	**(2.9)**	**669.2**	160.5
Attributed tax (charge)/credit	**(149.8)**	**(44.7)**	**6.5**	**(188.0)**	(42.1)
Profit after tax	**349.0**	**128.6**	**3.6**	**481.2**	118.4

(i) Operating profit is stated before non-recurring items, amortisation, economic experience variance, economic assumption changes, financing costs and tax.

The results for Life Division South are for the full year ended 31 December 2006 and reflect the profits arising on the existing life businesses of Resolution prior to the acquisition of Abbey's life businesses. The results for Life Division North are for the half year ended 31 December 2006 and reflect the profits arising on the acquired Abbey life businesses. The results for the asset management and management services businesses are for the full year ended 31 December 2006 and have been included on an IFRS basis. The consolidated results are presented on a pro forma basis as if the acquisition of Life Division North had taken place on 30 June 2006.

Reconciliation of movements in consolidated shareholders' funds – EEV basis

	Year ended 31 December 2006 £m	Half year ended 31 December 2005 £m
Opening embedded value as previously reported	**2,130.9**	2,004.2
Prior period adjustment	**10.0**	10.0
Opening embedded value as restated	**2,140.9**	2,014.2
Acquired value of Abbey's life businesses as at 30 June 2006	**3,813.6**	
Cost of acquisition of Abbey's life businesses	**(3,600.0)**	
Transaction costs	**(81.0)**	
Mark to market adjustment on debt	**(10.5)**	
Opening adjustments to acquired value (i)	**(3.1)**	
Profit on acquisition of Abbey's life businesses	**119.0**	–
Profit after tax	**481.2**	118.4
Dividends to ordinary shareholders	**(93.2)**	(23.8)
Share capital issued	**1,547.2**	32.8
Other movements (ii)	**1.9**	(0.7)
Embedded value at 31 December	**4,197.0**	2,140.9
Embedded value per ordinary share at 31 December (iii)	**£6.13**	£5.19

(i) The opening adjustments reflect changes to the consideration paid under the sale and purchase agreement as well as fair value adjustments.

(ii) Other movements include equity share options issued, actuarial losses on the pension schemes and other IFRS reserve adjustments.

(iii) Embedded value per ordinary share at 31 December 2006 is based on 685.2 million ordinary shares in issue at 31 December 2006. EEV per ordinary share at 31 December 2005 has been restated for the effect of the rights issue.

Summary consolidated balance sheet – EEV basis

	31 December 2006 £m	31 December 2005 £m
Assets		
Pension scheme surplus	**79.7**	93.7
Goodwill	**144.5**	144.5
Value of in-force business	**1,929.1**	1,018.7
Other intangible assets	**20.9**	–
Investment property	**2,704.6**	2,355.7
Financial assets	**51,906.2**	32,510.7
Insurance assets	**3,341.3**	3,732.5
Other assets	**931.0**	625.0
Cash and cash equivalents	**3,894.2**	1,745.1
Total assets	**64,951.5**	42,225.9
Equity		
Ordinary share capital	**34.3**	18.1
Share premium	**1,534.3**	42.5
Other reserves	**578.2**	959.3
Retained earnings	**121.1**	102.3
Additional retained earnings on an EEV basis	**1,929.1**	1,018.7
Equity attributable to ordinary shareholders	**4,197.0**	2,140.9
Perpetual reset capital securities	**504.1**	515.0
Minority interests	**154.0**	98.9
Total equity	**4,855.1**	2,754.8
Liabilities		
External debt, including subordinated debt and long term loans	**1,140.6**	86.6
Technical provisions	**46,724.2**	31,356.8
Financial liabilities	**10,926.4**	6,964.8
Other liabilities	**1,305.2**	1,062.9
Total liabilities	**60,096.4**	39,471.1
Total equity and liabilities	**64,951.5**	42,225.9

Supplementary information

Detailed pro forma consolidated income statement – EEV basis

	EEV net worth £m	Value of in-force £m	Year ended 31 December 2006 total £m	Half year ended 31 December 2005 total £m
Contribution from new business	(11.0)	35.7	24.7	–
Expected return on existing business				
- Expected return on value of in-force	–	187.6	187.6	47.7
- Expected transfer to net worth	311.7	(311.7)	–	–
Expected return on shareholders' net worth	104.3	–	104.3	40.2
Life divisions' expected EEV profit/(loss) before tax	405.0	(88.4)	316.6	87.9
Operating experience variances	130.7	(120.4)	10.3	39.9
Operating assumption changes	45.2	(20.6)	24.6	(42.9)
Life divisions' EEV operating profit/(loss) before tax	580.9	(229.4)	351.5	84.9
Asset management	32.2	–	32.2	5.8
Management services	15.0	–	15.0	2.0
Group income and charges	(7.8)	–	(7.8)	(6.9)
Operating profit/(loss) (i)	620.3	(229.4)	390.9	85.8
Non-recurring items:				
- Fund merger benefits	3.3	90.2	93.5	–
- Gain on transfer of Alba Life to equity holders	59.4	15.4	74.8	–
- FSA changes to reserving and capital requirements (PS 06/14)	542.1	(480.8)	61.3	–
- Post merger reorganisation costs (Britannic & RLG)	(18.9)	–	(18.9)	–
- Post acquisition integration costs (Abbey)	(3.3)	–	(3.3)	–
- 2005 non-recurring items	–	–	–	38.2
Amortisation of asset management internalisation costs	(6.8)	–	(6.8)	–
Economic experience variances				
- Life divisions	66.0	(37.5)	28.5	87.9
- Group	27.6	1.6	29.2	(19.2)
Effect of economic assumption changes	–	59.8	59.8	(17.0)
Profit/(loss) before financing costs and tax	1,289.7	(580.7)	709.0	175.7
Financing costs	(39.8)	–	(39.8)	(15.2)
Profit/(loss) before tax	1,249.9	(580.7)	669.2	160.5
Attributed tax (charge)/credit	(333.8)	145.8	(188.0)	(42.1)
Profit/(loss) after tax	916.1	(434.9)	481.2	118.4

(i) Operating profit/(loss) is stated before non-recurring items, amortisation, economic experience variances, economic assumption changes, financing costs and tax.

1. Basis of preparation

The pro forma supplementary information covering the year to 31 December 2006 has been prepared on the European Embedded Value (EEV) basis.

The EEV methodology adopted by the Group is in accordance with the EEV principles and guidance issued in May 2004 by the European CFO Forum, with the exception that the management services and asset management businesses have been excluded from the definition of covered business. The CFO Forum has since published additional guidance on disclosures. This guidance applies to all supplementary financial reporting for accounting periods ending on or after 31 December 2006 and has been adopted in preparing this supplementary information.

The Group acquired Abbey National's (Abbey's) life businesses with effect from 10 August 2006. However, the EEV results have been presented on a pro forma basis as if the acquisition had taken place at 30 June 2006 and accordingly include a full six-month contribution to profits for the acquired businesses. These businesses are referred to collectively throughout as Life Division North (LDN). Scottish Provident International Life Assurance (SPILA) has been included within the LDN results on grounds of materiality but is shown separately in the divisional analysis of market-consistent embedded value in note 7.

