

# **Phoenix & London Assurance Limited**

**Annual FSA Insurance Returns for the year ended  
31 December 2006**



**Appendices 9.1, 9.3, 9.4, 9.4A and 9.6**

**PHOENIX AND LONDON ASSURANCE LIMITED**  
**Year Ended 31st December 2006**  
**Contents**

|                     |   |     |
|---------------------|---|-----|
| <b>Appendix 9.1</b> |   |     |
| Form 2              | Long term insurance business: Statement of solvency   | 1   |
| Form 2              | Covering sheet to Form 2  | 2   |
| Form 3              | Components of capital resources   | 3   |
| Form 11             | Calculation of general insurance capital requirement – premiums amount and brought forward amount | 6   |
| Form 12             | Calculation of general insurance capital requirement – claims amount and result                   | 7   |
| Form 13             | Analysis of admissible resources  | 8   |
| Form 14             | Long term insurance business liabilities and margins  | 14  |
| Form 15             | Liabilities (other than long term insurance business)   | 15  |
| Form 16             | Profit and loss account (non-technical account)   | 16  |
| Form 17             | Analysis of derivative contracts  | 17  |
| Form 18             | With-profits insurance capital component for the fund   | 18  |
| Form 19             | Realistic balance sheet   | 19  |
| <b>Appendix 9.3</b> |   |     |
| Form 40             | Long term insurance business: Revenue account   | 21  |
| Form 41             | Long term insurance business: Analysis of premiums  | 22  |
| Form 42             | Long term insurance business: Analysis of claims  | 23  |
| Form 43             | Long term insurance business: Analysis of expenses  | 24  |
| Form 44             | Long term insurance business: Linked funds balance sheet  | 25  |
| Form 45             | Long term insurance business: Revenue account for internal linked funds                           | 26  |
| Form 46             | Long term insurance business: Summary of new business   | 27  |
| Form 47             | Long term insurance business: Analysis of new business  | 28  |
| Form 48             | Long term insurance business: Non-linked assets   | 31  |
| Form 49             | Long term insurance business: Fixed and variable interest assets                                  | 32  |
| Form 50             | Long term insurance business: Summary of mathematical reserves                                    | 33  |
| Form 51             | Long term insurance business: Valuation summary of non-linked contracts                           | 34  |
| Form 52             | Long term insurance business: Valuation summary of accumulating with-profits contracts            | 44  |
| Form 53             | Long term insurance business: Valuation summary of property linked contracts                      | 48  |
| Form 54             | Long term insurance business: Valuation summary of index linked contracts                         | 52  |
| Form 55             | Long term insurance business: Unit prices for internal linked fund                                | 55  |
| Form 56             | Long term insurance business: Index linked business   | 56  |
| Form 57             | Long term insurance business: Analysis of valuation interest rate                                 | 57  |
| Form 58             | Long term insurance business: Distribution of surplus   | 58  |
| Form 59A            | Long term insurance business: With-profits payouts on maturity                                    | 59  |
| Form 59B            | Long term insurance business: With-profits payouts on surrender                                   | 60  |
| Form 60             | Long term insurance capital requirement   | 61  |
| <b>Appendix 9.4</b> |   |     |
|                     | Notes to the Return   | 62  |
|                     | Additional Information on Derivative Contracts - Rule 9.29  | 69  |
|                     | Additional Information on Controllers - Rule 9.30   | 70  |
|                     | Abstract of valuation report - Rule 9.31  | 71  |
|                     | Abstract of valuation report realistic reporting - Rule 9.31                                      | 93  |
| <b>Appendix 9.6</b> |   |     |
|                     | Directors Certificate - Rule 9.34   | 120 |
|                     | Auditors' Report - Rule 9.35  | 122 |
|                     | Information on Appointed Actuary  | 124 |

**Statement of solvency - long-term insurance business**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

| Company registration number | GL/UK/CM      | day       | month     | year      | Units                                   |                                       |
|-----------------------------|---------------|-----------|-----------|-----------|---|---------------------------------------|
| <b>R2</b>                   | <b>894616</b> | <b>GL</b> | <b>31</b> | <b>12</b> | <b>2006</b>                             | <b>£000</b>                           |
|                             |               |           |           |           | <b>As at end of this financial year</b> | <b>As at end of the previous year</b> |
|                             |               |           |           |           | <b>1</b>                                | <b>2</b>                              |

**Capital resources**

|   |           |        |        |
|---|-----------|--------|--------|
| Capital resources arising within the long-term insurance fund   | <b>11</b> | 294342 | 204279 |
| Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund | <b>12</b> | 477531 | 392186 |
| Capital resources available to cover long-term insurance business capital resources requirement (11+12)       | <b>13</b> | 771873 | 596465 |

**Guarantee fund**

|  |           |        |        |
|--|-----------|--------|--------|
| Guarantee fund requirement   | <b>21</b> | 84519  | 91367  |
| Excess (deficiency) of available capital resources to cover guarantee fund requirement | <b>22</b> | 687354 | 505098 |

**Minimum capital requirement (MCR)**

|  |           |        |        |
|--|-----------|--------|--------|
| Long-term insurance capital requirement                                | <b>31</b> | 253558 | 274102 |
| Resilience capital requirement   | <b>32</b> |        | 40000  |
| Base capital resources requirement                                     | <b>33</b> | 2139   | 2030   |
| Individual minimum capital requirement                                 | <b>34</b> | 253558 | 314102 |
| Capital requirements of regulated related undertakings                 | <b>35</b> |        |        |
| Minimum capital requirement (34+35)                                    | <b>36</b> | 253558 | 314102 |
| Excess (deficiency) of available capital resources to cover 50% of MCR | <b>37</b> | 446762 | 228677 |
| Excess (deficiency) of available capital resources to cover 75% of MCR | <b>38</b> | 581705 | 360889 |

**Enhanced capital requirement**

|  |           |        |        |
|--|-----------|--------|--------|
| With-profits insurance capital component | <b>39</b> | 122956 | 41722  |
| Enhanced capital requirement             | <b>40</b> | 376514 | 355824 |

**Capital resources requirement (CRR)**

|  |           |        |        |
|--|-----------|--------|--------|
| Capital resources requirement (greater of 36 and 40)   | <b>41</b> | 376514 | 355824 |
| Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41) | <b>42</b> | 395359 | 240641 |

**Contingent liabilities**

|  |           |  |  |
|--|-----------|--|--|
| Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14 | <b>51</b> |  |  |
|--|-----------|--|--|

**Covering Sheet to Form 2**

**Form 2**

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

\_\_\_\_\_  
R CRAINE **Director**

\_\_\_\_\_  
R E K GREENFIELD **Director**

\_\_\_\_\_  
I G MAIDENS **Director**

**Date: 28th March 2007**

**Components of capital resources**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

|  | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day                                | month   | year      | Units   |             |
|--|-----------------------------------|----------------------------------|------------------------------------|---|-----------|---|-------------|
|  | <b>R3</b>                         | <b>894616</b>                    | <b>GL</b>                          | <b>31</b>   | <b>12</b> | <b>2006</b>                                       | <b>£000</b> |
|  |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year |           | Total as at<br>the end of<br>the previous<br>year |             |
|  |                                   | <b>1</b>                         | <b>2</b>                           | <b>3</b>  |           | <b>4</b>  |             |

**Core tier one capital**

|   |           |  |        |        |        |
|---|-----------|--|--------|--------|--------|
| Permanent share capital                       | <b>11</b> |  | 81000  | 81000  | 81000  |
| Profit and loss account and other reserves    | <b>12</b> |  | 302919 | 302919 | 239237 |
| Share premium account                         | <b>13</b> |  |        |        |        |
| Positive valuation differences                | <b>14</b> |  | 175377 | 175377 | 65491  |
| Fund for future appropriations                | <b>15</b> |  | 14245  | 14245  |        |
| Core tier one capital in related undertakings | <b>16</b> |  |        |        |        |
| Core tier one capital (sum of 11 to 16)       | <b>19</b> |  | 573541 | 573541 | 385728 |

**Tier one waivers**

|   |           |  |  |  |  |
|---|-----------|--|--|--|--|
| Unpaid share capital / unpaid initial funds and calls for supplementary contributions | <b>21</b> |  |  |  |  |
| Implicit Items  | <b>22</b> |  |  |  |  |
| Tier one waivers in related undertakings  | <b>23</b> |  |  |  |  |
| Total tier one waivers as restricted (21+22+23)                                       | <b>24</b> |  |  |  |  |

**Other tier one capital**

|  |           |  |  |  |  |
|--|-----------|--|--|--|--|
| Perpetual non-cumulative preference shares as restricted           | <b>25</b> |  |  |  |  |
| Perpetual non-cumulative preference shares in related undertakings | <b>26</b> |  |  |  |  |
| Innovative tier one capital as restricted                          | <b>27</b> |  |  |  |  |
| Innovative tier one capital in related undertakings                | <b>28</b> |  |  |  |  |

|   |           |  |        |        |        |
|---|-----------|--|--------|--------|--------|
| <b>Total tier one capital before deductions (19+24+25+26+27+28)</b> | <b>31</b> |  | 573541 | 573541 | 385728 |
| Investments in own shares   | <b>32</b> |  |        |        |        |
| Intangible assets   | <b>33</b> |  |        |        |        |
| Amounts deducted from technical provisions for discounting          | <b>34</b> |  |        |        |        |
| Other negative valuation differences                                | <b>35</b> |  |        |        |        |
| Deductions in related undertakings                                  | <b>36</b> |  |        |        |        |
| Deductions from tier one (32 to 36)                                 | <b>37</b> |  |        |        |        |
| <b>Total tier one capital after deductions (31-37)</b>              | <b>39</b> |  | 573541 | 573541 | 385728 |

**Components of capital resources**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

|           | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day month year                     |   |   | Units       |
|-----------|-----------------------------------|----------------------------------|------------------------------------|---|---|-------------|
| <b>R3</b> | <b>894616</b>                     | <b>GL</b>                        | <b>31</b>                          | <b>12</b>   | <b>2006</b>                                       | <b>£000</b> |
|           |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year | Total as at<br>the end of<br>the previous<br>year |             |
|           |                                   | <b>1</b>                         | <b>2</b>                           | <b>3</b>  | <b>4</b>  |             |

**Tier two capital**

|   |           |  |        |        |        |
|---|-----------|--|--------|--------|--------|
| Implicit items, (tier two waivers and amounts excluded from line 22)  | <b>41</b> |  |        |        |        |
| Perpetual non-cumulative preference shares excluded from line 25  | <b>42</b> |  |        |        |        |
| Innovative tier one capital excluded from line 27   | <b>43</b> |  |        |        |        |
| Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43) | <b>44</b> |  |        |        |        |
| Perpetual cumulative preference shares  | <b>45</b> |  |        |        |        |
| Perpetual subordinated debt and securities  | <b>46</b> |  | 200000 | 200000 | 211906 |
| Upper tier two capital in related undertakings  | <b>47</b> |  |        |        |        |
| <b>Upper tier two capital (44 to 47)</b>  | <b>49</b> |  | 200000 | 200000 | 211906 |

|  |           |  |  |  |  |
|--|-----------|--|--|--|--|
| Fixed term preference shares                   | <b>51</b> |  |  |  |  |
| Other tier two instruments                     | <b>52</b> |  |  |  |  |
| Lower tier two capital in related undertakings | <b>53</b> |  |  |  |  |
| <b>Lower tier two capital (51+52+53)</b>       | <b>59</b> |  |  |  |  |

|  |           |  |        |        |        |
|--|-----------|--|--------|--------|--------|
| <b>Total tier two capital before restrictions (49+59)</b>                      | <b>61</b> |  | 200000 | 200000 | 211906 |
| Excess tier two capital  | <b>62</b> |  |        |        |        |
| Further excess lower tier two capital  | <b>63</b> |  |        |        |        |
| <b>Total tier two capital after restrictions, before deductions (61-62-63)</b> | <b>69</b> |  | 200000 | 200000 | 211906 |

**Components of capital resources**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

|           | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day month year                     |   |   | Units       |
|-----------|-----------------------------------|----------------------------------|------------------------------------|---|---|-------------|
| <b>R3</b> | <b>894616</b>                     | <b>GL</b>                        | <b>31</b>                          | <b>12</b>   | <b>2006</b>                                       | <b>£000</b> |
|           |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year | Total as at<br>the end of<br>the previous<br>year |             |
|           |                                   | <b>1</b>                         | <b>2</b>                           | <b>3</b>  | <b>4</b>  |             |

**Total capital resources**

|   |           |  |        |        |        |
|---|-----------|--|--------|--------|--------|
| Positive adjustments for regulated non-insurance related undertakings | <b>71</b> |  |        |        |        |
| <b>Total capital resources before deductions (39+69+71)</b>           | <b>72</b> |  | 773541 | 773541 | 597634 |
| Inadmissible assets other than intangibles and own shares             | <b>73</b> |  | 1668   | 1668   | 1169   |
| Assets in excess of market risk and counterparty limits               | <b>74</b> |  |        |        |        |
| Deductions for related ancillary services undertakings                | <b>75</b> |  |        |        |        |
| Deductions for regulated non-insurance related undertakings           | <b>76</b> |  |        |        |        |
| Deductions of ineligible surplus capital                              | <b>77</b> |  |        |        |        |
| <b>Total capital resources after deductions (72-73-74-75-76-77)</b>   | <b>79</b> |  | 771873 | 771873 | 596465 |

**Available capital resources for GENPRU/INSRU tests**

|  |           |  |        |        |        |
|--|-----------|--|--------|--------|--------|
| Available capital resources for guarantee fund requirement | <b>81</b> |  | 771873 | 771873 | 596465 |
| Available capital resources for 50% MCR requirement        | <b>82</b> |  | 573541 | 573541 | 385728 |
| Available capital resources for 75% MCR requirement        | <b>83</b> |  | 771873 | 771873 | 596465 |

**Financial engineering adjustments**

|  |           |  |  |  |  |
|--|-----------|--|--|--|--|
| Implicit items   | <b>91</b> |  |  |  |  |
| Financial reinsurance - ceded                                    | <b>92</b> |  |  |  |  |
| Financial reinsurance - accepted                                 | <b>93</b> |  |  |  |  |
| Outstanding contingent loans                                     | <b>94</b> |  |  |  |  |
| Any other charges on future profits                              | <b>95</b> |  |  |  |  |
| <b>Sum of financial engineering adjustments (91+92-93+94+95)</b> | <b>96</b> |  |  |  |  |