The results for Life Division South (LDS) comprising the life insurance businesses of the former Britannic and Resolution life groups, are presented for the full year to 31 December 2006. Results for the comparative period are presented for the half year ended 31 December 2005 as the Group did not prepare financial information on an EEV basis prior to 30 June 2005.

2. EEV methodology

Overview

The EEV basis of reporting for long term insurance business is designed to recognise profit as it is earned over the term of an insurance policy. The total profit recognised over the lifetime of a policy will be the same as that recognised under International Financial Reporting Standards (IFRS) but the emergence of profit will be different.

For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent embedded value (MCEV) framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. Thus the value of assets is the market value of assets and the value of liabilities is the value of comparable asset cash flows.

Embedded value

The embedded value represents the shareholders' interest in the covered and non-covered businesses excluding any value that may be generated by future new business. For covered businesses, it comprises the sum of the shareholders' net worth on an EEV basis and the value of in-force business, including new business generated during the period. For non-covered businesses, it comprises the IFRS net worth including goodwill. Perpetual reset capital securities, senior debt, the Scottish Mutual Assurance (SMA) bonds and, in 2005, the Resolution Life Group preference shares are included in the embedded value at their market-consistent value.

Covered business

The EEV principles require an insurance company to distinguish between covered and non-covered businesses. The covered businesses are valued on an EEV basis. The assets and liabilities of the non-covered businesses with the exception of the perpetual reset capital securities, senior debt, the SMA bonds and, in 2005, the RLG preference shares, are valued on the IFRS basis used in the primary financial statements, including intangible assets and goodwill where appropriate. Results for non-covered businesses are based on the IFRS profits for the period.

The covered business includes all long term insurance business written by the Group but excludes management services and asset management.

Under EEV guidance, productivity gains should not be recognised until they have been achieved. This treatment is inconsistent with the cost profile of a closed life fund, where continual cost reductions are required to maintain unit costs as the business runs off. In the opinion of the Directors, if the EEV guidance were to be applied to management services and asset management, it would not provide a fair reflection of the Group's financial position.

New business

In previous reporting periods all of the Group's life funds were closed and the value of new business was not therefore material enough to require separate disclosure as a source of value. However, following the acquisition of Abbey's life businesses new policies written via Abbey's retail and IFA distribution channels and the value of open market options and internal vestings throughout the Group are now reported as new business.

An allowance for future premiums arising for Department of Works and Pensions rebates is included within the value of in-force covered business. Any value arising from incremental policies will be included within the EEV profits for the period as an operating variance.

Net worth

The net worth is the market-consistent value of the shareholders' funds of the covered businesses together with the shareholders' interest in surplus assets held in the long term business funds less the value of any projected shareholder capital injections into the with-profit funds. Projected shareholder capital injections include the intrinsic burn through cost in respect of the Phoenix & London Assurance with-profit fund. It also comprises the net worth of the non-covered businesses on an IFRS basis including intangible assets and goodwill but valuing the perpetual reset capital securities, senior debt, SMA bonds and, in 2005, the RLG preference shares on a market-consistent basis.

Value of in-force

The value of in-force businesses (VIF) represents the present value of profit attributable to shareholders arising from covered business, less an allowance for the time value of financial options and guarantees, less an allowance for the impact of non-market risks on non-profit business, less the cost of holding required capital.

The approach adopted to calculate the market-consistent VIF combines deterministic and stochastic models. Deterministic techniques have been used to value 'non-option cash flows' whose values vary linearly with market movements. Stochastic techniques and closed form solutions have been used to value cash flows with an asymmetric effect on shareholder cash flows (e.g. investment guarantees on with-profit products).

For the deterministic approach, the calculation of the VIF involves valuing cash flows using a discount rate which reflects the risk inherent in each cash flow. In practice, it is not necessary to discount each cash flow at a different rate. The same results can be achieved by projecting and discounting all cash flows at the risk free rate under the 'certainty equivalent approach'.

The market-consistent deterministic VIF is calculated under the certainty equivalent approach by using traditional embedded value models and projecting and discounting all cash flows at risk free rates.

For the stochastic approach, the MCEV calculation involves the use of stochastic models developed for the purposes of realistic balance sheet reporting including closed form solutions.

2. EEV methodology (continued)

Required capital and free surplus

The EEV principles require capital allocated to the covered businesses to be split between required capital, where future distributions to shareholders are restricted, and free surplus.

The amount of required capital is defined as the greater of:

- the amount of capital required to meet local regulatory capital adequacy requirements. For UK companies this consists of the greater of Pillar 1 and Pillar 2 capital requirements, where the Pillar 2 capital requirements allow for any Individual Capital Guidance received from the FSA;
- the capital required under the Group's capital management policy; and
- the commitments made to credit rating agencies.

Cost of capital

EEV principles require companies to make an allowance for the cost of capital, consistent with the definition of required capital. The cost of capital is defined as the difference between the market value of the required capital and the present value of future releases allowing for future investment return on that capital. The market-consistent cost of capital also allows for investment expenses and the cost of taxation.

Financial options and guarantees

EEV principles require companies to make an explicit allowance for the time value of financial options and guarantees.

The Group has calculated the time value cost of financial options and guarantees using market-consistent stochastic models calibrated to the market prices of financial instruments at 31 December 2006. The stochastic models allow for the impact of management actions which have been set in accordance with the Principles and Practices of Financial Management (PPFM) for each company and the hedging strategies which were in place at 31 December 2006.

Allowance for non-market risk

In general, the allowance for non-market risk is covered by the Group's adoption of best estimate experience assumptions and the amount of required capital. However, there are certain situations in which the shareholder impact of fluctuations in experience is asymmetric, namely that adverse experience can have a higher negative impact on shareholder value compared to the positive impact generated by favourable experience.

The Group has made explicit allowances for the impact of non-market risk as follows:

- within the time value of financial options and guarantees in the with-profit funds, allowance has been made for the impact of non-market risk where asymmetries in the shareholder interest mean that best estimate assumptions do not fully reflect the impact of extreme events; and similarly
- within the value in-force of the non-profit businesses, an explicit allowance has been made for the impact of non-market risk.

The methodology used to determine the appropriate allowance for non-market risk is based on the analysis undertaken as part of the development of the Individual Capital Assessments (ICAs).

The table below summarises how each item of risk has been explicitly considered within the EEV.

Type of risk	EEV methodology
Market-related risks	Allowed for explicitly in EEV calculations
Non-market risks related to with-profit business (including non-profit business within with-profit funds)	Allowed for in calculation of options and guarantees
Non-market risks related to non-profit business which are asymmetrical relative to the impact on shareholders	Allowed for in calculation of non-market risk
Non-market risks related to non-profit business which are symmetrical relative to the impact on shareholders	Within best estimate assumptions

Debt and perpetual reset capital securities

All debt and equity, other than ordinary shareholders' interests, are valued on a market-consistent basis. Listed securities and the SMA bonds are valued at their closing market prices. Unlisted debt and, in 2005, unlisted securities, are valued on a discounted cash flow basis, taking into account the known interest rates and assumed terms to repayment. The market-consistent value includes an allowance for tax relief on the interest payments on the debt. The value of the tax relief is the market value of the debt less the value derived by discounting the after tax coupon payments and expected principal repayments at the risk-free rate.

Pension schemes

The pension scheme surplus arising on an IFRS basis is reflected in the EEV financial statements through adjusted net worth.