**Calculation of general insurance capital requirement - premiums amount and brought forward amount**

Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

Long term insurance business

|  |  | Company registration number | GL/UK/CM  | day                      | month | year  | Units              |      |
|--|--|-----------------------------|-----------|--------------------------|-------|-------|--------------------|------|
|  |  | R11                         | 894616    | GL                       | 31    | 12    | 2006               | £000 |
|  |  |                             |           | This financial year<br>1 |       |       | Previous year<br>2 |      |
| Gross premiums written   |  |                             | <b>11</b> |                          |       | 18155 | 19421              |      |
| Premiums taxes and levies (included in line 11)  |  |                             | <b>12</b> |                          |       |       |                    |      |
| Premiums written net of taxes and levies (11-12)   |  |                             | <b>13</b> |                          |       | 18155 | 19421              |      |
| Premiums for classes 11, 12 or 13 (included in line 13)  |  |                             | <b>14</b> |                          |       |       |                    |      |
| Premiums for "actuarial health insurance" (included in line 13)                                    |  |                             | <b>15</b> |                          |       |       |                    |      |
| <b>Sub-total A (13 + 1/2 14 - 2/3 15)</b>  |  |                             | <b>16</b> |                          |       | 18155 | 19421              |      |
| Gross premiums earned  |  |                             | <b>21</b> |                          |       | 18155 | 19421              |      |
| Premium taxes and levies (included in line 21)   |  |                             | <b>22</b> |                          |       |       |                    |      |
| Premiums earned net of taxes and levies (21-22)  |  |                             | <b>23</b> |                          |       | 18155 | 19421              |      |
| Premiums for classes 11, 12 or 13 (included in line 23)  |  |                             | <b>24</b> |                          |       |       |                    |      |
| Premiums for "actuarial health insurance" (included in line 23)                                    |  |                             | <b>25</b> |                          |       |       |                    |      |
| <b>Sub-total H (23 + 1/2 24 - 2/3 25)</b>  |  |                             | <b>26</b> |                          |       | 18155 | 19421              |      |
| <b>Sub-total I (higher of sub-total A and sub-total H)</b>   |  |                             | <b>30</b> |                          |       | 18155 | 19421              |      |
| <b>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</b> |  |                             | <b>31</b> |                          |       |       |                    |      |
| Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)    | x 0.18   |                             | <b>32</b> |                          |       | 3268  | 3496               |      |
|  | Excess (if any) over 53.1M EURO x 0.02                             |                             | <b>33</b> |                          |       |       |                    |      |
| <b>Sub-total J (32-33)</b>   |  |                             | <b>34</b> |                          |       | 3268  | 3496               |      |
| Claims paid in period of 3 financial years   |  |                             | <b>41</b> |                          |       | 37516 | 36479              |      |
| Claims outstanding carried forward at the end of the 3 year period                                 | For insurance business accounted for on an underwriting year basis |                             | <b>42</b> |                          |       | 35321 | 42073              |      |
|  | For insurance business accounted for on an accident year basis     |                             | <b>43</b> |                          |       |       |                    |      |
| Claims outstanding brought forward at the beginning of the 3 year period                           | For insurance business accounted for on an underwriting year basis |                             | <b>44</b> |                          |       | 41739 | 40028              |      |
|  | For insurance business accounted for on an accident year basis     |                             | <b>45</b> |                          |       |       |                    |      |
| <b>Sub-total C (41+42+43-44-45)</b>  |  |                             | <b>46</b> |                          |       | 31098 | 38524              |      |
| Amounts recoverable from reinsurers in respect of claims included in Sub-total C                   |  |                             | <b>47</b> |                          |       | 29651 | 35697              |      |
| <b>Sub-total D (46-47)</b>   |  |                             | <b>48</b> |                          |       | 1447  | 2827               |      |
| <b>Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.5 or, if less, 1.00)</b>             |  |                             | <b>49</b> |                          |       | 0.50  | 0.50               |      |
| <b>Premiums amount (Sub-total J x reinsurance ratio)</b>   |  |                             | <b>50</b> |                          |       | 1634  | 1748               |      |
| Provision for claims outstanding (before discounting and net of reinsurance)                       |  |                             | <b>51</b> |                          |       | 645   | 1216               |      |
| <b>Brought forward amount (12.43.2 x 51.1 / 51.2 or, if less, 12.43.2)</b>                         |  |                             | <b>52</b> |                          |       | 1090  | 2055               |      |
| Greater of lines 50 and 52   |  |                             | <b>53</b> |                          |       | 1634  | 2055               |      |



**Calculation of general insurance capital requirement - claims amount and result**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

Long term insurance business

|   |   | Company<br>registration<br>number | GL/<br>UK/<br>CM | day month year           |       |    | Units              |       |
|---|---|-----------------------------------|------------------|--------------------------|-------|----|--------------------|-------|
|   |   | R12                               | 894616           | GL                       | 31    | 12 | 2006               | £000  |
|   |   |                                   |                  | This financial year<br>1 |       |    | Previous year<br>2 |       |
| Reference period (No. of months) See INSPRU 1.1.63R   |   |                                   |                  | 11                       | 36    |    |                    | 36    |
| Claims paid in reference period   |   |                                   |                  | 21                       | 37516 |    |                    | 36479 |
| Claims outstanding<br>carried forward at the<br>end of the reference<br>period  | For insurance business accounted for<br>on an underwriting year basis |                                   |                  | 22                       | 35321 |    |                    | 42073 |
|   | For insurance business accounted for<br>on an accident year basis     |                                   |                  | 23                       |       |    |                    |       |
| Claims outstanding<br>brought forward at the<br>beginning of the<br>reference period  | For insurance business accounted for<br>on an underwriting year basis |                                   |                  | 24                       | 41739 |    |                    | 40028 |
|   | For insurance business accounted for<br>on an accident year basis     |                                   |                  | 25                       |       |    |                    |       |
| Claims incurred in reference period (21+22+23-24-25)  |   |                                   |                  | 26                       | 31098 |    |                    | 38524 |
| Claims incurred for classes 11, 12 or 13 (included in 26)   |   |                                   |                  | 27                       |       |    |                    |       |
| Claims incurred for "actuarial health insurance" (included in 26)   |   |                                   |                  | 28                       |       |    |                    |       |
| <b>Sub-total E (26 +1/2 27 - 2/3 28)</b>  |   |                                   |                  | 29                       | 31098 |    |                    | 38524 |
| <b>Sub-total F - Conversion of sub-total E to annual figure (multiply by<br/>12 and divide by number of months in the reference period)</b> |   |                                   |                  | 31                       | 10366 |    |                    | 12841 |
| Division of sub-total F<br>(gross adjusted claims<br>amount)  | x 0.26  |                                   |                  | 32                       | 2695  |    |                    | 3339  |
|   | Excess (if any) over 37.2M EURO x 0.03                                |                                   |                  | 33                       |       |    |                    |       |
| <b>Sub-total G (32-33)</b>  |   |                                   |                  | 39                       | 2695  |    |                    | 3339  |
| <b>Claims amount Sub-total G x reinsurance ratio (11.49)</b>  |   |                                   |                  | 41                       | 1348  |    |                    | 1669  |
| Higher of premiums amount and brought forward amount (11.53)  |   |                                   |                  | 42                       | 1634  |    |                    | 2055  |
| <b>General insurance capital requirement (higher of lines 41 and 42)</b>  |   |                                   |                  | 43                       | 1634  |    |                    | 2055  |

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

| Company registration number | GL/UK/CM | day | month     | year | Units                                   | Category of assets                    |   |
|-----------------------------|----------|-----|-----------|------|---|---------------------------------------|---|
| R13                         | 894616   | GL  | 31        | 12   | 2006                                    | £000                                  | 1 |
|                             |          |     |           |      | <b>As at end of this financial year</b> | <b>As at end of the previous year</b> |   |
|                             |          |     |           |      | <b>1</b>                                | <b>2</b>                              |   |
| Land and buildings          |          |     | <b>11</b> |      |   |                                       |   |

**Investments in group undertakings and participating interests**

|                            |                 |           |      |      |
|----------------------------|-----------------|-----------|------|------|
| UK insurance dependants    | Shares          | <b>21</b> |      |      |
|                            | Debts and loans | <b>22</b> |      |      |
| Other insurance dependants | Shares          | <b>23</b> |      |      |
|                            | Debts and loans | <b>24</b> |      |      |
| Non-insurance dependants   | Shares          | <b>25</b> | 1201 | 1201 |
|                            | Debts and loans | <b>26</b> |      |      |
| Other group undertakings   | Shares          | <b>27</b> |      |      |
|                            | Debts and loans | <b>28</b> |      |      |
| Participating interests    | Shares          | <b>29</b> |      |      |
|                            | Debts and loans | <b>30</b> |      |      |

**Other financial investments**

|  |                                |           |        |        |
|--|--------------------------------|-----------|--------|--------|
| Equity shares  | <b>41</b>                      |           |        |        |
| Other shares and other variable yield participations                             | <b>42</b>                      |           |        |        |
| Holdings in collective investment schemes  | <b>43</b>                      | 28012     | 3571   |        |
| Rights under derivative contracts  | <b>44</b>                      |           |        |        |
| Fixed interest securities  | Approved                       | <b>45</b> | 155648 | 132692 |
|  | Other                          | <b>46</b> | 268000 | 261000 |
| Variable interest securities   | Approved                       | <b>47</b> |        |        |
|  | Other                          | <b>48</b> |        |        |
| Participation in investment pools  | <b>49</b>                      |           |        |        |
| Loans secured by mortgages   | <b>50</b>                      |           |        |        |
| Loans to public or local authorities and nationalised industries or undertakings | <b>51</b>                      |           |        |        |
| Loans secured by policies of insurance issued by the company                     | <b>52</b>                      |           |        |        |
| Other loans  | <b>53</b>                      |           |        |        |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 17567  |        |
|  | More than one month withdrawal | <b>55</b> |        |        |
| Other financial investments  | <b>56</b>                      |           |        |        |
| Deposits with ceding undertakings  | <b>57</b>                      |           |        |        |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> |        |        |
|  | Property linked                | <b>59</b> |        |        |

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

| Company registration number | GL/UK/CM      | day       | month     | year      | Units                                   | Category of assets                    |          |
|-----------------------------|---------------|-----------|-----------|-----------|---|---------------------------------------|----------|
| <b>R13</b>                  | <b>894616</b> | <b>GL</b> | <b>31</b> | <b>12</b> | <b>2006</b>                             | <b>£000</b>                           | <b>1</b> |
|                             |               |           |           |           | <b>As at end of this financial year</b> | <b>As at end of the previous year</b> |          |
|                             |               |           |           |           | <b>1</b>                                | <b>2</b>                              |          |

**Reinsurers' share of technical provisions**

|                                 |           |  |  |
|---------------------------------|-----------|--|--|
| Provision for unearned premiums | <b>60</b> |  |  |
| Claims outstanding              | <b>61</b> |  |  |
| Provision for unexpired risks   | <b>62</b> |  |  |
| Other                           | <b>63</b> |  |  |

**Debtors and salvage**

|                                    |                            |           |  |  |
|------------------------------------|----------------------------|-----------|--|--|
| Direct insurance business          | Policyholders              | <b>71</b> |  |  |
|                                    | Intermediaries             | <b>72</b> |  |  |
| Salvage and subrogation recoveries |                            | <b>73</b> |  |  |
| Reinsurance                        | Accepted                   | <b>74</b> |  |  |
|                                    | Ceded                      | <b>75</b> |  |  |
| Dependants                         | due in 12 months or less   | <b>76</b> |  |  |
|                                    | due in more than 12 months | <b>77</b> |  |  |
| Other                              | due in 12 months or less   | <b>78</b> |  |  |
|                                    | due in more than 12 months | <b>79</b> |  |  |

**Other assets**

|   |           |      |      |
|---|-----------|------|------|
| Tangible assets   | <b>80</b> |      |      |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 8209 | 7481 |
| Cash in hand  | <b>82</b> |      |      |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |      |      |
| Accrued interest and rent   | <b>84</b> | 3755 | 4406 |
| Deferred acquisition costs (general business only)                                | <b>85</b> |      |      |
| Other prepayments and accrued income  | <b>86</b> |      |      |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|  |           |        |        |
|--|-----------|--------|--------|
| Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 482392 | 410351 |
|--|-----------|--------|--------|

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

|            | Company<br>registration<br>number | GL/<br>UK/<br>CM | day       | month     | year        | Units                                       | Category<br>of<br>assets                  |
|------------|-----------------------------------|------------------|-----------|-----------|-------------|---|---|
| <b>R13</b> | <b>894616</b>                     | <b>GL</b>        | <b>31</b> | <b>12</b> | <b>2006</b> | <b>£000</b>                                 | <b>1</b>                                  |
|            |                                   |                  |           |           |             | <b>As at end of this<br/>financial year</b> | <b>As at end of the<br/>previous year</b> |
|            |                                   |                  |           |           |             | <b>1</b>                                    | <b>2</b>                                  |

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

|   |            |        |        |
|---|------------|--------|--------|
| Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 482392 | 410351 |
| Assets in excess of market and counterparty limits  | <b>92</b>  |        |        |
| Capital resources requirement deduction of regulated related undertakings   | <b>93</b>  |        |        |
| Ineligible surplus capital and restricted assets in regulated related insurance undertakings  | <b>94</b>  |        |        |
| Inadmissible assets of regulated related insurance undertakings   | <b>95</b>  |        |        |
| Book value of related ancillary services undertakings   | <b>96</b>  |        |        |
| Other differences in the valuation of assets (other than for assets not valued above)   | <b>97</b>  |        |        |
| Deferred acquisition costs excluded from line 89  | <b>98</b>  |        |        |
| Reinsurers' share of technical provisions excluded from line 89   | <b>99</b>  |        |        |
| Other asset adjustments (may be negative)   | <b>100</b> | 102981 | 139957 |
| Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100) | <b>101</b> | 585373 | 550308 |
| Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance   | <b>102</b> |        |        |

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

| Company registration number | GL/UK/CM | day | month | year | Units                            | Category of assets             |    |
|-----------------------------|----------|-----|-------|------|----------------------------------|--------------------------------|----|
| R13                         | 894616   | GL  | 31    | 12   | 2006                             | £000                           | 10 |
|                             |          |     |       |      | As at end of this financial year | As at end of the previous year |    |
|                             |          |     |       |      | 1                                | 2                              |    |
| Land and buildings          |          |     | 11    |      | 1175                             | 471185                         |    |

**Investments in group undertakings and participating interests**

|                            |                 |    |        |  |
|----------------------------|-----------------|----|--------|--|
| UK insurance dependants    | Shares          | 21 |        |  |
|                            | Debts and loans | 22 |        |  |
| Other insurance dependants | Shares          | 23 |        |  |
|                            | Debts and loans | 24 |        |  |
| Non-insurance dependants   | Shares          | 25 | 351752 |  |
|                            | Debts and loans | 26 |        |  |
| Other group undertakings   | Shares          | 27 |        |  |
|                            | Debts and loans | 28 |        |  |
| Participating interests    | Shares          | 29 |        |  |
|                            | Debts and loans | 30 |        |  |