Taxation

In adopting the EEV principles, full allowance has been made for the market-consistent value of tax which would become payable on the transfer of surplus assets out of the non-profit funds. This allowance reflects the projected pace of release of surplus from the non-profit funds that is not required to cover the burn through costs in with-profit funds.

3. Analysis of consolidated income statement: life divisions – EEV basis

Life Division South

	EEV net worth £m	Value of in-force £m	**Year ended 31 December 2006 total £m**	Half year ended 31 December 2005 total £m
Contribution from new business	(2.0)	3.6	**1.6**	–
Expected return on existing business				
- Expected return on value of in-force	–	122.1	**122.1**	47.7
- Expected transfer to net worth	189.3	(189.3)	**–**	–
Expected return on shareholders' net worth	64.9	–	**64.9**	40.2
Life division expected EEV profit/(loss) before tax	252.2	(63.6)	**188.6**	87.9
Operating experience variances	62.7	(18.2)	**44.5**	39.9
Operating assumption changes	8.4	3.3	**11.7**	(42.9)
Life division EEV operating profit/(loss) before tax	323.3	(78.5)	**244.8**	84.9
Non-recurring items	170.5	49.4	**219.9**	69.1
Economic experience variances	14.3	(49.0)	**(34.7)**	87.9
Effect of economic assumption changes	–	68.8	**68.8**	(17.0)
Life division EEV profit/(loss) before tax	508.1	(9.3)	**498.8**	224.9
Attributed tax (charge)/credit	(152.3)	2.5	**(149.8)**	(67.1)
Life division EEV profit/(loss) after tax	355.8	(6.8)	**349.0**	157.8

3. Analysis of consolidated income statement: life divisions – EEV basis (continued)

Contribution from new business

The contribution from new business of £1.6 million is derived primarily from profits on vesting annuity business. It is valued at the end of the period and excludes the cost of capital and an allowance for non-market risk as the amount of new business is small.

Expected return on value of in-force

The expected return on the existing business for the year to 31 December 2006 of £122.1 million reflects the expected change in the present value of future profits arising from the in-force business, including the cost of capital and the cost of financial options and guarantees at 31 December 2005. The expected return is the best estimate return for each line of business based on the real world investment return assumptions at 31 December 2005 shown in note 10.

Expected transfer to net worth

The expected transfer to net worth of £189.3 million represents the nominal transfers from the value of in-force business to EEV net worth in the year ended 31 December 2006 before tax. These transfers are determined on the basis that transactions expected during the period as part of the calculation of the opening value of in-force have occurred in line with the opening assumptions.

Expected return on shareholders' net worth

The expected return on shareholders' net worth held within the long term business funds is the best estimate return based on the real world investment return assumptions at 31 December 2005 shown in note 10.

Operating experience variances

Operating experience variances contributed £44.5 million to profit over the year.

Favourable operating experience, primarily reflecting positive lapse and morbidity experience on term and PHI business, contributed £34.5 million. Other favourable experience enabled the group to release provisions totalling £33.5 million primarily in respect of tax and mortgage endowments. Other items contributed £2.3 million.

This favourable experience has been partially offset by increased capital requirements (before allowing for the benefits of PS 06/14) due to strengthening of the Group's capital management policy. This has resulted in a charge to profits of £25.8 million.

Persistency experience on pensions business generally has been in line with assumptions.

Operating assumption changes

Changes were made to the operating assumptions at 31 December 2006 resulting in profits of £11.7 million. This profit arose primarily from a change in assumed tax rates, changes to insurance assumptions and a reduction in future costs directly payable by the life companies. This was offset by an increase in provisions following harmonisation of the provision methodology across the life companies.

The main insurance assumption changes include a reduction in lapse rates for reviewable term assurance business in PLL, a strengthening of the longevity improvement factors in Britannic Retirement Solutions, a revision to guaranteed annuity option take-up rates following A-day and a change to the assumptions regarding the type of guaranteed annuity taken.

Non-recurring items

The non-recurring items comprise the following:

- The transfer of Alba Life to the equity holders' funds with effect from 1 January 2006 resulted in a one-off profit of £77.5 million, before transaction costs. This profit represents the EEV profit of £54.3 million grossed up at the equity holder tax rate of 30%. Transaction costs relating to the transfer of £2.7 million are included in the Group non-recurring items

- The merger of the LDS companies (excluding PALAL) into PLL and the transfer of the non-profit business owned by the with-profit fund of Century Life to the non-profit funds of PLL gave rise to a one-off profit of £93.5 million net of scheme costs
- The FSA changes to reserving and capital requirements (PS 06/14) resulted in a profit of £48.9 million. This was primarily due to a reduction in the cost of capital arising from a £398 million reduction in required capital. Statutory reserves of £105 million were also released as a result of the changes to statutory reserve requirements for non-profit business.

Economic experience variance

Economic experience variance over the year resulted in a charge to profits of £34.7 million. This arose primarily from changes in the shape of the yield curve over the period and a corresponding increase in valuation interest rates on annuity business. This negative contribution is offset by higher future investment returns identified under economic assumption changes.

Economic assumption changes

Gilt yields have risen 0.5% over the year resulting in a risk free rate of 4.7% as at 31 December 2006 (note 10). This contributed £68.8 million to profits and represents the impact on the value of the in-force of increases in the future investment return assumptions, offset by increases in the discount rate applied to future cash flows.

The positive impact of economic assumption changes was primarily driven by the increased profits on annuity business and shareholder transfers on with-profit business as a result of higher investment returns.

Attributed tax (charge)/credit

Life division EEV profits are calculated net of tax and are grossed up at the effective equity holder tax rate of 30%.

Life Division North

	EEV net worth £m	Value of in-force £m	Half year ended 31 December 2006 total £m
Contribution from new business	(9.0)	32.1	23.1
Expected return on existing business			
- Expected return on value of in-force	–	65.5	65.5
- Expected transfer to net worth	122.4	(122.4)	–
Expected return on shareholders' net worth	39.4	–	39.4
Life division expected EEV profit/(loss) before tax	**152.8**	**(24.8)**	**128.0**
Operating experience variances	68.0	(102.2)	(34.2)
Operating assumption changes	36.8	(23.9)	12.9
Life division EEV operating profit/(loss) before tax	**257.6**	**(150.9)**	**106.7**
Non-recurring items	437.0	(424.6)	12.4
Economic experience variances	51.7	11.5	63.2
Effect of economic assumption changes	–	(9.0)	(9.0)
Life division EEV profit/(loss) before tax	**746.3**	**(573.0)**	**173.3**
Attributed tax (charge)/credit	(188.0)	143.3	(44.7)
Life division EEV profit/(loss) after tax	**558.3**	**(429.7)**	**128.6**

3. Analysis of consolidated income statement: life divisions – EEV basis (continued)

Contribution from new business

The contribution from new business over the period from 1 July 2006 to 31 December 2006 was £23.1 million. This contribution has been valued at the end of the period using start of period economic and operating assumptions and is shown gross of equity holder tax. The contribution includes the impact of PS 06/14, the cost of capital and an allowance for non-market risk consistent with the methodology for in-force business. Further detail on new business is provided in note 11.