**Other financial investments**

|  |                                |        |         |         |
|--|--------------------------------|--------|---------|---------|
| Equity shares  | 41                             | 364705 | 463451  |         |
| Other shares and other variable yield participations                             | 42                             |        |         |         |
| Holdings in collective investment schemes  | 43                             | 120007 | 46828   |         |
| Rights under derivative contracts  | 44                             | 246157 | 227155  |         |
| Fixed interest securities  | Approved                       | 45     | 3253480 | 3179184 |
|  | Other                          | 46     | 1584426 | 1870618 |
| Variable interest securities   | Approved                       | 47     | 136502  | 125018  |
|  | Other                          | 48     | 16263   | 90940   |
| Participation in investment pools  | 49                             |        |         |         |
| Loans secured by mortgages   | 50                             | 4166   | 5327    |         |
| Loans to public or local authorities and nationalised industries or undertakings | 51                             |        |         |         |
| Loans secured by policies of insurance issued by the company                     | 52                             | 2447   | 3550    |         |
| Other loans  | 53                             |        |         |         |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | 54     | 12210   |         |
|  | More than one month withdrawal | 55     |         |         |
| Other financial investments  | 56                             |        |         |         |
| Deposits with ceding undertakings  | 57                             |        |         |         |
| Assets held to match linked liabilities  | Index linked                   | 58     | 41640   | 45461   |
|  | Property linked                | 59     | 3421    | 3535    |

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

| Company registration number | GL/UK/CM      | day       | month     | year      | Units                                   | Category of assets                    |
|-----------------------------|---------------|-----------|-----------|-----------|---|---------------------------------------|
| <b>R13</b>                  | <b>894616</b> | <b>GL</b> | <b>31</b> | <b>12</b> | <b>2006</b>                             | <b>£000</b>                           |
|                             |               |           |           |           | <b>As at end of this financial year</b> | <b>As at end of the previous year</b> |
|                             |               |           |           |           | <b>1</b>                                | <b>2</b>                              |

**Reinsurers' share of technical provisions**

|                                 |           |  |  |
|---------------------------------|-----------|--|--|
| Provision for unearned premiums | <b>60</b> |  |  |
| Claims outstanding              | <b>61</b> |  |  |
| Provision for unexpired risks   | <b>62</b> |  |  |
| Other                           | <b>63</b> |  |  |

**Debtors and salvage**

|                                    |                            |           |       |       |
|------------------------------------|----------------------------|-----------|-------|-------|
| Direct insurance business          | Policyholders              | <b>71</b> | 2310  | 2991  |
|                                    | Intermediaries             | <b>72</b> |       |       |
| Salvage and subrogation recoveries |                            | <b>73</b> |       |       |
| Reinsurance                        | Accepted                   | <b>74</b> |       |       |
|                                    | Ceded                      | <b>75</b> | 829   | 9957  |
| Dependants                         | due in 12 months or less   | <b>76</b> |       |       |
|                                    | due in more than 12 months | <b>77</b> |       |       |
| Other                              | due in 12 months or less   | <b>78</b> | 18273 | 14137 |
|                                    | due in more than 12 months | <b>79</b> |       |       |

**Other assets**

|   |           |       |       |
|---|-----------|-------|-------|
| Tangible assets   | <b>80</b> |       |       |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 6151  | 57254 |
| Cash in hand  | <b>82</b> |       |       |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |       |       |
| Accrued interest and rent   | <b>84</b> | 66107 | 67849 |
| Deferred acquisition costs (general business only)                                | <b>85</b> |       |       |
| Other prepayments and accrued income  | <b>86</b> | 209   | 3395  |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|  |           |         |         |
|--|-----------|---------|---------|
| Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 6232230 | 6687835 |
|--|-----------|---------|---------|

**Analysis of admissible assets**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

|            | Company registration number | GL/UK/CM  | day       | month     | year        | Units                                   | Category of assets                    |
|------------|-----------------------------|-----------|-----------|-----------|-------------|---|---------------------------------------|
| <b>R13</b> | <b>894616</b>               | <b>GL</b> | <b>31</b> | <b>12</b> | <b>2006</b> | <b>£000</b>                             | <b>10</b>                             |
|            |                             |           |           |           |             | <b>As at end of this financial year</b> | <b>As at end of the previous year</b> |
|            |                             |           |           |           |             | <b>1</b>                                | <b>2</b>                              |

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

|   |            |          |          |
|---|------------|----------|----------|
| Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 6232230  | 6687835  |
| Assets in excess of market and counterparty limits  | <b>92</b>  |          |          |
| Capital resources requirement deduction of regulated related undertakings   | <b>93</b>  |          |          |
| Ineligible surplus capital and restricted assets in regulated related insurance undertakings  | <b>94</b>  |          |          |
| Inadmissible assets of regulated related insurance undertakings   | <b>95</b>  |          |          |
| Book value of related ancillary services undertakings   | <b>96</b>  |          |          |
| Other differences in the valuation of assets (other than for assets not valued above)   | <b>97</b>  |          |          |
| Deferred acquisition costs excluded from line 89  | <b>98</b>  |          |          |
| Reinsurers' share of technical provisions excluded from line 89   | <b>99</b>  | 1662691  | 1729738  |
| Other asset adjustments (may be negative)   | <b>100</b> | (207664) | (179890) |
| Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100) | <b>101</b> | 7687257  | 8237683  |
| Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance   | <b>102</b> |          | 4682     |

**Long term insurance business liabilities and margins**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Total business/Sub fund **10 Ordinary Long Term Business**Units **£000**

| As at end of<br>this financial<br>year<br>1 | As at end of<br>the previous<br>year<br>2 |
|---|---|
|---|---|

|  |                           |           |         |        |
|--|---------------------------|-----------|---------|--------|
| Mathematical reserves, after distribution of surplus                                     | <b>11</b>                 | 5743512   | 6174899 |        |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year | <b>12</b>                 |           |         |        |
| Balance of surplus/(valuation deficit)   | <b>13</b>                 | 500       | 500     |        |
| Long term insurance business fund carried forward (11 to 13)                             | <b>14</b>                 | 5744012   | 6175399 |        |
| Claims outstanding   | Gross                     | <b>15</b> | 50412   | 44480  |
|  | Reinsurers' share         | <b>16</b> | 2046    | 2427   |
|  | Net (15-16)               | <b>17</b> | 48366   | 42053  |
| Provisions   | Taxation                  | <b>21</b> | 4270    | 13476  |
|  | Other risks and charges   | <b>22</b> | 866     | 2482   |
| Deposits received from reinsurers  | <b>23</b>                 |           |         |        |
| Creditors  | Direct insurance business | <b>31</b> | 988     | 1781   |
|  | Reinsurance accepted      | <b>32</b> |         |        |
|  | Reinsurance ceded         | <b>33</b> | 1408    | 2577   |
| Debenture loans  | Secured                   | <b>34</b> |         |        |
|  | Unsecured                 | <b>35</b> |         |        |
| Amounts owed to credit institutions  | <b>36</b>                 |           |         |        |
| Creditors  | Taxation                  | <b>37</b> |         | 8762   |
|  | Other                     | <b>38</b> | 138372  | 228808 |
| Accruals and deferred income   | <b>39</b>                 | 106       | 8718    |        |
| Provision for "reasonably foreseeable adverse variations"                                | <b>41</b>                 |           |         |        |
| Total other insurance and non-insurance liabilities (17 to 41)                           | <b>49</b>                 | 194376    | 308657  |        |
| Excess of the value of net admissible assets   | <b>51</b>                 | 293842    | 203779  |        |
| Total liabilities and margins  | <b>59</b>                 | 6232230   | 6687835 |        |

|  |           |      |      |
|--|-----------|------|------|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | <b>61</b> | 2652 |      |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits   | <b>62</b> | 3680 | 3891 |

|  |           |         |         |
|--|-----------|---------|---------|
| Total liabilities (11+12+49)   | <b>71</b> | 5937888 | 6483556 |
| Increase to liabilities - DAC related  | <b>72</b> |         |         |
| Reinsurers' share of technical provisions  | <b>73</b> | 1662691 | 1729738 |
| Other adjustments to liabilities (may be negative)   | <b>74</b> | 72433   | 24389   |
| Capital and reserves and fund for future appropriations  | <b>75</b> | 14245   |         |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75) | <b>76</b> | 7687257 | 8237683 |



**Liabilities (other than long term insurance business)**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

|            | Company registration number | GL/UK/CM  | day                              | month     | year        | Units                          |
|------------|-----------------------------|-----------|----------------------------------|-----------|-------------|--------------------------------|
| <b>R15</b> | <b>894616</b>               | <b>GL</b> | <b>31</b>                        | <b>12</b> | <b>2006</b> | <b>£000</b>                    |
|            |                             |           | As at end of this financial year |           |             | As at end of the previous year |
|            |                             |           | 1                                |           |             | 2                              |

**Technical provisions (gross amount)**

|   |                            |           |  |
|---|----------------------------|-----------|--|
| Provisions for unearned premiums            | <b>11</b>                  |           |  |
| Claims outstanding                          | <b>12</b>                  |           |  |
| Provision for unexpired risks               | <b>13</b>                  |           |  |
| Equalisation provisions                     | Credit business            | <b>14</b> |  |
|   | Other than credit business | <b>15</b> |  |
| Other technical provisions                  | <b>16</b>                  |           |  |
| Total gross technical provisions (11 to 16) | <b>19</b>                  |           |  |

**Provisions and creditors**

|   |                           |           |        |        |
|---|---------------------------|-----------|--------|--------|
| Provisions  | Taxation                  | <b>21</b> |        |        |
|   | Other risks and charges   | <b>22</b> |        |        |
| Deposits received from reinsurers                         |                           | <b>31</b> |        |        |
| Creditors   | Direct insurance business | <b>41</b> |        |        |
|   | Reinsurance accepted      | <b>42</b> |        |        |
|   | Reinsurance ceded         | <b>43</b> |        |        |
| Debenture loans   | Secured                   | <b>44</b> |        |        |
|   | Unsecured                 | <b>45</b> |        |        |
| Amounts owed to credit institutions                       |                           | <b>46</b> |        |        |
| Creditors   | Taxation                  | <b>47</b> | 3407   | 5116   |
|   | Declared dividend         | <b>48</b> |        |        |
|   | Other                     | <b>49</b> | 1454   | 13045  |
| Accruals and deferred income                              |                           | <b>51</b> |        | 4      |
| Total (19 to 51)  |                           | <b>59</b> | 4861   | 18165  |
| Provision for "reasonably foreseeable adverse variations" |                           | <b>61</b> |        |        |
| Cumulative preference share capital                       |                           | <b>62</b> |        |        |
| Subordinated loan capital                                 |                           | <b>63</b> | 200000 | 211906 |
| Total (59 to 63)  |                           | <b>69</b> | 204861 | 230071 |

|   |           |        |        |
|---|-----------|--------|--------|
| Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance | <b>71</b> | 201454 | 224951 |
|---|-----------|--------|--------|

|   |           |        |        |
|---|-----------|--------|--------|
| Reinsurers' share of DAC  | <b>81</b> |        |        |
| Amounts deducted from technical provisions for discounting  | <b>82</b> |        |        |
| Other adjustments (may be negative)   | <b>83</b> | (3407) |        |
| Capital and reserves  | <b>84</b> | 383919 | 320237 |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84) | <b>85</b> | 585373 | 550308 |

**Profit and loss account (non-technical account)**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**

|  |  | Company<br>registration<br>number | GL/<br>UK/<br>CM | day                    | month     | year      | Units            |             |
|--|--|-----------------------------------|------------------|------------------------|-----------|-----------|------------------|-------------|
|  |  | <b>R16</b>                        | <b>894616</b>    | <b>GL</b>              | <b>31</b> | <b>12</b> | <b>2006</b>      | <b>£000</b> |
|  |  |                                   |                  | This financial<br>year |           |           | Previous<br>year |             |
|  |  |                                   |                  | 1                      |           |           | 2                |             |
| Transfer (to)/from the<br>general insurance business<br>technical account                      | From Form 20   |                                   | <b>11</b>        |                        |           |           |                  |             |
|  | Equalisation provisions                              |                                   | <b>12</b>        |                        |           |           |                  |             |
| Transfer from the long term insurance business<br>revenue account                              |  |                                   | <b>13</b>        |                        |           | 3098      | 4150             |             |
| Investment income  | Income   |                                   | <b>14</b>        |                        |           | 31590     | 26652            |             |
|  | Value re-adjustments on<br>investments               |                                   | <b>15</b>        |                        |           |           | 2363             |             |
|  | Gains on the realisation of<br>investments           |                                   | <b>16</b>        |                        |           |           |                  |             |
| Investment charges   | Investment management<br>charges, including interest |                                   | <b>17</b>        |                        |           | 12067     | 11852            |             |
|  | Value re-adjustments on<br>investments               |                                   | <b>18</b>        |                        |           | 7113      |                  |             |
|  | Loss on the realisation of<br>investments            |                                   | <b>19</b>        |                        |           | 1054      | 110              |             |
| Allocated investment return transferred to the general<br>insurance business technical account |  |                                   | <b>20</b>        |                        |           |           |                  |             |
| Other income and charges (particulars to be specified<br>by way of supplementary note)         |  |                                   | <b>21</b>        |                        |           | 4840      | (4840)           |             |
| Profit or loss on ordinary activities before tax<br>(11+12+13+14+15+16-17-18-19-20+21)         |  |                                   | <b>29</b>        |                        |           | 19294     | 16363            |             |
| Tax on profit or loss on ordinary activities   |  |                                   | <b>31</b>        |                        |           | 3407      | 5116             |             |
| Profit or loss on ordinary activities after tax (29-31)  |  |                                   | <b>39</b>        |                        |           | 15887     | 11247            |             |
| Extraordinary profit or loss (particulars to be specified<br>by way of supplementary note)     |  |                                   | <b>41</b>        |                        |           |           |                  |             |
| Tax on extraordinary profit or loss  |  |                                   | <b>42</b>        |                        |           |           |                  |             |
| Other taxes not shown under the preceding items  |  |                                   | <b>43</b>        |                        |           |           |                  |             |
| Profit or loss for the financial year (39+41-(42+43))  |  |                                   | <b>49</b>        |                        |           | 15887     | 11247            |             |
| Dividends (paid or declared)   |  |                                   | <b>51</b>        |                        |           |           |                  |             |
| Profit or loss retained for the financial year (49-51)   |  |                                   | <b>59</b>        |                        |           | 15887     | 11247            |             |

**Analysis of derivative contracts**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

|                                 |                           | Company<br>registration<br>number    | GL/<br>UK/<br>CM | day         | month | year                               | Units    | Category<br>of<br>assets |        |
|---------------------------------|---------------------------|--------------------------------------|------------------|-------------|-------|------------------------------------|----------|--------------------------|--------|
|                                 |                           | R17                                  | 894616           | GL          | 31    | 12                                 | 2006     | £000                     | 10     |
|                                 |                           | As at the end of this financial year |                  |             |       | As at the end of the previous year |          |                          |        |
|                                 |                           | Assets                               |                  | Liabilities |       | Assets                             |          | Liabilities              |        |
|                                 |                           | 1                                    |                  | 2           |       | 3                                  |          | 4                        |        |
| <b>Derivative contracts</b>     |                           |                                      |                  |             |       |                                    |          |                          |        |
| Futures contracts               | Fixed-interest securities | 11                                   |                  |             |       |                                    |          |                          |        |
|                                 | Equity shares             | 12                                   | 156              |             |       | 21                                 |          |                          |        |
|                                 | Land                      | 13                                   |                  |             |       |                                    |          |                          |        |
|                                 | Currencies                | 14                                   | 11               |             |       | 10                                 |          |                          |        |
|                                 | Other                     | 15                                   |                  |             |       |                                    |          |                          |        |
| Options                         | Fixed-interest securities | 21                                   |                  |             |       |                                    |          |                          |        |
|                                 | Equity shares             | 22                                   |                  |             |       |                                    |          |                          |        |
|                                 | Land                      | 23                                   |                  |             |       |                                    |          |                          |        |
|                                 | Currencies                | 24                                   |                  |             |       |                                    |          |                          |        |
|                                 | Other                     | 25                                   | 80972            |             |       |                                    | 90031    |                          |        |
| Contracts for differences       | Fixed-interest securities | 31                                   |                  |             |       |                                    |          |                          |        |
|                                 | Equity shares             | 32                                   |                  |             |       |                                    |          |                          |        |
|                                 | Land                      | 33                                   |                  |             |       |                                    |          |                          |        |
|                                 | Currencies                | 34                                   |                  |             |       |                                    |          |                          |        |
|                                 | Other                     | 35                                   | 165018           |             |       | 102913                             | 242841   |                          | 146819 |
| Adjustment for variation margin |                           | 41                                   |                  |             |       |                                    | (105717) |                          |        |
| Total (11 to 41)                |                           | 49                                   | 246157           |             |       | 102944                             | 227155   |                          | 146819 |

**With-profits insurance capital component for the fund**

Name of insurer **Phoenix & London Assurance Limited**  
 With-profits fund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Regulatory excess capital**

|   |   |           |         |          |
|---|---|-----------|---------|----------|
| Regulatory value of assets  | Long-term admissible assets of the fund   | <b>11</b> | 6232230 | 6687835  |
|   | Implicit items allocated to the fund  | <b>12</b> |         |          |
|   | Mathematical reserves in respect of the fund's non-profit insurance contracts                                   | <b>13</b> | 971646  | 887687   |
|   | Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts         | <b>14</b> |         |          |
|   | Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts           | <b>15</b> |         |          |
|   | Total (11+12-(13+14+15))  | <b>19</b> | 5260584 | 5800147  |
| Regulatory value of liabilities   | Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts | <b>21</b> | 4771866 | 5287212  |
|   | Regulatory current liabilities of the fund  | <b>22</b> | 300764  | 453454   |
|   | Total (21+22)   | <b>29</b> | 5072630 | 5740666  |
| Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts |   | <b>31</b> | 253558  | 274102   |
| Resilience capital requirement in respect of the fund's with-profits insurance contracts          |   | <b>32</b> |         | 40000    |
| Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)                                  |   | <b>39</b> | 5326188 | 6054768  |
| Regulatory excess capital (19-39)   |   | <b>49</b> | (65604) | (254621) |

**Realistic excess capital**

|                          |           |          |          |
|--------------------------|-----------|----------|----------|
| Realistic excess capital | <b>51</b> | (167440) | (230028) |
|--------------------------|-----------|----------|----------|

**Excess assets allocated to with-profits insurance business**

|   |           |        |         |
|---|-----------|--------|---------|
| Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)  | <b>61</b> | 101837 | (24593) |
| Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)                                    | <b>62</b> | 106388 | 144797  |
| Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)                                 | <b>63</b> | 54758  | 78481   |
| Present value of future shareholder transfers arising from distribution of surplus  | <b>64</b> | 30511  |         |
| Present value of other future internal transfers not already taken into account   | <b>65</b> |        |         |
| With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero) | <b>66</b> | 122956 | 41722   |

**Realistic balance sheet**

Name of insurer **Phoenix & London Assurance Limited**  
 With-profits fund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Realistic value of assets available to the fund**

|   |    |         |         |
|---|----|---------|---------|
| Regulatory value of assets  | 11 | 5260584 | 5800147 |
| Implicit items allocated to the fund  | 12 |         |         |
| Value of shares in subsidiaries held in fund (regulatory)   | 13 |         |         |
| Excess admissible assets  | 21 |         |         |
| Present value of future profits (or losses) on non-profit insurance contracts written in the fund | 22 | 3747    | 31524   |
| Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22                | 23 |         |         |
| Value of shares in subsidiaries held in fund (realistic)  | 24 |         |         |
| Prepayments made from the fund  | 25 |         |         |
| Realistic value of assets of fund (11+21+22+23+24+25-(12+13))                                     | 26 | 5264331 | 5831671 |
| Support arrangement assets  | 27 |         |         |
| Assets available to the fund (26+27)  | 29 | 5264331 | 5831671 |

**Realistic value of liabilities of fund**

|   |  |         |         |        |
|---|--|---------|---------|--------|
| With-profits benefit reserve                      | 31   | 4148414 | 4534941 |        |
| Future policy related liabilities                 | Part miscellaneous surplus attributed to with-profits benefits reserve                                   | 32      |         |        |
|   | Part miscellaneous deficit attributed to with-profits benefits reserve                                   | 33      | 38130   | 56553  |
|   | Planned enhancements to with-profits benefits reserve  | 34      | 2078    | 2245   |
|   | Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve | 35      | 313034  | 366154 |
|   | Planned deductions for other costs deemed chargeable to with-profits benefits reserve                    | 36      |         |        |
|   | Future costs of contractual guarantees (other than financial options)                                    | 41      | 433888  | 420560 |
|   | Future costs of non-contractual commitments  | 42      |         |        |
|   | Future costs of financial options  | 43      | 789459  | 852732 |
|   | Future costs of smoothing (possibly negative)  | 44      | 847     | 260    |
|   | Financing costs  | 45      |         |        |
|   | Any other liabilities related to regulatory duty to treat customers fairly                               | 46      |         |        |
|   | Other long-term insurance liabilities  | 47      | 124460  | 181641 |
| Total (32+34+41+42+43+44+45+46+47-(33+35+36))     | 49   | 999568  | 1034731 |        |
| Realistic current liabilities of the fund         | 51   | 116349  | 261999  |        |
| Realistic value of liabilities of fund (31+49+51) | 59   | 5264331 | 5831671 |        |

**Realistic balance sheet**

Name of insurer **Phoenix & London Assurance Limited**  
 With-profits fund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| As at end of<br>this financial year | As at end of<br>the previous year |
|-------------------------------------|-----------------------------------|
| 1                                   | 2                                 |

**Realistic excess capital and additional capital available**

|  |           |          |          |
|--|-----------|----------|----------|
| Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds                             | <b>62</b> | 5431771  | 6061699  |
| Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario | <b>63</b> |          |          |
| Value of relevant assets before applying the most adverse scenario (62+63)   | <b>64</b> | 5431771  | 6061699  |
| Risk capital margin for fund (62-59)   | <b>65</b> | 167440   | 230028   |
| Realistic excess capital for fund (26-(59+65))   | <b>66</b> | (167440) | (230028) |
| Realistic excess available capital for fund (29-(59+65))   | <b>67</b> | (167440) | (230028) |
| Working capital for fund (29-59)   | <b>68</b> | (0)      |          |
| Working capital ratio for fund (68/29)   | <b>69</b> | (0.00)   |          |

**Other assets potentially available if required to cover the fund's risk capital margin**

|  |           |        |        |
|--|-----------|--------|--------|
| Additional amount potentially available for inclusion in line 62 | <b>81</b> | 364849 | 240641 |
| Additional amount potentially available for inclusion in line 63 | <b>82</b> |        |        |

**Long-term insurance business : Revenue account**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Income**

|  |           |               |                  |
|--|-----------|---------------|------------------|
| Earned premiums  | 11        | 192245        | (1947138)        |
| Investment income receivable before deduction of tax                           | 12        | 288427        | 354865           |
| Increase (decrease) in the value of non-linked assets brought into the account | 13        | (326412)      | 438429           |
| Increase (decrease) in the value of linked assets                              | 14        | 128           | 277              |
| Other income   | 15        |               | 71               |
| <b>Total income</b>  | <b>19</b> | <b>154388</b> | <b>(1153496)</b> |

**Expenditure**

|  |           |               |               |
|--|-----------|---------------|---------------|
| Claims incurred                              | 21        | 531777        | 578321        |
| Expenses payable                             | 22        | 29916         | 32332         |
| Interest payable before the deduction of tax | 23        | 12866         | 22588         |
| Taxation                                     | 24        | 8118          | 12086         |
| Other expenditure                            | 25        |               |               |
| Transfer to (from) non technical account     | 26        | 3098          | 4150          |
| <b>Total expenditure</b>                     | <b>29</b> | <b>585775</b> | <b>649477</b> |

|   |    |          |           |
|---|----|----------|-----------|
| Business transfers - in                                     | 31 |          |           |
| Business transfers - out                                    | 32 |          |           |
| Increase (decrease) in fund in financial year (19-29+31-32) | 39 | (431387) | (1802973) |
| Fund brought forward  | 49 | 6175399  | 7978372   |
| Fund carried forward (39+49)                                | 59 | 5744012  | 6175399   |

**Long-term insurance business : Analysis of premiums**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---------|------------|----------|----------------------|---------------------|
| 1       | 2          | 3        | 4                    | 5                   |

**Gross**

|                  |    |        |        |     |        |        |
|------------------|----|--------|--------|-----|--------|--------|
| Regular premiums | 11 | 126612 | 44272  | 519 | 171403 | 204952 |
| Single premiums  | 12 | (100)  | 103270 | 395 | 103565 | 108045 |

**Reinsurance - external**

|                  |    |      |       |    |       |         |
|------------------|----|------|-------|----|-------|---------|
| Regular premiums | 13 | 1747 | 47    | 19 | 1813  | 2103    |
| Single premiums  | 14 |      | 13379 |    | 13379 | 2178612 |

**Reinsurance - intra-group**

|                  |    |       |       |     |       |       |
|------------------|----|-------|-------|-----|-------|-------|
| Regular premiums | 15 | 39023 | 25027 | 188 | 64238 | 74477 |
| Single premiums  | 16 | (7)   | 3300  |     | 3293  | 4943  |

**Net of reinsurance**

|                  |    |       |       |     |        |           |
|------------------|----|-------|-------|-----|--------|-----------|
| Regular premiums | 17 | 85842 | 19198 | 312 | 105352 | 128372    |
| Single premiums  | 18 | (93)  | 86591 | 395 | 86893  | (2075510) |

**Total**

|             |    |        |        |     |        |           |
|-------------|----|--------|--------|-----|--------|-----------|
| Gross       | 19 | 126512 | 147542 | 914 | 274968 | 312997    |
| Reinsurance | 20 | 40763  | 41753  | 207 | 82723  | 2260135   |
| Net         | 21 | 85749  | 105789 | 707 | 192245 | (1947138) |



**Long-term insurance business : Analysis of claims**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---------|------------|----------|----------------------|---------------------|
| 1       | 2          | 3        | 4                    | 5                   |

**Gross**

|                                |           |               |               |             |               |               |
|--------------------------------|-----------|---------------|---------------|-------------|---------------|---------------|
| Death or disability lump sums  | 11        | 45543         | 10007         | 84          | 55634         | 55493         |
| Disability periodic payments   | 12        | 5492          |               |             | 5492          | 5959          |
| Surrender or partial surrender | 13        | 169272        | 172510        | 209         | 341991        | 335255        |
| Annuity payments               | 14        | 2847          | 36387         | 1618        | 40852         | 164702        |
| Lump sums on maturity          | 15        | 177175        | 108031        | 3732        | 288938        | 305388        |
| <b>Total</b>                   | <b>16</b> | <b>400329</b> | <b>326935</b> | <b>5643</b> | <b>732907</b> | <b>866797</b> |

**Reinsurance - external**

|                                |           |             |              |            |              |              |
|--------------------------------|-----------|-------------|--------------|------------|--------------|--------------|
| Death or disability lump sums  | 21        | 923         | 15           | 34         | 972          | 2996         |
| Disability periodic payments   | 22        | 491         |              |            | 491          | 541          |
| Surrender or partial surrender | 23        |             |              |            |              |              |
| Annuity payments               | 24        |             | 17828        | 248        | 18076        | 77145        |
| Lump sums on maturity          | 25        |             |              |            |              |              |
| <b>Total</b>                   | <b>26</b> | <b>1414</b> | <b>17843</b> | <b>282</b> | <b>19539</b> | <b>80682</b> |

**Reinsurance - intra-group**

|                                |           |              |               |          |               |               |
|--------------------------------|-----------|--------------|---------------|----------|---------------|---------------|
| Death or disability lump sums  | 31        | 20200        | 2385          | 2        | 22587         | 21327         |
| Disability periodic payments   | 32        | 4978         |               |          | 4978          | 5375          |
| Surrender or partial surrender | 33        | 46388        | 84417         |          | 130805        | 171698        |
| Annuity payments               | 34        |              |               |          |               |               |
| Lump sums on maturity          | 35        | 8371         | 14850         |          | 23221         | 9394          |
| <b>Total</b>                   | <b>36</b> | <b>79937</b> | <b>101652</b> | <b>2</b> | <b>181591</b> | <b>207794</b> |

**Net of reinsurance**

|                                |           |               |               |             |               |               |
|--------------------------------|-----------|---------------|---------------|-------------|---------------|---------------|
| Death or disability lump sums  | 41        | 24420         | 7607          | 48          | 32075         | 31170         |
| Disability periodic payments   | 42        | 23            |               |             | 23            | 43            |
| Surrender or partial surrender | 43        | 122884        | 88093         | 209         | 211186        | 163557        |
| Annuity payments               | 44        | 2847          | 18559         | 1370        | 22776         | 87557         |
| Lump sums on maturity          | 45        | 168804        | 93181         | 3732        | 265717        | 295994        |
| <b>Total</b>                   | <b>46</b> | <b>318978</b> | <b>207440</b> | <b>5359</b> | <b>531777</b> | <b>578321</b> |

**Long-term insurance business : Analysis of expenses**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---------|------------|----------|----------------------|---------------------|
| 1       | 2          | 3        | 4                    | 5                   |

**Gross**

|                          |           |              |              |           |              |              |
|--------------------------|-----------|--------------|--------------|-----------|--------------|--------------|
| Commission - acquisition | 11        | (708)        | 397          | 7         | (304)        | 750          |
| Commission - other       | 12        | 2987         | 247          | 17        | 3251         | 3904         |
| Management - acquisition | 13        | 4357         | 129          |           | 4486         | 3282         |
| Management - maintenance | 14        | 13153        | 8447         |           | 21600        | 22813        |
| Management - other       | 15        | 2459         | 1588         |           | 4047         | 5369         |
| <b>Total</b>             | <b>16</b> | <b>22248</b> | <b>10808</b> | <b>24</b> | <b>33080</b> | <b>36118</b> |