Expected return on value of in-force

The expected return on the existing business for the half year to 31 December 2006 of £65.5 million reflects the expected change in the present value of future profits arising from the in-force business, including the cost of capital and the cost of financial options and guarantees at 30 June 2006. The expected return is the best estimate return for each line of business based on the real world investment return assumptions at 30 June 2006.

Expected transfer to net worth

The expected transfer to net worth of £122.4 million represents the expected nominal transfers from the value of in-force business to EEV net worth in the half year ended 31 December 2006 before tax. These transfers are determined on the basis that transactions expected during the period as part of the calculation of the opening value of in-force have occurred in line with the opening assumptions.

Expected return on shareholders' net worth

The expected return on shareholders' net worth held within the long term business funds of £39.4 million is the best estimate return based on the real world investment return assumptions at 30 June 2006 shown in note 10.

Operating experience variances

Adverse operating experience variances of £34.2 million were primarily due to higher lapse rates on with-profit bonds in SMA relative to long-term assumptions and the loss of future management charges from the Abbey pension scheme.

During the first three quarters of 2006, SMA was subject to adverse persistency experience on with-profit bonds. The trend stabilised in the last quarter of 2006 when experience was in line with long-term assumptions for this business.

Following the acquisition, Abbey transferred the staff pension scheme out of the LDN companies. This resulted in a one-time reduction in the value of in-force reflecting the loss of future annual management charges from this business.

Persistency experience on pensions business generally has been in line with assumptions.

Operating assumption changes

Changes in operating assumptions contributed £12.9 million to operating profit. This is comprised primarily of:

- An increase in the lapse assumption on the SMI guaranteed investment bond, leading to a reduction in the cost of guarantees on this business; and
- A reduction in future expenses arising from the implementation of the management services agreement with the management services business.

Non-recurring items

The only non-recurring item for LDN relates to the implementation of PS 06/14 which resulted in a non-recurring profit of £12.4 million. This was primarily due to the release of £437 million of non-profit statutory reserves (mainly in SMA) and a £208 million reduction in required capital.

Economic experience variances

Positive economic experience over the six month period contributed £63.2 million to profit. This has been driven by higher than expected investment returns over the period, harmonisation of the methodology used to generate valuation interest rates across the Group and an increase in the value of the interest rate swap asset backing the SMA bonds.

Economic assumption changes

Gilt yields have fallen 0.1% since 30 June 2006 resulting in a risk free rate of 4.7% as at 31 December 2006 (note 10). This resulted in a charge to profits of £9.0 million and represents the impact on the value of the in-force of lower investment return assumptions, offset by a reduction in the discount rate applied to future cash flows.

Attributed tax (charge)/credit

Life division EEV profits are calculated net of tax and grossed up at the effective equity holder tax rates of 30% for SMA, SPL and PLA, 12.5% for SMI and 0% for SPILA. For non-recurring items, the actual tax impact is calculated explicitly and included in the attributed tax charge.

4. Analysis of consolidated income statement: other – EEV basis

	Management services £m	Asset management £m	Group £m	Year ended 31 December 2006 total £m	Half year ended 31 December 2005 total £m
Asset management	–	32.2	–	32.2	5.8
Management services	15.0	–	–	15.0	2.0
Group income and charges	–	–	(7.8)	(7.8)	(6.9)
Operating profit/(loss) before non-recurring items, financing costs and tax	15.0	32.2	(7.8)	39.4	0.9
Non-recurring items	(20.7)	(1.5)	(2.7)	(24.9)	(30.9)
Amortisation of asset management internalisation costs		(6.8)	–	(6.8)	–
Economic experience variances	–	–	29.2	29.2	(19.2)
Profit/(loss) before financing costs and tax	(5.7)	23.9	18.7	36.9	(49.2)
Financing costs	–	–	(39.8)	(39.8)	(15.2)
Profit/(loss) before tax	(5.7)	23.9	(21.1)	(2.9)	(64.4)
Attributed tax credit/(charge)	1.3	(7.8)	13.0	6.5	25.0
Profit/(loss) after tax	(4.4)	16.1	(8.1)	3.6	(39.4)

Non-recurring items

The non-recurring items include a charge of £20.7 million in management services and £1.5 million in asset management, primarily in respect of reorganisation costs arising mainly from the Britannic/RLG merger. The non-recurring charge of £2.7 million within Group is in respect of the transaction costs arising from the transfer of Alba Life to equity holders.

Amortisation of asset management internalisation costs

The charge to profits of £6.8 million reflects 9 months' amortisation of the £27 million payment made to F&C Asset Management in March 2006.

4. Analysis of consolidated income statement: other – EEV basis (continued)

Economic experience variances

All external debt has been valued on a market-consistent basis. Changes in the market-consistent value of debt resulted in a contribution to profit of £27.6 million. A decrease in the Group's cost of capital contributed an additional £1.6 million.

Financing costs

Financing costs amounted to £39.8 million comprising £20.8 million of interest paid on Resolution plc's senior debt (taken out to support the acquisition of Abbey's life businesses), £14.3 million of coupon paid on the perpetual reset capital securities and £4.7 million of interest paid on the £85 million of pre-existing senior debt (repaid in August 2006) and the amortisation of loan arrangement fees.

Attributed tax credit/(charge)

Taxation in respect of entities other than the life divisions has been provided on an IFRS basis, adjusted for the tax attributable to the additional gross financing costs of £14.3 million under EEV, in respect of the perpetual reset capital securities.

5. Divisional analysis of movement in embedded value

	Life Division South	Life Division North	Management services	Asset management	Group	Year ended 31 December 2006 total	Half year ended 31 December 2005 total
	£m	£m	£m	£m	£m	£m	£m
Opening embedded value as previously reported	2,453.3	–	58.3	171.3	(552.0)	2,130.9	2,004.2
Prior period adjustment	10.0	–	–	–	–	10.0	10.0
Opening embedded value as restated	2,463.3	–	58.3	171.3	(552.0)	2,140.9	2,014.2
Abbey's life businesses at 30 June 2006	–	2,181.1	11.8	11.5	1,609.2	3,813.6	–
Cost of Abbey acquisition	–	–	–	–	(3,600.0)	(3,600.0)	–
Transaction costs	–	–	–	–	(81.0)	(81.0)	–
Mark to market adjustment on debt	–	–	–	–	(10.5)	(10.5)	–
Opening adjustments to acquired value	–	(163.9)			160.8	(3.1)	
Profit after tax	349.0	128.6	(4.4)	16.1	(8.1)	481.2	118.4
Dividends to ordinary shareholders	–	–	–	–	(93.2)	(93.2)	(23.8)
Share capital issued	–	–	–	–	1,547.2	1,547.2	32.8
Internal loan interest	8.0	24.1	–	–	(32.1)	–	–
Internal group transfers	(171.1)	299.8	–	–	(128.7)	–	–
Other movements	–	–	0.6	–	1.3	1.9	(0.7)
Closing embedded value	2,649.2	2,469.7	66.3	198.9	(1,187.1)	4,197.0	2,140.9

Prior period adjustment

The opening balance sheet at 1 January 2005 has been restated to reallocate part of the additional surplus of the Resolution (formerly Britannic Group) pension scheme recognised on the transition to IFRS. The effect of the reallocation is to reduce unallocated surplus by £10.0 million and to increase retained earnings by £10.0 million.

Opening adjustments to acquired value

These adjustments relate primarily to the debt due to the defined benefit pension scheme of LDN which crystallised on the acquisition of Abbey's life businesses.

Abbey's life businesses at 30 June 2006

This represents the market-consistent value of the acquired Abbey life businesses as at 30 June 2006.

Dividends to ordinary shareholders

A second interim dividend for 2005 of £47.7 million was paid on 2 June 2006 followed by an interim dividend of £45.5 million on 20 October 2006 in respect of 2006.

Internal loan interest

This represents the net interest paid by RLL in respect of the internal loans between RLL and the life companies. This includes interest on the £1,800 million of loans made to RLL by the LDN life companies in September 2006.

Other movements

This primarily comprises actuarial losses after tax on the pension schemes and the increase in share capital arising from equity share options issued during the period.

6. Reconciliation of IFRS net worth to EEV net worth

	As at 31 December 2006 £m	As at 31 December 2005 £m
Net worth as reported under IFRS	**4,534.7**	2,544.9
Revision of non-profit surplus	**(95.4)**	(123.8)
Tax on non-profit funds' surplus assets	**64.6**	35.1
Net acquired in-force business	**(1,327.5)**	(566.6)
Life division goodwill	**(65.0)**	(65.0)
Life division fair value of distribution agreements (IFRS basis)	**(92.2)**	-
Intrinsic burn through cost on PALAL	**(92.1)**	(86.5)
Market-consistent value of perpetual reset capital securities	**(504.1)**	(515.0)
Minority interests	**(154.0)**	(98.9)
Other	**(1.1)**	(2.0)
Net worth on an EEV basis	**2,267.9**	1,122.2

Revision of non-profit surplus

The surplus in the non-profit funds is calculated on an IFRS basis using reserving assumptions which differ from those used to calculate the actuarial long-term fund surplus for the EEV results. The reduction in net worth of £95.4 million reflects the net of tax impact of moving to the EEV statutory reserving assumptions.

Tax on non-profit funds' surplus assets

The difference in taxation of the non-profit funds' surplus assets of £64.6 million reflects underlying differences between the bases of preparation for IFRS and for EEV reporting. The main differences are that non-discounted cash flows are used for IFRS reporting compared to discounted cash flows used for EEV reporting and the impact of the underlying assumptions on the rate of taxation.

6. Reconciliation of IFRS net worth to EEV net worth (continued)

Net acquired in-force business

The IFRS net worth includes net acquired in-force business of £1,327.5 million which, on an EEV basis, is replaced by the value of in-force business.

Life division goodwill

The acquisition of RLG by Britannic Group gave rise to goodwill of £112.0 million of which £65.0 million was allocated to the life division. The life division goodwill is excluded on an EEV basis.

Life division fair value of distribution agreements

The acquisition of Abbey's life businesses gave rise to an intangible asset on an IFRS basis of £100.0 million of which £7.8 million was amortised in the post acquisition period. This asset is excluded on an EEV basis.

Intrinsic burn through cost on PALAL

The EEV net worth is calculated after explicitly allowing for the intrinsic burn through cost on PALAL of £92.1 million. Under IFRS the burn through cost for PALAL is reflected in the net acquired in-force business, which is excluded on an EEV basis.

Market-consistent value of perpetual reset capital securities

The IFRS net worth includes the perpetual reset capital securities as equity. The EEV net worth is stated after deducting the market-consistent value of these securities.

Minority interests

The IFRS net worth at December 2006 includes minority interests relating to a property investment subsidiary as equity. The IFRS net worth at December 2005 included RLG preference shares as equity. The EEV net worth is stated after deducting the value of these interests.

7. Divisional analysis of market-consistent embedded value

A divisional analysis of market-consistent embedded value is set out below.

	Net worth	Intrinsic burn through cost	Goodwill	Adjusted net worth	Certainty equivalent VIF	Time value of options and guarantees	Allowance for non-market risks	Cost of required capital	Total embedded value at 31 December 2006	Total embedded value at 31 December 2005
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Life Division North										
Scottish Mutual Assurance	**806.9**	**–**	**–**	**806.9**	**465.7**	**(47.2)**	**(47.3)**	**(40.9)**	**1,137.2**	–
Scottish Provident	**280.4**	**–**	**–**	**280.4**	**397.3**	**(10.2)**	**(17.0)**	**(9.9)**	**640.6**	–
Phoenix Life Assurance	**238.0**	**–**	**–**	**238.0**	**166.6**	**–**	**(10.0)**	**(9.3)**	**385.3**	–
Scottish Mutual International	**173.0**	**–**	**–**	**173.0**	**27.7**	**–**	**(1.6)**	**(1.5)**	**197.6**	–
Holding Companies	**3.6**	**–**	**–**	**3.6**	**–**	**–**	**–**	**–**	**3.6**	–
Total Life Division North	**1,501.9**	**–**	**–**	**1,501.9**	**1,057.3**	**(57.4)**	**(75.9)**	**(61.6)**	**2,364.3**	–
Scottish Provident International Life Assurance	**47.6**	**–**	**–**	**47.6**	**59.8**	**–**	**(2.0)**	**–**	**105.4**	–
Total Life Division North and SPILA	**1,549.5**	**–**	**–**	**1,549.5**	**1,117.1**	**(57.4)**	**(77.9)**	**(61.6)**	**2,469.7**	–
Life Division South										
Phoenix & London Life Assurance	**383.9**	**(92.1)**	**–**	**291.8**	**48.6**	**–**	**–**	**(47.5)**	**292.9**	252.1
Phoenix Life(i)	**1,499.5**	**–**	**–**	**1,499.5**	**1,148.7**	**(27.2)**	**(71.3)**	**(32.6)**	**2,517.1**	2,079.3
RLG With Profit Holdings	**(6.8)**	**–**	**–**	**(6.8)**	**–**	**–**	**–**	**–**	**(6.8)**	(194.5)
Minority interests (ii)	**(154.0)**	**–**	**–**	**(154.0)**	**–**	**–**	**–**	**–**	**(154.0)**	–
Total Life Division South	**1,722.6**	**(92.1)**	**–**	**1,630.5**	**1,197.3**	**(27.2)**	**(71.3)**	**(80.1)**	**2,649.2**	2,136.9
Management services	**56.3**	**–**	**10.0**	**66.3**	**–**	**–**	**–**	**–**	**66.3**	58.3
Asset management	**64.4**	**–**	**134.5**	**198.9**	**–**	**–**	**–**	**–**	**198.9**	171.3
Group	**467.4**	**–**	**–**	**467.4**	**–**	**–**	**–**	**(9.8)**	**457.6**	474.9
Embedded value (before debt and perpetual reset capital securities)	**3,860.2**	**(92.1)**	**144.5**	**3,912.6**	**2,314.4**	**(84.6)**	**(149.2)**	**(151.5)**	**5,841.7**	2,841.4
Perpetual reset capital securities	**(504.1)**	**–**	**–**	**(504.1)**	**–**	**–**	**–**	**–**	**(504.1)**	(515.0)
Resolution plc senior debt	**(547.4)**	**–**	**–**	**(547.4)**	**–**	**–**	**–**	**–**	**(547.4)**	(86.6)
Resolution term loan	**(378.6)**	**–**	**–**	**(378.6)**	**–**	**–**	**–**	**–**	**(378.6)**	–
SMA bonds	**(214.6)**	**–**	**–**	**(214.6)**	**–**	**–**	**–**	**–**	**(214.6)**	–
RLG preference shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	(98.9)
Embedded value	**2,215.5**	**(92.1)**	**144.5**	**2,267.9**	**2,314.4**	**(84.6)**	**(149.2)**	**(151.5)**	**4,197.0**	2,140.9

(i) The comparative includes the entities merged into Phoenix Life as part of the 2006 and 2005 fund mergers.