**Reinsurance - external**

|                          |           |            |          |          |            |            |
|--------------------------|-----------|------------|----------|----------|------------|------------|
| Commission - acquisition | 21        | 3          |          |          | 3          | 5          |
| Commission - other       | 22        | 109        | 2        | 1        | 112        | 124        |
| Management - acquisition | 23        |            |          |          |            |            |
| Management - maintenance | 24        |            |          |          |            |            |
| Management - other       | 25        |            |          |          |            |            |
| <b>Total</b>             | <b>26</b> | <b>112</b> | <b>2</b> | <b>1</b> | <b>115</b> | <b>129</b> |

**Reinsurance - intra-group**

|                          |           |             |            |          |             |             |
|--------------------------|-----------|-------------|------------|----------|-------------|-------------|
| Commission - acquisition | 31        | (12)        | 305        |          | 293         | 497         |
| Commission - other       | 32        | 2192        | 558        | 6        | 2756        | 3160        |
| Management - acquisition | 33        |             |            |          |             |             |
| Management - maintenance | 34        |             |            |          |             |             |
| Management - other       | 35        |             |            |          |             |             |
| <b>Total</b>             | <b>36</b> | <b>2180</b> | <b>863</b> | <b>6</b> | <b>3049</b> | <b>3657</b> |

**Net of reinsurance**

|                          |           |              |             |           |              |              |
|--------------------------|-----------|--------------|-------------|-----------|--------------|--------------|
| Commission - acquisition | 41        | (699)        | 92          | 7         | (600)        | 248          |
| Commission - other       | 42        | 686          | (313)       | 10        | 383          | 620          |
| Management - acquisition | 43        | 4357         | 129         |           | 4486         | 3282         |
| Management - maintenance | 44        | 13153        | 8447        |           | 21600        | 22813        |
| Management - other       | 45        | 2459         | 1588        |           | 4047         | 5369         |
| <b>Total</b>             | <b>46</b> | <b>19956</b> | <b>9943</b> | <b>17</b> | <b>29916</b> | <b>32332</b> |

**Long-term insurance business : Linked funds balance sheet**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

| Financial year | Previous year |
|----------------|---------------|
| 1              | 2             |

**Internal linked funds (excluding cross investment)**

|  |           |             |             |
|--|-----------|-------------|-------------|
| Directly held assets (excluding collective investment schemes)               | 11        | 608         | 1350        |
| Directly held assets in collective investment schemes of connected companies | 12        |             |             |
| Directly held assets in other collective investment schemes                  | 13        | 825         | 125         |
| <b>Total assets (excluding cross investment) (11+12+ 13)</b>                 | <b>14</b> | <b>1433</b> | <b>1475</b> |
| Provision for tax on unrealised capital gains                                | 15        |             |             |
| Secured and unsecured loans  | 16        |             |             |
| Other liabilities  | 17        | 7           | 25          |
| <b>Total net assets (14-15-16-17)</b>  | <b>18</b> | <b>1426</b> | <b>1450</b> |

**Directly held linked assets**

|                                      |    |      |      |
|--------------------------------------|----|------|------|
| Value of directly held linked assets | 21 | 1995 | 2085 |
|--------------------------------------|----|------|------|

**Total**

|   |           |             |             |
|---|-----------|-------------|-------------|
| Value of directly held linked assets and units held (18+21) | 31        | 3421        | 3535        |
| Surplus units   | 32        |             |             |
| Deficit units   | 33        |             |             |
| <b>Net unit liability (31-32+33)</b>                        | <b>34</b> | <b>3421</b> | <b>3535</b> |

**Long-term insurance business : Revenue account for internal linked funds**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

| Financial year | Previous year |
|----------------|---------------|
| 1              | 2             |

**Income**

|   |           |            |            |
|---|-----------|------------|------------|
| Value of total creation of units                                      | 11        |            |            |
| Investment income attributable to the funds before deduction of tax   | 12        | 68         | 99         |
| Increase (decrease) in the value of investments in the financial year | 13        | 200        | 147        |
| Other income  | 14        |            |            |
| <b>Total income</b>   | <b>19</b> | <b>268</b> | <b>246</b> |

**Expenditure**

|   |           |            |            |
|---|-----------|------------|------------|
| Value of total cancellation of units  | 21        | 284        | 324        |
| Charges for management  | 22        | 8          | 9          |
| Charges in respect of tax on investment income                                    | 23        |            |            |
| Taxation on realised capital gains  | 24        |            |            |
| Increase (decrease) in amount set aside for tax on capital gains not yet realised | 25        |            |            |
| Other expenditure   | 26        |            |            |
| <b>Total expenditure</b>  | <b>29</b> | <b>292</b> | <b>333</b> |

|  |    |      |      |
|--|----|------|------|
| Increase (decrease) in funds in financial year (19-29) | 39 | (24) | (87) |
| Internal linked fund brought forward                   | 49 | 1450 | 1537 |
| Internal linked funds carried forward (39+49)          | 59 | 1426 | 1450 |

**Long-term insurance business : Summary of new business**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

| UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---------|------------|----------|----------------------|---------------------|
| 1       | 2          | 3        | 4                    | 5                   |

**Number of new policyholders/  
scheme members for direct  
insurance business**

|                          |           |           |             |          |             |             |
|--------------------------|-----------|-----------|-------------|----------|-------------|-------------|
| Regular premium business | 11        | 82        | 128         |          | 210         | 391         |
| Single premium business  | 12        | 5         | 4213        | 5        | 4223        | 3974        |
| <b>Total</b>             | <b>13</b> | <b>87</b> | <b>4341</b> | <b>5</b> | <b>4433</b> | <b>4365</b> |

**Amount of new regular  
premiums**

|                           |           |             |            |  |             |            |
|---------------------------|-----------|-------------|------------|--|-------------|------------|
| Direct insurance business | 21        | 1448        | 396        |  | 1844        | 531        |
| External reinsurance      | 22        |             |            |  |             |            |
| Intra-group reinsurance   | 23        |             |            |  |             |            |
| <b>Total</b>              | <b>24</b> | <b>1448</b> | <b>396</b> |  | <b>1844</b> | <b>531</b> |

**Amount of new single  
premiums**

|                           |           |           |               |            |               |              |
|---------------------------|-----------|-----------|---------------|------------|---------------|--------------|
| Direct insurance business | 25        | 44        | 105204        | 370        | 105618        | 88682        |
| External reinsurance      | 26        |           |               |            |               |              |
| Intra-group reinsurance   | 27        |           |               |            |               |              |
| <b>Total</b>              | <b>28</b> | <b>44</b> | <b>105204</b> | <b>370</b> | <b>105618</b> | <b>88682</b> |

**Long-term insurance business : Analysis of new business**

Name of insurer

**Phoenix & London Assurance Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Life / Direct Insurance Business

| Product code number | Product description                                | Regular premium business                 |                    | Single premium business                  |                    |
|---------------------|--|--|--------------------|--|--------------------|
|                     |  | Number of policyholders / scheme members | Amount of premiums | Number of policyholders / scheme members | Amount of premiums |
| 1                   | 2  | 3  | 4                  | 5  | 6                  |
| 125                 | Conventional endowment with-profits OB target cash |  | 23                 |  |                    |
| 325                 | Level term assurance                               | 82                                       | 1248               |  |                    |
| 355                 | Stand-alone critical illness (reviewable premiums) |  | 176                |  |                    |
| 395                 | Annuity non-profit (PLA)                           |  |                    | 5  | 44                 |
| 435                 | Miscellaneous non-profit                           |  | 1                  |  |                    |
| 505                 | Life UWP whole life regular premium                |  | 1                  |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |

**Long-term insurance business : Analysis of new business**

Name of insurer

**Phoenix & London Assurance Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Direct Insurance Business

| Product code number | Product description                                | Regular premium business                 |                    | Single premium business                  |                    |
|---------------------|--|--|--------------------|--|--------------------|
|                     |  | Number of policyholders / scheme members | Amount of premiums | Number of policyholders / scheme members | Amount of premiums |
| 1                   | 2  | 3  | 4                  | 5  | 6                  |
| 155                 | Conventional pensions endowment with-profits       |  | 7                  | 56                                       | 848                |
| 185                 | Group conventional pensions endowment with-profits |  | 26                 |  |                    |
| 390                 | Deferred annuity non-profit                        |  |                    | 363                                      | 838                |
| 400                 | Annuity non-profit (CPA)                           |  |                    | 3755                                     | 99321              |
| 435                 | Miscellaneous non-profit                           | 1  | 1                  |  |                    |
| 525                 | Individual pensions UWP                            |  | 50                 | 6  | 679                |
| 535                 | Group money purchase pensions UWP                  |  |                    | 4  | 4                  |
| 725                 | Individual pensions property linked                | 120                                      | 307                | 12                                       | 3060               |
| 735                 | Group money purchase pensions property linked      | 7  | 5                  | 4  | 2                  |
| 905                 | Index linked annuity                               |  |                    | 13                                       | 452                |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |
|                     |  |  |                    |  |                    |





**Long-term insurance business : Non- linked assets**

Name of insurer **Phoenix & London Assurance Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

| Unadjusted assets | Economic exposure | Expected income from assets in column 2 | Yield before adjustment | Return on assets in financial year |
|-------------------|-------------------|---|-------------------------|------------------------------------|
| 1                 | 2                 | 3                                       | 4                       | 5                                  |

**Assets backing non-profit liabilities and non-profit capital requirements**

|                                    |           |               |               |              |             |  |
|------------------------------------|-----------|---------------|---------------|--------------|-------------|--|
| Land and buildings                 | 11        |               |               |              |             |  |
| Approved fixed interest securities | 12        | 688104        | 696821        | 34103        | 4.70        |  |
| Other fixed interest securities    | 13        | 226889        | 229763        | 11533        | 5.51        |  |
| Variable interest securities       | 14        |               |               |              |             |  |
| UK listed equity shares            | 15        |               |               |              |             |  |
| Non-UK listed equity shares        | 16        |               |               |              |             |  |
| Unlisted equity shares             | 17        |               |               |              |             |  |
| Other assets                       | 18        | 11592         |               |              |             |  |
| <b>Total</b>                       | <b>19</b> | <b>926585</b> | <b>926585</b> | <b>45636</b> | <b>4.90</b> |  |

**Assets backing with-profits liabilities and with-profits capital requirements**

|                                    |           |                |                |               |             |             |
|------------------------------------|-----------|----------------|----------------|---------------|-------------|-------------|
| Land and buildings                 | 21        | 1175           | 338498         | 16670         | 4.92        | 15.41       |
| Approved fixed interest securities | 22        | 2598886        | 2631812        | 128916        | 4.71        | (0.10)      |
| Other fixed interest securities    | 23        | 1388111        | 1405698        | 70560         | 5.51        | (0.10)      |
| Variable interest securities       | 24        | 153731         | 153731         | 2991          | 1.45        | 3.31        |
| UK listed equity shares            | 25        | 617684         | 285919         | 8146          | 4.37        | 13.81       |
| Non-UK listed equity shares        | 26        | 98772          | 101608         | 1955          | 3.33        | 6.24        |
| Unlisted equity shares             | 27        |                |                |               |             |             |
| Other assets                       | 28        | 299281         | 240375         | 2736          | 2.13        | 3.31        |
| <b>Total</b>                       | <b>29</b> | <b>5157641</b> | <b>5157641</b> | <b>231974</b> | <b>4.68</b> | <b>3.13</b> |

**Overall return on with-profits assets**

|  |    |  |  |  |  |      |
|--|----|--|--|--|--|------|
| Post investment costs but pre-tax              | 31 |  |  |  |  | 3.00 |
| Return allocated to non taxable 'asset shares' | 32 |  |  |  |  | 1.40 |
| Return allocated to taxable 'asset shares'     | 33 |  |  |  |  | 3.80 |

**Long-term insurance business : Fixed and variable interest assets**

Name of insurer **Phoenix & London Assurance Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

|   |           | Value of assets<br>1 | Mean term<br>2 | Yield before<br>adjustment<br>3 | Yield after<br>adjustment<br>4 |
|---|-----------|----------------------|----------------|---------------------------------|--------------------------------|
| <b>UK Government approved fixed interest securities</b> | <b>11</b> | 2607178              | 10.20          | 4.70                            | 4.70                           |
| <b>Other approved fixed interest securities</b>         | <b>21</b> | 679812               | 8.49           | 5.01                            | 5.01                           |
| <b>Other fixed interest securities</b>                  |           |                      |                |                                 |                                |
| AAA/Aaa   | <b>31</b> | 374532               | 13.79          | 5.22                            | 5.14                           |
| AA/Aa   | <b>32</b> | 350268               | 6.92           | 5.44                            | 5.32                           |
| A/A   | <b>33</b> | 750233               | 7.55           | 5.70                            | 5.46                           |
| BBB/Baa   | <b>34</b> | 139968               | 7.53           | 6.05                            | 5.40                           |
| BB/Ba   | <b>35</b> |                      |                |                                 |                                |
| B/B   | <b>36</b> |                      |                |                                 |                                |
| CCC/Caa   | <b>37</b> |                      |                |                                 |                                |
| Other (including unrated)                               | <b>38</b> |                      |                |                                 |                                |
| <b>Total other fixed interest securities</b>            | <b>39</b> | 1615000              | 8.85           | 5.56                            | 5.35                           |
| <b>Approved variable interest securities</b>            | <b>41</b> | 137355               | 16.54          | 1.24                            | 1.24                           |
| <b>Other variable interest securities</b>               | <b>51</b> | 16376                | 16.90          | 3.20                            | 3.04                           |
| <b>Total (11+21+39+41+51)</b>                           | <b>61</b> | 5055721              | 9.73           | 4.92                            | 4.85                           |

**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---------|------------|----------|----------------------|---------------------|
| 1       | 2          | 3        | 4                    | 5                   |

**Gross**

|                        |           |                |                |              |                |                |
|------------------------|-----------|----------------|----------------|--------------|----------------|----------------|
| Form 51 - with-profits | 11        | 1426261        | 3245858        | 13192        | 4685311        | 5177077        |
| Form 51 - non-profit   | 12        | 265657         | 804629         | 28057        | 1098342        | 1047380        |
| Form 52                | 13        | 334466         | 141053         |              | 475519         | 552206         |
| Form 53 - linked       | 14        | 51971          | 905096         |              | 957067         | 951058         |
| Form 53 - non-linked   | 15        | 754            | 21923          |              | 22676          | 25011          |
| Form 54 - linked       | 16        | 21315          | 19169          | 1156         | 41640          | 45461          |
| Form 54 - non-linked   | 17        |                |                |              |                |                |
| <b>Total</b>           | <b>18</b> | <b>2100424</b> | <b>5137727</b> | <b>42405</b> | <b>7280556</b> | <b>7798192</b> |