(ii) Minority interests relate to a property investment subsidiary of the Group's with-profit funds.

8. Analysis of market-consistent embedded value

Net worth

The EEV net worth at 31 December 2006 reflects the impact of changes made since the year end to simplify the structure of LDS. These changes have resulted in Resolution Life Limited (RLL) now owning all of the Group's life businesses, including those of LDN.

RLL has been reclassified as a group entity. It was previously categorised as part of LDS. There has also been a reclassification of certain loans from the life companies to RLL. Where such loans represent long term financing they have been included in the net assets of RLL. These loans total £1,800 million from LDN and £324.7 million from LDS.

The £1,800 million loans from LDN were used to repay £1,300 million of the Group's outstanding bridging loan, £300 million was used to effect an internal restructuring of LDN and £200 million was retained as working capital.

Intrinsic burn through cost

The net worth of PALAL includes an intrinsic burn through cost of £92.1 million at 31 December 2006. This amount has been derived from the results of the stochastic models and scenario testing which indicate that it is appropriate to assume that none of the £79.0 million loan made to the PALAL long-term fund in 2004 plus accumulated interest will be repaid.

Cost of capital

The cost of capital at 31 December 2006 of £151.5 million reflects the inclusion of LDN and the revision of the PLL capital management policy.

Perpetual reset capital securities and external debt

The consolidated balance sheet as at 31 December 2006 includes perpetual reset capital securities ('the notes') with a face value of £500 million, term loans and senior debt arising from the acquisition of Abbey's life businesses and subordinated debt with a face value of £200 million in relation to SMA. The Resolution plc senior debt of £85 million was repaid in August 2006.

The notes have been included within the EEV at a market-consistent value. The coupon payments will be £32.9 million per annum until 25 April 2016. In the event that the notes are not repaid on this date, the coupon rate will be set at 2.73% above LIBOR.

Resolution plc completed the purchase of preference shares, issued by Resolution Life Group Limited, from Royal & Sun Alliance Insurance Group plc for £100 million (including accumulated dividends) on 31 March 2006. The market-consistent value of the shares reported at 31 December 2005 was £98.9 million, based on the agreed price of £100 million less the impact of discounting for three months and gave rise to EEV profits of £19.2 million which were reflected in the six months to 31 December 2005.

The table below summarises the value of the notes and debt at 31 December 2006.

	Face value £m	Market-consistent value £m
Perpetual reset capital securities	500.0	504.1
Term loans	930.0	926.0
SMA bonds	200.0	214.6
Net worth on an EEV basis as at 31 December 2006	**1,630.0**	**1,644.7**

9. Cost of capital and required capital

	EEV required capital £m	Regulatory required capital £m	EEV excess over regulatory required capital £m	EEV as percentage of regulatory required capital %	Cost of capital £m
Life Division North					
Shareholder capital supporting capital requirements	**667.0**	**432.8**	**234.2**	**154%**	**61.6**
With-profit fund capital supporting capital requirements	**1,710.6**	**1,654.1**	**56.5**	**103%**	**-**
Life Division South					
Shareholder capital supporting capital requirements	**832.5**	**626.1**	**206.4**	**133%**	**80.1**
With-profit fund capital supporting capital requirements	**2,832.6**	**2,578.4**	**254.2**	**110%**	**-**
SPILA					
Shareholder capital supporting capital requirements	**20.3**	**13.5**	**6.8**	**150%**	**-**
Total capital supporting capital requirements in life division at 31 December 2006	**6,063.0**	**5,304.9**	**758.1**	**114%**	**141.7**
Shareholder capital supporting Group credit rating	**114.0**	**-**	**114.0**	**n/a**	**9.8**
Total capital supporting capital requirements at 31 December 2006	**6,177.0**	**5,304.9**	**872.1**	**116%**	**151.5**
Total capital supporting capital requirements at 31 December 2005	3,215.1	2,907.1	308.0	111%	100.1

EEV required capital was £6,177.0 million as at 31 December 2006, of which, £4,543.2 million is covered by with-profit fund capital. The remaining £1,633.8 million is covered by shareholder capital, the market-consistent cost of which is £151.5 million.

The sensitivity of cost of capital

The impact of decreasing the amount of life companies' required capital to the minimum levels required by local statutory regulations is included in the sensitivities in note 12.

10. Assumptions

Economic assumptions

The gilt yield at 31 December 2006 was 4.6% (defined as the annualised return on the FTSE UK 15 year gilt index). The risk free yield curve at the valuation date was defined as the annually compounded UK nominal spot curve plus ten basis points. Thus, the risk free rate at 31 December 2006 was assumed to be 4.7% (31 December 2005: 4.2%).

Having adopted a market-consistent bottom-up approach, the economic assumptions below affect only the derived risk discount rates and do not impact the market-consistent embedded value.

The economic assumptions gross of tax (real world assumptions) and assumed margins over gilts are shown below.

Asset class	Gilt yield (g) + risk margin	Income	Gains	31 December 2006 Total	31 December 2005 Total
Gilts	**g**	**4.6%**	**–**	**4.6%**	4.1%
Other fixed interest	**g+0.5%**	**5.1%**	**–**	**5.1%**	4.6%
Index linked gilts	**g**	**2.1%**	**2.5%**	**4.6%**	4.1%
Equities – UK	**g+2.5%**	**2.9%**	**4.2%**	**7.1%**	6.6%
Equities – overseas	**g+2.5%**	**1.9%**	**5.2%**	**7.1%**	6.6%
Property	**g+2.5%**	**7.1%**	**–**	**7.1%**	6.6%

10. Assumptions (continued)

The rate of increase in the Retail Price Index (RPI) at 31 December 2006 is assumed to be 3.3%, based on the difference between the annualised returns on the FTSE UK 15 year gilt index and the FTSE UK over 5 year index-linked gilt index at 5% inflation.

The bonus rates projected in the EEV will be those which would be paid by each company based on targeted percentages of asset shares and the assumed rates of investment return specified in the table above.

The asset mix assumed is based on the actual assets held at the valuation date in accordance with the investment criteria for each company.

Stochastic economic assumptions

The time value of options and guarantees is calculated using economic scenario generators provided by Barrie and Hibbert, calibrated to market conditions as at 31 December 2006. The same scenario generators are used for both realistic balance sheet and EEV purposes.

Nominal interest rates are modelled using the LIBOR market model, calibrated to zero coupon bond yields plus ten basis points. The volatility structure of forward rates is calibrated to the observed volatilities on 20-year at-the-money swaptions.

Real interest rates are modelled using the two-factor Vasicek model, calibrated to gilts.

Equity volatility is calibrated to replicate the prices on a range of FTSE options.