**Reinsurance - external**

|                        |           |             |           |             |              |              |
|------------------------|-----------|-------------|-----------|-------------|--------------|--------------|
| Form 51 - with-profits | 21        | 1026        |           |             | 1026         | 945          |
| Form 51 - non-profit   | 22        | 8867        | 76        | 3949        | 12892        | 14901        |
| Form 52                | 23        |             |           |             |              |              |
| Form 53 - linked       | 24        |             |           |             |              |              |
| Form 53 - non-linked   | 25        |             |           |             |              |              |
| Form 54 - linked       | 26        |             |           |             |              |              |
| Form 54 - non-linked   | 27        |             |           |             |              |              |
| <b>Total</b>           | <b>28</b> | <b>9893</b> | <b>76</b> | <b>3949</b> | <b>13918</b> | <b>15846</b> |

**Reinsurance - intra-group**

|                        |           |               |                |           |                |                |
|------------------------|-----------|---------------|----------------|-----------|----------------|----------------|
| Form 51 - with-profits | 31        | 8810          |                |           | 8810           | 9470           |
| Form 51 - non-profit   | 32        | 158335        | 702            | 88        | 159124         | 194144         |
| Form 52                | 33        | 241913        | 141421         |           | 383334         | 437856         |
| Form 53 - linked       | 34        | 48549         | 905096         |           | 953646         | 947523         |
| Form 53 - non-linked   | 35        | 495           | 21923          |           | 22418          | 24655          |
| Form 54 - linked       | 36        |               |                |           |                |                |
| Form 54 - non-linked   | 37        |               |                |           |                |                |
| <b>Total</b>           | <b>38</b> | <b>458102</b> | <b>1069142</b> | <b>88</b> | <b>1527331</b> | <b>1613648</b> |

**Net of reinsurance**

|                        |           |                |                |              |                |                |
|------------------------|-----------|----------------|----------------|--------------|----------------|----------------|
| Form 51 - with-profits | 41        | 1416426        | 3245858        | 13192        | 4675475        | 5166661        |
| Form 51 - non-profit   | 42        | 98455          | 803851         | 24021        | 926326         | 838335         |
| Form 52                | 43        | 92553          | (368)          |              | 92185          | 114350         |
| Form 53 - linked       | 44        | 3422           |                |              | 3422           | 3535           |
| Form 53 - non-linked   | 45        | 258            |                |              | 258            | 356            |
| Form 54 - linked       | 46        | 21315          | 19169          | 1156         | 41640          | 45461          |
| Form 54 - non-linked   | 47        |                |                |              |                |                |
| <b>Total</b>           | <b>48</b> | <b>1632429</b> | <b>4068509</b> | <b>38368</b> | <b>5739307</b> | <b>6168698</b> |

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

| Product code number | Product description                                | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 100                 | Conventional whole life with-profits OB            | 4951                                     | 54694             | 752                              |                        |                           |                   | 26803                           |
| 120                 | Conventional endowment with-profits OB savings     | 32670                                    | 147289            | 9944                             |                        |                           |                   | 114315                          |
| 125                 | Conventional endowment with-profits OB target cash | 137820                                   | 2509067           | 57827                            |                        |                           |                   | 1270651                         |
| 210                 | Additional reserves with-profits OB                |  |                   | 176                              |                        |                           |                   | 14491                           |
| 300                 | Regular premium non-profit WL/EA OB                | 55948                                    | 99338             | 3924                             |                        |                           |                   | 56175                           |
| 305                 | Single premium non-profit WL/EA OB                 | 756                                      | 2241              |                                  |                        |                           |                   | 2289                            |
| 325                 | Level term assurance                               | 58765                                    | 8755643           | 23900                            |                        |                           |                   | 39176                           |
| 330                 | Decreasing term assurance                          | 9167                                     | 302514            | 1976                             |                        |                           |                   | 768                             |
| 345                 | Accelerated critical illness (reviewable premiums) |  | 807148            | 2688                             |                        |                           |                   | 4032                            |
| 355                 | Stand-alone critical illness (reviewable premiums) | 7717                                     | 798563            | 2875                             |                        |                           |                   | 4313                            |
| 360                 | Income protection non-profit (guaranteed premiums) | 26216                                    | 396549            | 10093                            |                        |                           |                   | 97347                           |
| 365                 | Income protection non-profit (reviewable premiums) | 6  | 10405             | 0                                |                        |                           |                   | 751                             |
| 380                 | Miscellaneous protection rider                     |  | 303329            | 830                              |                        |                           |                   | 228                             |
| 385                 | Income protection claims in payment                |  | 4770              |                                  |                        |                           |                   | 32830                           |
| 390                 | Deferred annuity non-profit                        | 724                                      | 41                | 0                                |                        |                           |                   | 953                             |



**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded external

| Product code number | Product description                                | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 100                 | Conventional whole life with-profits OB            |  | 1491              | 4                                |                        |                           |                   | 1018                            |
| 120                 | Conventional endowment with-profits OB savings     |  | 2                 | 0                                |                        |                           |                   | 2                               |
| 125                 | Conventional endowment with-profits OB target cash |  | 12                | 0                                |                        |                           |                   | 6                               |
| 210                 | Additional reserves with profits OB                |  |                   | 0                                |                        |                           |                   |                                 |
| 300                 | Regular premium non-profit WL/EA OB                |  | 920               | 3                                |                        |                           |                   | 336                             |
| 325                 | Level term assurance                               |  | 93370             | 351                              |                        |                           |                   | 943                             |
| 330                 | Decreasing term assurance                          |  | 29665             | 195                              |                        |                           |                   | 60                              |
| 360                 | Income protection non-profit (guaranteed premiums) |  | 11896             | 303                              |                        |                           |                   | 2920                            |
| 385                 | Income protection claims in payment                |  | 143               |                                  |                        |                           |                   | 985                             |
| 435                 | Miscellaneous non-profit                           |  | 48183             | 248                              |                        |                           |                   | 3622                            |
| 440                 | Additional reserves non-profit OB                  |  |                   | 0                                |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded intra-group

| Product code number | Product description                                | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 120                 | Conventional endowment with-profits OB savings     |  | 2049              | 65                               |                        |                           |                   | 1737                            |
| 125                 | Conventional endowment with-profits OB target cash |  | 12973             | 375                              |                        |                           |                   | 7073                            |
| 300                 | Regular premium non-profit WL/EA OB                |  | 285               | 1                                |                        |                           |                   | 104                             |
| 325                 | Level term assurance                               |  | 6942233           | 18011                            |                        |                           |                   | 23215                           |
| 330                 | Decreasing term assurance                          |  | 260159            | 1710                             |                        |                           |                   | 530                             |
| 345                 | Accelerated critical illness (reviewable premiums) |  | 749001            | 2526                             |                        |                           |                   | 3789                            |
| 355                 | Stand-alone critical illness (reviewable premiums) |  | 772569            | 2796                             |                        |                           |                   | 4194                            |
| 360                 | Income protection non-profit (guaranteed premiums) |  | 384653            | 9790                             |                        |                           |                   | 94427                           |
| 380                 | Miscellaneous protection rider                     |  | 303329            | 830                              |                        |                           |                   | 228                             |
| 385                 | Income protection claims in payment                |  | 4627              |                                  |                        |                           |                   | 31845                           |
| 395                 | Annuity non-profit (PLA)                           |  | 0                 |                                  |                        |                           |                   | 1                               |
| 435                 | Miscellaneous non-profit                           |  | 46540             | 316                              |                        |                           |                   | 2                               |
| 440                 | Additional reserves non-profit OB                  |  |                   | 446                              |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

| Product code number | Product description                                | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 155                 | Conventional pensions endowment with-profits       | 107362                                   | 3290137           | 13998                            |                        |                           |                   | 2519411                         |
| 165                 | Conventional deferred annuity with-profits         | 8977                                     | 31048             | 638                              |                        |                           |                   | 239143                          |
| 185                 | Group conventional pensions endowment with-profits | 12651                                    | 461965            | 2872                             |                        |                           |                   | 364769                          |
| 210                 | Additional reserves with-profits OB                |  |                   | 164                              |                        |                           |                   | 122535                          |
| 305                 | Single premium non-profit WL/EA OB                 | 5082                                     | 109687            |                                  |                        |                           |                   | 149140                          |
| 325                 | Level term assurance                               | 2673                                     | 179034            | 644                              |                        |                           |                   | 1252                            |
| 380                 | Miscellaneous protection rider                     | 1  | 8446              | 90                               |                        |                           |                   | 2045                            |
| 390                 | Deferred annuity non-profit                        | 12121                                    | 29956             |                                  |                        |                           |                   | 365641                          |
| 400                 | Annuity non-profit (CPA)                           | 9713                                     | 23096             | 4                                |                        |                           |                   | 279665                          |
| 435                 | Miscellaneous non-profit                           | 30                                       | 180219            | 48                               |                        |                           |                   | 6526                            |
| 440                 | Additional reserves non-profit OB                  |  |                   | 52                               |                        |                           |                   | 359                             |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |





**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

| Product code number | Product description               | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|-----------------------------------|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2                                 | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 325                 | Level term assurance              |  | 106807            | 365                              |                        |                           |                   | 624                             |
| 400                 | Annuity non-profit (CPA)          |  | 4                 |                                  |                        |                           |                   | 78                              |
| 435                 | Miscellaneous non-profit          |  | 5201              | 40                               |                        |                           |                   | 0                               |
| 440                 | Additional reserves non-profit OB |  |                   | 15                               |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |

40

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 Overseas / Gross

| Product code number | Product description                                | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 100                 | Conventional whole life with-profits OB            | 27                                       | 726               | 8                                |                        |                           |                   | 344                             |
| 120                 | Conventional endowment with-profits OB savings     | 148                                      | 2476              | 68                               |                        |                           |                   | 1503                            |
| 155                 | Conventional pensions endowment with-profits       | 216                                      | 9052              | 85                               |                        |                           |                   | 6805                            |
| 165                 | Conventional deferred annuity with-profits         | 26                                       | 93                | 3                                |                        |                           |                   | 712                             |
| 185                 | Group conventional pensions endowment with-profits | 55                                       | 4166              | 26                               |                        |                           |                   | 2983                            |
| 205                 | Miscellaneous conventional with-profits            | 25                                       | 58                | 12                               |                        |                           |                   | 845                             |
| 210                 | Additional reserves with-profits OB                |  |                   | 1                                |                        |                           |                   |                                 |
| 300                 | Regular premium non-profit WL/EA OB                | 43                                       | 163               | 1                                |                        |                           |                   | 125                             |
| 325                 | Level term assurance                               | 280                                      | 36535             | 157                              |                        |                           |                   | 131                             |
| 330                 | Decreasing term assurance                          | 176                                      | 13089             | 69                               |                        |                           |                   | 5                               |
| 390                 | Deferred annuity non-profit                        | 93                                       | 325               |                                  |                        |                           |                   | 3536                            |
| 400                 | Annuity non-profit (CPA)                           | 247                                      | 1801              |                                  |                        |                           |                   | 24238                           |
| 410                 | Group life   | 1  |                   |                                  |                        |                           |                   | 10                              |
| 435                 | Miscellaneous non-profit                           | 2  | 42                | 0                                |                        |                           |                   | 9                               |
| 440                 | Additional reserves non-profit OB                  |  |                   | 15                               |                        |                           |                   | 3                               |

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 Overseas / Reinsurance ceded external

| Product code number | Product description               | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|-----------------------------------|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2                                 | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 325                 | Level term assurance              |  | 1537              | 7                                |                        |                           |                   | 4                               |
| 330                 | Decreasing term assurance         |  | 585               | 3                                |                        |                           |                   | 0                               |
| 400                 | Annuity non-profit (CPA)          |  | 248               |                                  |                        |                           |                   | 3945                            |
| 435                 | Miscellaneous non-profit          |  | 4                 | 0                                |                        |                           |                   | 0                               |
| 440                 | Additional reserves non-profit OB |  |                   | 1                                |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |
|                     |                                   |  |                   |                                  |                        |                           |                   |                                 |



**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

| Product code number | Product description                              | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|--|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2  | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 500                 | Life UWP single premium                          | 14166                                    | 320964            |                                  | 317137                 | 305948                    | 4171              | 310118                          |
| 505                 | Life UWP whole life regular premium              | 3821                                     | 130740            | 2139                             | 5052                   | 2259                      | 5433              | 7692                            |
| 510                 | Life UWP endowment regular premium - savings     | 543                                      | 2990              | 254                              | 2310                   | 1985                      | 340               | 2325                            |
| 515                 | Life UWP endowment regular premium - target cash | 1972                                     | 59111             | 1803                             | 14153                  | 10587                     | 3744              | 14331                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |











**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded intra-group

| Product code number | Product description                             | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---------------------|---|--|-------------------|----------------------------------|------------------------|---------------------------|-------------------|---------------------------------|
| 1                   | 2   | 3  | 4                 | 5                                | 6                      | 7                         | 8                 | 9                               |
| 700                 | Life property linked single premium             |  | 37481             |                                  | 37110                  | 37110                     | 125               | 37235                           |
| 710                 | Life property linked whole life regular premium |  | 404991            | 3468                             | 11440                  | 11440                     | 370               | 11810                           |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |

















**Long-term insurance business: analysis of valuation interest rate**Name of insurer **Phoenix & London Assurance Limited**Total business **10 Ordinary Long Term Business**Financial year ended **31 December 2006**Units **£000**

| Product group<br>1   | Net mathematical reserves<br>2 | Net valuation interest rate<br>3 | Gross valuation interest rate<br>4 | Risk adjusted yield on matching assets<br>5 |
|--|--------------------------------|----------------------------------|------------------------------------|---|
| UK L&GA WP Form 51 endowment assurances  | 1377652                        | 3.53                             | 4.38                               | 4.63  |
| UK Pens NP Form 51 annuities in payment (including associated reversionary benefits) | 313288                         |                                  | 4.70                               | 4.96  |
| UK Pens NP Form 51 assurances  | 429163                         |                                  | 3.98                               | 4.65  |
| UK Pens WP Form 51 pure endowments and deferred annuities:                           |                                |                                  |                                    |   |
| with ongoing premiums  | 769236                         |                                  | 4.01                               | 4.65  |
| other  | 2365426                        |                                  | 4.81                               | 5.06  |
| Misc   | 443687                         | n/a                              | n/a                                |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
|  |                                |                                  |                                    |   |
| <b>Total</b>   | 5698450                        |                                  |                                    |   |

**Long-term insurance business : Distribution of surplus**

Name of insurer **Phoenix & London Assurance Limited**  
 Total business / subfund **10 Ordinary Long Term Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

| Financial year | Previous year |
|----------------|---------------|
| 1              | 2             |