A sample of derived volatilities (by asset class) is provided in the table below:

	Sample volatilities at 31 December 2006 (%)				
Term (years)	**5**	**15**	**20**	**25**	**35**
15 year zero coupon bonds	**6.3%**	**5.6%**	**5.0%**	**5.7%**	**7.6%**
15 year A-rated corporate bonds	**7.5%**	**7.1%**	**6.7%**	**7.4%**	**8.9%**
Equity	**18.5%**	**28.8%**	**31.7%**	**33.3%**	**36.0%**

The time value of options and guarantees also allows for expected management actions and policyholder response to the varying external economic conditions simulated by the economic scenario generator. Policyholder response has been modelled based on historical experience. Management actions have been set in accordance with the Principles and Practices of Financial Management of each company.

Risk discount rates

Having adopted a market-consistent bottom-up approach, a set of risk discount rates were derived for each product group by calculating the risk discount rate under a traditional embedded value approach that, together with the economic assumptions set out above, produces the same result as that derived using the market-consistent embedded value approach.

The derived risk discount rates by product group are given below:

	With-profit							
	PLL(i)	PALAL	SMA	SPL	Annuities	Unit-linked	Other non-profit	Weighted total
Risk free rate	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**
Impact of:								
Bottom-up market risk	**2.6%**	**0.2%**	**(0.5%)**	**1.4%**	**3.2%**	**0.8%**	**0.0%**	**1.1%**
Cost of options								
- market risks	**0.5%**	**0.0%**	**2.0%**	**0.0%**				**0.1%**
- non-market risks	**0.2%**	**0.0%**	**5.1%**	**1.1%**				**0.2%**
Other non-market risk					**0.5%**	**1.2%**	**1.5%**	**0.9%**
Risk discount rate at 31 December 2006	**8.0%**	**4.9%**	**11.3%**	**7.2%**	**8.4%**	**6.7%**	**6.2%**	**7.0%**
Risk discount rate at 30 June 2006	**7.4%**	**5.5%**	**9.8%**	**7.4%**	**6.2%**	**6.5%**	**5.8%**	**6.5%**

(i) PLL includes the with-profit business of Britannic Assurance, Britannic Unit Linked Assurance, Century Life, Phoenix Life & Pensions and Alba Life, following the completion of the funds merger at 31 December 2006.

The reduction in risk discount rate for the PALAL with-profit fund is primarily due to improved matching of assets and liabilities and an increase in the level of required capital in the cost of capital calculation.

The burn through cost for the SMA with-profit fund has increased by £6.1 million since 30 June 2006 resulting in an increase of 1.5% in the derived risk discount rate.

The risk discount rates shown under each of annuities, unit-linked and other non-profit business reflect the combined derived risk discount rates for the combined businesses of LDS and LDN.

The key driver of the increase in risk discount rate for annuity business is a refinement in the derivation of the risk free rate for annuity business in LDS to bring it in line with a market-consistent valuation. In addition, the yields on the assets backing the annuity business have increased over the period.

Expenses

For all companies except SPILA, the projected per policy expenses are based on the existing management services agreements with the management services division, adjusted to allow for additional costs incurred directly by the life companies (e.g. regulatory fees and one-time expenses). For SPILA they are based on actual expenses.

The projected investment expenses are based on the fees agreed with the asset management business (or external fund managers, where appropriate), allowing for the current and projected future asset mix.

Corporate expenses have not been capitalised and will be included within the incurred expenses for the management services business in each year as they arise.

Other assumptions

All other assumptions reflect the best estimate of future experience and are reviewed regularly in light of emerging data on both industry and company-specific experience.

11. LDN new business (including SPILA)

For the half year ended 31 December 2006	New business premiums		Annual premium equivalent	Present value of new business premiums	Post-tax new business contribution	Pre-tax new business contribution	New business margin
	Single	Regular					
	£m	£m	£m	£m	£m	£m	%
Protection	–	25.2	25.2	148.5	10.4	15.2	10.2%
Investment	348.4	0.2	35.0	351.5	1.6	1.7	0.5%
Pensions	0.8	2.7	2.8	17.1	0.1	0.1	0.8%
Annuities	78.2	–	7.8	79.0	4.2	6.1	7.7%
Total	427.4	28.1	70.8	596.1	16.3	23.1	3.9%

New business margin

The new business margin of 3.9% represents the ratio of pre-tax EEV contribution from new business to the present value of new business premiums (PVNBP). The PVNBP is equal to new single premiums plus the expected present value of new regular premiums, and is calculated as at the end of year. The expected new regular premiums in future years are calculated on a consistent basis with the EEV contribution from new business, using start of period economic and operating assumptions, discounted at risk free rates.

LDS new business, which is comprised primarily of vesting annuity business, has been excluded from this analysis.

12. Sensitivity to assumptions

The table below summarises the key sensitivities to the EEV at 31 December 2006:

EEV sensitivities at 31 December 2006

	Change in total EEV		Change in value of new business	
	£m	%	£m	%
Base EEV at 31 December 2006	4,197.0		23.1	
1% increase in risk discount rate	(219.1)	(5.2)	(2.6)	(11.3)
1% decrease in risk free rates	27.4	0.7	3.9	16.9
10% decrease in equity/property market values	(144.9)	(3.5)	(0.4)	(1.7)
10% decrease in lapse rates	39.0	0.9	3.1	13.4
10% increase in lapse rates	(36.3)	(0.9)	(2.6)	(11.3)
5% decrease in mortality - assurance	47.5	1.1	–	–
5% decrease in mortality - annuities	(47.7)	(1.1)	(0.1)	(0.4)
Reduce required capital to regulatory minimum	38.5	0.9	0.4	1.7

Note: New business sensitivities exclude LDS new business.

1% increase in risk discount rates

This sensitivity has been shown to facilitate comparison between companies. The reduction in the EEV of £219.1 million and value of new business of £2.6 million arises from increasing the derived discount rates shown in note 10 by 1%.

1% decrease in risk-free rates

A decrease in risk-free rates impacts the EEV in several ways. The intrinsic burn through costs on PALAL will increase due to the lower assumed future investment returns and, to a lesser extent, the cost of financial options and guarantees will increase within the other with-profit funds. The market value of debt will also increase. This will be offset by the upward revaluation of fixed interest assets and a fall in the cost of capital. The overall impact of the decrease in risk-free rates is an increase in the EEV of £27.4 million and a £3.9 million increase in the value of new business.

10% reduction in market values of equity and property assets

A 10% immediate reduction in the market values of equity and property assets leads to a £27.5 million reduction in shareholders' adjusted net worth, a £117.4 million reduction in the value of the in-force business and a £0.4 million reduction in the value of new business.

10% proportionate decrease in lapse rates and paid-up policy rates

A 10% decrease in lapse and paid-up rates across all products and companies results in a £39.0 million increase in the EEV, and a £3.1 million increase in the value of new business.

10% proportionate increase in lapse rates and paid-up policy rates

Similarly, a 10% increase in lapse and paid-up rates across all products and companies results in a £36.3 million decrease in the EEV, and a £2.6 million decrease in the value of new business.

5% proportionate decrease in mortality and morbidity (assurance)

A 5% decrease in base mortality rates for assurance and morbidity rates for PHI business would result in a £47.5 million increase in the EEV with minimal impact on the value of new business.