**Valuation result**

|   |    |         |         |
|---|----|---------|---------|
| Fund carried forward  | 11 | 5744012 | 6175399 |
| Bonus payments in anticipation of a surplus   | 12 | 24727   | 34387   |
| Transfer to non-technical account   | 13 | 3099    | 4150    |
| Transfer to other funds / parts of funds  | 14 |         |         |
| Subtotal (11 to 14)   | 15 | 5771837 | 6213936 |
| Mathematical reserves   | 21 | 5739307 | 6168698 |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | 29 | 32531   | 45238   |

**Composition of surplus**

|   |    |       |       |
|---|----|-------|-------|
| Balance brought forward                   | 31 | 500   | 500   |
| Transfer from non-technical account       | 32 |       |       |
| Transfer from other funds / parts of fund | 33 |       |       |
| Surplus arising since the last valuation  | 34 | 32031 | 44738 |
| Total                                     | 39 | 32531 | 45238 |

**Distribution of surplus**

|   |    |       |       |
|---|----|-------|-------|
| Bonus paid in anticipation of a surplus     | 41 | 24727 | 34387 |
| Cash bonuses                                | 42 |       |       |
| Reversionary bonuses                        | 43 | 4205  | 6201  |
| Other bonuses                               | 44 |       |       |
| Premium reductions                          | 45 |       |       |
| Total allocated to policyholders (41 to 45) | 46 | 28932 | 40588 |
| Net transfer out of fund / part of fund     | 47 | 3099  | 4150  |
| Total distributed surplus (46+47)           | 48 | 32031 | 44738 |
| Surplus carried forward                     | 49 | 500   | 500   |
| Total (48+49)                               | 59 | 32531 | 45238 |

**Percentage of distributed surplus allocated to policyholders**

|                  |    |       |       |
|------------------|----|-------|-------|
| Current year     | 61 | 90.33 | 90.72 |
| Current year - 1 | 62 | 90.72 | 90.42 |
| Current year - 2 | 63 | 90.42 | 90.44 |
| Current year - 3 | 64 | 90.44 | 90.88 |

**Long-term insurance business : With-profits payouts on maturity (normal retirement)**

Name of insurer **Phoenix & London Assurance Limited**  
 Original insurer **41 Phoenix & London Assurance Limited**  
 Date of maturity value / open market option **01 March 2007**

| Category of with-profits policy<br>1 | Original term (years)<br>2 | Maturity value / open market option<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP / UWP<br>6 | MVA permitted?<br>7 | Death benefit<br>8 |
|--------------------------------------|----------------------------|--|---------------------|----------|----------------|---------------------|--------------------|
| Endowment assurance                  | 10                         | 6135                                     | 0                   | n/a      | CWP            | N                   | SA + B             |
| Endowment assurance                  | 15                         | 10480                                    | 0                   | n/a      | CWP            | N                   | SA + B             |
| Endowment assurance                  | 20                         | 19329                                    | 1345                | n/a      | CWP            | N                   | SA + B             |
| Endowment assurance                  | 25                         | 34542                                    | 4848                | n/a      | CWP            | N                   | SA + B             |
| Regular premium pension              | 5                          | n/a                                      | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Regular premium pension              | 10                         | 24758                                    | 485                 | 0        | UWP            | N                   | ROF                |
| Regular premium pension              | 15                         | 50937                                    | 0                   | n/a      | CWP            | N                   | ROF                |
| Regular premium pension              | 20                         | 95204                                    | 0                   | n/a      | CWP            | N                   | RWI                |
| Single premium pension               | 5                          | n/a                                      | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Single premium pension               | 10                         | 14129                                    | 1047                | 0        | UWP            | N                   | ROF                |
| Single premium pension               | 15                         | 31541                                    | 0                   | n/a      | CWP            | N                   | ROF                |
| Single premium pension               | 20                         | 59065                                    | 0                   | n/a      | CWP            | N                   | RWI                |

**Long-term insurance business : With-profits payouts on surrender**

Name of insurer **Phoenix & London Assurance Limited**  
 Original insurer **41 Phoenix & London Assurance Limited**  
 Date of surrender value **01 March 2007**

| Category of with-profits policy<br>1 | Duration at surrender (years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP / UWP<br>6 | MVA permitted?<br>7 | Death benefit<br>8 |
|--------------------------------------|------------------------------------|----------------------|---------------------|----------|----------------|---------------------|--------------------|
| Endowment assurance                  | 5                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Endowment assurance                  | 10                                 | 5714                 |                     | n/a      | n/a            | n/a                 | SA + B             |
| Endowment assurance                  | 15                                 | 10358                | 0                   | n/a      | CWP            | N                   | SA + B             |
| Endowment assurance                  | 20                                 | 18777                | 1126                | n/a      | CWP            | N                   | SA + B             |
| With-profits bond                    | 2                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| With-profits bond                    | 3                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| With-profits bond                    | 5                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| With-profits bond                    | 10                                 | 13770                | 0                   | n/a      | UWP            | N                   | 101% FV (excl MVA) |
| Single premium pension               | 2                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Single premium pension               | 3                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Single premium pension               | 5                                  | n/a                  | n/a                 | n/a      | n/a            | n/a                 | n/a                |
| Single premium pension               | 10                                 | 14129                | 1047                | 0        | UWP            | Y                   | ROF                |

**Long-term insurance capital requirement**Name of insurer **Phoenix & London Assurance Limited**

Global business

Financial year ended **31 December 2006**Units **£000**

| LTICR factor | Gross reserves / capital at risk | Net reserves / capital at risk | Reinsurance factor | LTICR Financial year | LTICR Previous year |
|--------------|----------------------------------|--------------------------------|--------------------|----------------------|---------------------|
| 1            | 2                                | 3                              | 4                  | 5                    | 6                   |

**Insurance death risk capital component**

|                              |           |       |                 |                |      |              |              |
|------------------------------|-----------|-------|-----------------|----------------|------|--------------|--------------|
| Life protection reinsurance  | 11        | 0.0%  |                 |                |      |              |              |
| Classes I (other), II and IX | 12        | 0.1%  |                 |                | 0.50 |              |              |
| Classes I (other), II and IX | 13        | 0.15% |                 |                |      |              |              |
| Classes I (other), II and IX | 14        | 0.3%  | 11190525        | 3410961        |      | 16786        | 18344        |
| Classes III, VII and VIII    | 15        | 0.3%  | 465272          | 46921          | 0.50 | 698          | 784          |
| <b>Total</b>                 | <b>16</b> |       | <b>11655797</b> | <b>3457882</b> |      | <b>17484</b> | <b>19128</b> |

**Insurance health risk and life protection reinsurance capital component**

|  |    |  |  |  |  |      |      |
|--|----|--|--|--|--|------|------|
| Class IV supplementary classes 1 and 2 and life protection reinsurance | 21 |  |  |  |  | 1634 | 2055 |
|--|----|--|--|--|--|------|------|

**Insurance expense risk capital component**

|  |           |     |         |         |      |              |              |
|--|-----------|-----|---------|---------|------|--------------|--------------|
| Life protection and permanent health reinsurance   | 31        | 0%  |         |         |      |              |              |
| Classes I (other), II and IX                       | 32        | 1%  | 6165528 | 5738720 | 0.93 | 57387        | 61691        |
| Classes III, VII and VIII (investment risk)        | 33        | 1%  | 3775    | 1685    | 0.85 | 32           | 41           |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 34        | 1%  | 1995    | 1995    | 1.00 | 20           | 21           |
| Classes III, VII and VIII (other)                  | 35        | 25% |         |         |      |              |              |
| Class IV (other)                                   | 36        | 1%  | 139501  | 1112    | 0.85 | 1186         | 1492         |
| Class V  | 37        | 1%  |         |         |      |              |              |
| Class VI   | 38        | 1%  |         |         |      |              |              |
| <b>Total</b>                                       | <b>39</b> |     |         |         |      | <b>58625</b> | <b>63245</b> |

**Insurance market risk capital component**

|  |           |    |                |                |      |               |               |
|--|-----------|----|----------------|----------------|------|---------------|---------------|
| Life protection and permanent health reinsurance   | 41        | 0% |                |                |      |               |               |
| Classes I (other), II and IX                       | 42        | 3% | 6165528        | 5738720        | 0.93 | 172162        | 185073        |
| Classes III, VII and VIII (investment risk)        | 43        | 3% | 3775           | 1685           | 0.85 | 96            | 124           |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 44        | 0% | 1995           | 1995           |      |               |               |
| Classes III, VII and VIII (other)                  | 45        | 0% |                |                |      |               |               |
| Class IV (other)                                   | 46        | 3% | 139501         | 1112           | 0.85 | 3557          | 4477          |
| Class V  | 47        | 0% |                |                |      |               |               |
| Class VI   | 48        | 3% |                |                |      |               |               |
| <b>Total</b>                                       | <b>49</b> |    | <b>6310800</b> | <b>5743512</b> |      | <b>175815</b> | <b>189674</b> |

|  |           |  |  |  |  |               |               |
|--|-----------|--|--|--|--|---------------|---------------|
| <b>Long term insurance capital requirement</b> | <b>51</b> |  |  |  |  | <b>253558</b> | <b>274102</b> |
|--|-----------|--|--|--|--|---------------|---------------|

**Supplementary Notes**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**NOTES TO APPENDIX 9.1**

**\*0301\* Reconciliation of net admissible assets to total capital resources after deductions**

The reconciliation of the net admissible assets to total capital resources after deductions is as follows:

|  | 2006<br>£000's   | 2005<br>£000's   |
|--|------------------|------------------|
| Form 13 line 89 Total other than long term business assets | 482,392          | 410,351          |
| Form 13 line 89 Total long term business assets            | 6,232,230        | 6,687,835        |
| Less the sum of lines 11, 12 and 49 of Form 14             | (5,937,888)      | (6,483,556)      |
| Less Form 15 line 69                                       | <u>(204,861)</u> | <u>(230,071)</u> |
|  | 571,873          | 384,559          |
| Subordinated loan capital Form 15 line 63                  | <u>200,000</u>   | <u>211,906</u>   |
| Total capital resources after deductions Form 3 line 79    | <u>771,873</u>   | <u>596,465</u>   |

**\*0310\* Details of valuation differences between the return and statutory accounts**

The Long Term Business Provision in the statutory accounts is calculated in accordance with FRS 27 so it is a measure of the realistic liabilities including a provision for future annual and terminal bonuses. The mathematical reserves are determined in accordance with FSA rules, generally using more conservative assumptions and, for most policies, without any allowance for future bonuses.

**\*1301\* OLTB: Aggregate value of certain investments**

The Company held at 31 December 2006 £268,000k (2005 £261,000k) in unlisted securities.

**\*1304\* OLTB: Set off**

**\*1310\* LTB: Set off**

- In accordance with Appendix 9.1, paragraph 8 of the Interim Prudential Sourcebook for Insurers, amounts shown in Forms 13, 14 and 15 have been calculated by netting amounts due to any one person against amounts due from that person.
- Interfund balances which exist between the shareholders' funds and life funds have been adjusted by allocating appropriate cash and deposit balances.

**\*1305\* OLTB: Counterparty limits**

**\*1319\* LTB: Counterparty limits**

The maximum permitted limit to an approved and other than approved counterparty is the limit consistent with the requirement on admissibility of assets unless the Company agrees otherwise.

**\*1306\* Counterparty exposure at the end of the financial year**

**\*1312\* Counterparty exposure at the end of the financial year**

At 31 December 2006 the Company had no counterparty exposure exceeding 5% of the sum of its base capital resources requirement and its long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

**\*1308\* LTB: Aggregate value of certain investments**

The Company held at 31 December 2006 £20,260k (2005 £62,922k) in unlisted securities and £9,148k (2005 £3,690k) in listed securities not readily realisable.



**Supplementary Notes****Phoenix and London Assurance Limited****Global business****Financial year ended 31st December 2006****\*1318\* Adjustments to assets**

Other adjustments to assets shown in Form 13, line 100 represent:

|                            | Other than<br>long term<br>2006<br>£000's | Long term<br>2006<br>£000's | Other than<br>long term<br>2005<br>£000's | Long term<br>2005<br>£000's |
|----------------------------|---|-----------------------------|---|-----------------------------|
| Subordinated loan          | 106,388                                   | (106,388)                   | 139,957                                   | (139,957)                   |
| Inadmissible assets        | -   | 1,668                       | -   | 1,169                       |
| Reclassification of assets | (3,407)                                   | (102,944)                   | -   | (41,102)                    |
|                            | <u>102,981</u>                            | <u>(207,664)</u>            | <u>139,957</u>                            | <u>(179,890)</u>            |

**\*1401\* Provision for reasonably foreseeable adverse variations****\*1501\* Provision for reasonably foreseeable adverse variations**

No provision for reasonably foreseeable adverse variations has been made as liabilities are matched to assets.

**\*1402\* Details of charges over assets, contingent liabilities etc.****\*1502\* Details of charges over assets, contingent liabilities etc.**

Form 14, line 21 includes an amount of £4,270k (2005 £13,476k) in respect of a prospective liability for tax on unrealised capital gains calculated in accordance with Financial Reporting Standard 19.

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

At 31 December 2006 there were no charges over assets and no other contingent liabilities, guarantees, indemnities or contractual commitments effected by the Company other than in the ordinary course of its insurance business in respect of the current or future liabilities of related companies.

**\*1405\* Adjustments to liabilities**

Other adjustments to liabilities shown in Form 14, line 74 represent:

|                            | 2006<br>£000's | 2005<br>£000's |
|----------------------------|----------------|----------------|
| Reclassification of assets | (102,944)      | (41,102)       |
| Valuation differences      | 175,377        | 65,491         |
|                            | <u>72,433</u>  | <u>24,389</u>  |

**\*1507\* Adjustments to liabilities**

Other adjustments to liabilities shown in Form 15, line 83 represent reclassification of assets.

**Supplementary Notes**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**\*1508\* Subordinated loan**

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

**Subordinated loan agreement**

Under this agreement, the Company has a loan facility from RLL, whereby support is provided where it is anticipated that the company has insufficient capital to meet the "Capital Test". The Capital Test requires there to be capital of £50m in excess of the larger of the Individual Capital Assessment (ICA), as required under GENPRU 1.2 as enhanced to satisfy any Individual Capital Guidance (ICG) provided by the FSA, and the Capital Resources Requirement, as shown on Form 2, line 41, of the returns to the FSA, if Form 2 was to be prepared on the date concerned (ignoring for this purpose any adjustment required by GN45). The loans are repayable at the company's discretion, giving at least 6 months notice to the lender, to the extent that the Capital Test is met and with the prior consent of the FSA. The amount available to the Company under the subordinated loan agreement is limited to £200.0m (2005: £265.0m less any amount drawn under a similar agreement between RLGWPH and Phoenix Life & Pensions Ltd). Interest is due under this loan agreement at LIBOR plus 2%, but is only payable at the Company's discretion, giving 30 days notice to the lender and is shown under creditors. On 5 April 2006 RLGWPH made a capital contribution to the Company of £47.7m and the Company reduced its loan by a corresponding amount. On 5 December 2006 a draw-down of £35.9m was made. On 31 December 2006 the Company had drawn-down £200.0m (2005: £211.9m).