5% proportionate decrease in mortality (annuities)

A 5% decrease in base mortality rates for annuity business would cause a £47.7 million reduction in the EEV, and a £0.1 million reduction in the value of new business.

Decrease in required capital to regulatory minimum

Reducing the amount of required capital held by the life companies to the amount required to meet the minimum capital requirements set out in the local statutory regulations would reduce the cost of capital by £38.5 million in the EEV, and increase the value of new business by £0.4 million.

13. Return on Embedded Value

	Year ended 31 December 2006 %	Half year ended 31 December 2005 %
Contribution from new business	**0.7**	–
Expected return on value of in-force	**5.2**	3.6
Expected return on shareholders' net worth	**2.9**	3.0
Life divisions' expected EEV profit before tax	**8.8**	6.6
Operating experience variances	**0.3**	3.0
Operating assumption variances	**0.7**	(3.2)
Life divisions' EEV operating profit before tax	**9.8**	6.4
Asset management	**0.9**	0.4
Management services	**0.4**	0.1
Group income and charges	**(0.2)**	(0.4)
EEV operating profits before tax, financing and non-recurring items	**10.9**	6.5
Impact of financing	**2.8**	0.1
Attributed tax charge on EEV operating profits before non-recurring items	**(4.1)**	(1.5)
EEV operating profits after tax, before non-recurring items	**9.6**	5.1
Non-recurring items	**8.1**	3.8
Amortisation of asset management internalisation cost	**(0.3)**	–
Economic experience variances	**2.3**	7.0
Effect of economic assumption changes	**2.3**	(1.6)
Tax on non-recurring items	**(3.2)**	(2.1)
EEV profit after tax	**18.8**	12.2
Profit on acquisition of Abbey's life businesses	**4.6**	–
Other movements	**0.1**	0.5
Total return on embedded value	**23.5**	12.7

The table above shows the breakdown of the return on embedded value over the year ended 31 December 2006. The starting embedded value is £2,140.9 million, net of the market-consistent value of debt instruments of £700.5 million at 31 December 2005. These values are adjusted to remove the goodwill and allow for the timing of the rights issue and dividend payments made.

The EEV operating profits before tax, financing, and non-recurring items are based on the gross EEV (i.e. before the market-consistent value of debt). These profits include both covered and non-covered business, the components of which are shown in the table above. The impact of the financing item reflects the leverage on the return on embedded value created within the Group through the use of debt instruments, net of the cost of financing these instruments.

The 2005 figures represent the annualised return based on the half year to 31 December 2005.

Analysis of shareholders as at 31 December 2006

	Holders	%	Shares held	%
Private shareholders	**5,192**	**69.09**	**14,482,658**	**2.11**
Corporate shareholders	**2,323**	**30.91**	**670,679,172**	**97.89**
	7,515	**100.00**	**685,161,830**	**100.00**

Size of holding			Holders	%	Shares held	%
1	-	1,000	**3,131**	**41.66**	**1,537,291**	**0.22**
1,001	-	2,000	**1,500**	**19.96**	**2,255,100**	**0.33**
2,001	-	5,000	**1,281**	**17.05**	**4,183,485**	**0.61**
5,001	-	50,000	**1,049**	**13.96**	**14,785,747**	**2.16**
50,001	-	100,000	**108**	**1.44**	**7,564,728**	**1.10**
100,001		and above	**446**	**5.93**	**654,835,479**	**95.58**
Total			**7,515**	**100.00**	**685,161,830**	**100.00**

Capital gains tax

As a result of the scheme of arrangement completed on 11 November 1998, adjusting for the two for one capitalisation issues made in 1988 and 1993 and the eight for nine rights issue made in 2006 the Company's shares are deemed to have a market value at 31 March 1982 of 26.82 pence per ordinary 5 pence share.

Registrar

Administrative enquiries concerning shareholdings in the Company should be addressed to the registrar who should also be kept informed of any change in the holder's address. The registrar can be contacted at:

Lloyds TSB Registrars
Reference 1513
The Causeway, Worthing
West Sussex BN99 6DA.
Telephone: 0870 600 3953.
Textphone for shareholders with hearing difficulties: 0870 600 3950.

If shareholders would prefer to receive communications from the Company electronically, they may register their e-mail address with Lloyds TSB Registrars by creating a portfolio on the Shareview website at www.shareview.co.uk. The Company will make arrangements to seek shareholders' consent for website communications in due course.

In addition, the Shareview service enables investors to check their holdings in many other UK companies and organise their investments electronically. This service is free, easy to use and secure.

The Company has arranged for Shareview Dealing, a telephone and internet share sale service offered by Lloyds TSB Registrars, to be made available to UK shareholders. For telephone sales call 0870 850 0852 between 8.30 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing.

You will need your shareholder reference number which is shown on your share certificate.

Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from the registrar. Tax vouchers are sent to the shareholder's registered address under this arrangement, unless requested otherwise.

Share price information

On 31 December 2006, the middle market price of Resolution plc ordinary 5 pence shares was £6.41 per share, having varied during the year between a low of £5.38 (adjusted for the impact of the 9 August 2006 rights issue) on 4 April 2006 and a high of £6.73 on 14 November 2006.

On 9 August 2006 the Company completed a rights issue, the terms of which were eight new for every nine existing ordinary shares at an issue price of £4.80 per new ordinary share.

The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's ordinary shares is GB0004342563/0434256.

Share price information on Resolution plc is widely available in the financial press and on financial websites.

ShareGift

If shareholders have only a small number of shares with a value that makes it uneconomic to sell them, they may wish to consider donating them to charity through the ShareGift scheme operated by the Orr MacKintosh Foundation. Further information may be obtained from their website at www.sharegift.org or by calling 0207 828 1151.

Annual general meeting

The 2007 annual general meeting will be held on 6 June 2007 at The Cumberland, Great Cumberland Place, London W1A 4RF at 10.30am. Shareholders will receive a separate AGM circular containing a notice of the meeting and detailing the resolutions being proposed.

Shareholder warning – unsolicited mail

Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments.

They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company.

If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation and make a record of any other information they give you, e.g. telephone number, address etc.
- check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register.
- the FSA also maintains on its website a list of unauthorised firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive a payment under the Financial Services Compensation Scheme. The FSA can, preferably, be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml or, if you do not have access to the internet, on 0845 606 1234.
- inform our registrars on 0870 600 3953.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings. More detailed information on this or similar activity can be found at www.fsa.gov.uk/consumer

Website

The Resolution plc website, containing company profiles, financial information and current news can be found at www.resolutionplc.com

Financial calendar 2007

Preliminary announcement of 2006 results	3 April
Ex-dividend date	30 May
Record date for final dividend	1 June
Annual general meeting	6 June
Payment of final dividend	15 June
Interim announcement	18 September
Ex-dividend date	3 October
Record date for interim dividend	5 October
Payment of interim dividend	26 October

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Designed and produced by BPH Ltd (Beanland Picken Howen Ltd).
Printed by Goodman Baylis Ltd on environmentally friendly paper (Regency Satin*)
* A wood-free, acid-free, biodegradable and age resistant coated paper which has the following environmental credentials: FSC certification, ECF (Elemental Chlorine Free) fibre and is totally recyclable.

Resolution

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Incorporated in Great Britain and registered in England
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