**Internal capital support memorandum**

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

**\*1601\* Basis of conversion of foreign currency**

Long term business amounts of income and expenditure in foreign currencies are translated to sterling at the prevailing rates at the date of the transactions.

**\*1603\* Other income and charges**

The fund for future appropriations at 31 December 2005 was £4,840k negative after recognising a liability to repay all of the contingent loan from the shareholder fund to the long term fund. The directors felt that it was not appropriate to recognise a negative fund for future appropriations and as a result the Company recorded a charge in 2005 of £4.8m shown in Form 16, line 21. As the financial position of the Long Term Fund has improved this charge has been repaid to the shareholder fund and is shown as other income in Form 16, line 21.

**\*1700\* Omission of forms**

Form 17 for other than long term has not been prepared as all entries, including comparatives, would be nil.

Returns under the Accounts and Statements Rules

**Supplementary Notes**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**\*1701\* Derivative contracts**

There has been no excess variation margin received due to market movements that has subsequently been partly or wholly reversed.

There is no excess variation margin included within Form 13.

**\*1703\* Adjustments for variation margin**

The amount shown in Form 17, line 41 column 3 represents assets transferred to the Company under collateral arrangements with Goldman Sachs International. These assets were repaid during 2006.

**Supplementary Notes**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**NOTES TO APPENDIX 9.3**

**\*4002\* Other income and expenditure**

Other income in 2005 of £71k shown in Form 40, line 15 relates to costs arising from the decision to close the Company to new business in 2002, together with the turn out of provisions established prior to 2003 in respect of previous business improvement programmes. These costs arise from fundamental reorganisations of the business.

**\*4008\* Provision of management services to or by the company**

Arrangements were in force during the financial year for the provision of management services to the Company by Resolution Management Services Limited, Phoenix Life Insurance Services Limited, Unisys Limited, Resolution Asset Management Limited and F&C Asset Management plc.

Arrangements were also in force during the financial year with Homeloan Management Limited for the administration of the Company's loan portfolio.

**\*4009\* Material connected party transactions**

A number of reinsurance contracts are in place between the Company and other group companies. All these contracts are entered into on "arms length" basis, details of which are listed in Appendix 9.4 Paragraph 9 of the Return.

**\*4010\* Unit linked investment income**

Form 40, line 12 includes unit linked investment income of £81k.

**\*4011\* Expenses payable**

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

**\*4101\* Annuity Business Sale**

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

However prior to Court approval for a funds transfer under Section 105 of the Financial Services and Markets Act 2000 this business continued to be underwritten by the Company and 100% reassured to Canada Life. To this effect from 1 July 2005 the Company entered into a reinsurance agreement with Canada Life under which the annuity business sold was 100% reassured to Canada Life. On 1 July 2005 a reinsurance premium of £2,178,612k was paid to Canada Life. This is shown on Form 41, line 14 column 5.

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

**\*4102\* Negative premiums**

The amount shown on Form 41 line 12 column 1 has a negative value mainly due to the refund of unearned premium on certain single premium Group Creditor contracts written prior to 2002 that covered policy loans typically lasting 5 to 10 years.

**Supplementary Notes**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**\*4301\* Other commission payable**

The amount shown on Form 43 line 42 column 2 has a negative value mainly due to overriding commission recoverable from another group company under a contract of reinsurance.

**\*4401\* Basis of valuation of assets**

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

**\*4801\* Non-Linked Assets**

No part of the with-profits business is in respect of business which falls within paragraph (1) (b) of the definition of with-profits fund.

**\*4802\* Non-Linked Assets**

Expected income includes income in respect of securities which may be in default.

**\*4803\* Non-Linked Assets**

The Company holds a number of securities the coupon of which changes from a fixed amount to a variable amount from a pre-determined data. The issuer of the security has the option to redeem the bond on that date and information presented assumes that this will be the case. The value of these securities as at the valuation date was £182,408k.

**\*4804\* Non-Linked Assets**

Other assets include:

- short term deposits where the expected return is a short-term interest rate;
- cash and other current assets where there is no expected return; and
- swaptions where the expected return is calculated as described in Appendix 9.4 5.1(a).

**\*4806\* Non-Linked Assets**

The asset mix underlying an individual policy asset share varies in accordance with the Company's Principles and Practices of Financial Management. For the purposes of the disclosure in column 5 we have considered returns on asset shares in aggregate. The assets backing the with profits benefit reserve as at 31 December 2006 were:

| <b>Asset Type</b>                  | <b>Market Value (£m)</b> |
|------------------------------------|--------------------------|
| Land and buildings                 | 434                      |
| Approved fixed interest securities | 1795                     |
| Other fixed interest securities    | 876                      |
| UK listed equity shares            | 358                      |
| Non-UK listed equity shares        | 127                      |
| Other assets                       | 558                      |

**\*4807\* Non-Linked Assets**

A single investment return has been calculated for approved and other fixed interest securities and is reported in column 5 for both these categories.

**\*4808\* Non-Linked Assets**

A single investment return has been calculated for variable interest securities and other assets and is reported in column 5 for both these categories.



**Statement of Additional Information on Derivative Contracts required by rule 9.29**

**Phoenix and London Assurance Limited**

**Financial year ended 31st December 2006**

**Statement pursuant to rule 9.29**

- a) The Company has investment guidelines which indicate that derivative contracts are used primarily for the purpose of efficient portfolio management or reduction of investment risks which specify the types of derivative contracts which may be used and indicate the processes to be used in selecting and managing derivative contracts. The guidelines also require regular monitoring and reporting of open positions.
- b) The guidelines operated by the Company for the use of derivative contracts do not include any provisions for the use of contracts under which the Company has a right or obligation to acquire or dispose of assets which was not, at the time the contract was entered into, reasonably likely to be exercised.
- c) The Company was not a party to any such contracts of the kind described in b) at any time during the financial year.
- d) The derivative assets held are valued at market value. There would be no material change in value of any assets on Form 13 if these contracts were closed as at 31 December 2006
- e) The position under d) would not be different if such options were exercised in such a way as to change the amounts referred to in d) to the maximum extent.
- f) The position under d) would not have been materially different at any other time during the relevant financial year.
- g) The maximum loss which would be incurred by the Company in the event of failure by any one other person to fulfil its obligations under these contracts at the end of the financial year under existing and other foreseeable market conditions was £1,746,943  
The maximum loss any other time during the relevant financial year was £1,921,082.
- h) The Company did not, at any time during the financial year, hold a derivative contract which required a significant provision to be made for it under INSPRU 3.2.17R or (where appropriate) did not fall within the definition of a permitted derivative contract.
- i) The Company received £Nil during the year in return for granting rights under derivative contracts.

Returns under the Accounts and Statements Rules

**Statement of additional information on controllers required by rule 9.30**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

**Statement pursuant to rule 9.30**

1. The following persons have, to the knowledge of Phoenix and London Assurance Limited (the Company), been controllers of the Company during the year ended 31st December 2006 in descending order of parentage:

Resolution plc  
Resolution Life Group Limited  
Resolution Life Limited  
RLG With Profit Holdings Limited

On 21 December 2006 the Company's then immediate parent, RLG With Profit Holdings Limited, transferred its shareholding in the Company to Resolution Life Limited.

2. As at 31st December 2006, the controllers held 100% of the ordinary shares of its immediate subsidiary company together with the whole of the voting power at any general meeting.



## APPENDIX 9.4

### PHOENIX & LONDON ASSURANCE LIMITED

#### Abstract of Valuation Report

## INTRODUCTION

### (1) Valuation Date

The valuation relates to 31st December 2006.

### (2) Previous Valuation

The previous valuation under Rule 9.4 related to 31<sup>st</sup> December 2005.

### (3) Interim Valuations

No interim valuations (for the purposes of Rule 9.4) have been carried out since 31<sup>st</sup> December 2005.

## 2. PRODUCT RANGE

There have been no significant changes since the last valuation date.

Phoenix & London Assurance Limited has one with profits fund which is closed to new business except by increment.

## 3. DISCRETIONARY CHARGES AND BENEFITS

### (1) Application of Market Value Reduction

The Company reserves the right to apply a Market Value Reduction (MVR) to policies that invest in the Unitised With Profits (UWP) Fund.

The following products invest solely in the Unitised With Profits Fund:

#### Mortgage Savings Plan & Regular Savings Plan

MVRs on these contracts have been applied from January to May for all policies, from June to August for policies commencing between 1997 and 1999, and from September to December for policies commencing after 2004.

#### Unitised With Profits Bond

MVRs on these contracts have been applied throughout the year of valuation to policies commencing between June 1996 and September 2001. MVRs have also been applied for the first half of the year of valuation to some policies commencing between December 2001 and May 2002, depending on their date of commencement.

### UWP Group Pensions

MVRs on these contracts have been applied in Quarter 3 of the year of valuation to policies commencing between April and July 2006. These are increments to policies only.

The following products have the option to invest in the Unitised With Profits Fund as one of the funds available for the investment of contributions:

#### Universal Protection Plan

MVRs on these contracts have been applied from January to May for all policies, from June to August for policies commencing between 1997 and 1999, and from September to December for policies commencing after 2004.

#### Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

MVRs on these contracts have been applied throughout the year of valuation to single premium policies with entry years from 1998 to 2001 and 2005 to 2006.

For regular premium contracts, MVRs have been applied from January to June for policies commencing between 1995 and 2000, and throughout the year of valuation for policies commencing in 2005 and 2006.

## **(2) Premiums on Reviewable Protection Policies**

There were no changes to premium rates on reviewable non-linked protection policies since the previous valuation date.

For Progressive Protection Plan a change to premium rates is permitted but did not occur during the report period. The gross reserves for Progressive Protection Plan at the valuation date amounted to £24.2m.

## **(3) Non-profit Deposit Administration**

There are no non-profit deposit administration policies.

## **(4) Service Charges on Linked Policies**

The policy charges for the following linked contracts have changed during the valuation year:

#### Universal Protection Plan

The policy charge increased by 3.7% of its previous level from £2.94 to £3.05 per month.

#### Mortgage Savings Plan & Regular Savings Plan

The policy charge increased by 4.3% of its previous level from £3.45 to £3.60 per month.

#### Individual Personal Pension Plan, Group Personal Pension Plan, Company Pension Scheme & Company Additional Pension Scheme

For stand alone single premium contracts the following changes in policy charges applied:

| Contract Start Date     | Increase | Previous Policy Charge | Current Policy Charge |
|-------------------------|----------|------------------------|-----------------------|
| Pre 16/10/1995          | 4.3%     | £4.70                  | £4.90                 |
| 16/10/1995 – 20/09/1998 | 4.8%     | £1.86                  | £1.95                 |
| 21/09/1998 – 09/04/2000 | 4.4%     | £3.40                  | £3.55                 |
| 10/04/2000 onwards      | 5.0%     | £3.00                  | £3.15                 |

No policy charges apply to regular premium contracts.

For paid-up policies and policies on premium holidays (other than for Group Personal Pension Plan) the policy charge increased by 2.9% of its previous level from £1.70 to £1.75 per month. The equivalent policy charge for Group Personal Pension Plan is unchanged at £nil.

#### Personal Additional Pension Plan

For stand alone single premium contracts the following changes in policy charges applied:

| Contract Start Date     | Increase | Previous Policy Charge | Current Policy Charge |
|-------------------------|----------|------------------------|-----------------------|
| Pre 16/10/1995          | 4.3%     | £4.70                  | £4.90                 |
| 16/10/1995 – 20/09/1998 | 4.8%     | £1.86                  | £1.95                 |
| 21/09/1998 – 09/04/2000 | 4.4%     | £3.40                  | £3.55                 |
| 10/04/2000 onwards      | 5.0%     | £3.00                  | £3.15                 |

For regular premium contracts the following changes in policy charges applied:

| Contract Start Date     | Increase | Previous Policy Charge | Current Policy Charge |
|-------------------------|----------|------------------------|-----------------------|
| Pre 29/01/1996          | 4.3%     | £4.70                  | £4.90                 |
| 30/01/1996 – 10/04/2000 | 4.4%     | £4.50                  | £4.70                 |
| 11/04/2000 onwards      | 5.0%     | £3.00                  | £3.15                 |

For paid-up policies, or whilst a premium holiday is in-force, the policy charge has increased by 2.9% of its previous level from £1.70 to £1.75 per month.

#### Executive Pension Plan

For stand alone single premium contracts the following changes in policy charges applied:

| Contract Start Date     | Increase | Previous Policy Charge | Current Policy Charge |
|-------------------------|----------|------------------------|-----------------------|
| Pre 16/10/1995          | 4.3%     | £4.70                  | £4.90                 |
| 16/10/1995 – 20/09/1998 | 4.8%     | £1.86                  | £1.95                 |
| 21/09/1998 onwards      | 4.4%     | £3.40                  | £3.55                 |

For regular premium contracts the following changes in policy charges applied:

| Contract Start Date | Increase | Previous Policy Charge | Current Policy Charge |
|---------------------|----------|------------------------|-----------------------|
| Pre 29/01/1996      | 4.3%     | £4.70                  | £4.90                 |
| 30/01/1996 onwards  | 4.4%     | £4.50                  | £4.70                 |

For paid-up policies, or whilst a premium holiday is in-force, the policy charge has increased by 2.9% of its previous level from £1.70 to £1.75 per month.

#### **(5) Benefit Charges on Linked Policies**

There were no changes to benefit charges on linked policies in 2006.

#### **(6) Accumulating With Profits Charges**

The following expenses are notionally charged to specimen policy asset shares when determining terminal bonus or market value reductions for accumulating with profits policies:

Annual maintenance expenses (net of policy fee where applicable), which changed from £27.00 p.a. to £28.03 p.a..

Charges for guarantees and smoothing were 0.9% of asset share.

Investment expenses at the rate of 0.125% p.a..

These changes apply to all accumulating with profits business.

#### **(7) Unit Pricing of Internal Linked Funds**

##### Immediate Annuity Fund

Policyholder benefits consist of an annual annuity equal to the unit price multiplied by the number of units allocated to their policy. The unit price is calculated quarterly as the value of the fund, divided by the actuarial value of the units in issue.

The fund is closed to new business so no units are being created. Annuity payments and other expense are debited to the fund. Units are cancelled (and thus disregarded from the unit price calculation) when benefits stop being payable due to the death of the annuitant.

The assets of the fund mainly comprise shares in the UK Commercial Property Trust and money market funds. These assets are valued on a bid basis when determining the fund value.

##### Other Internal Linked Funds

Benefits attaching to other internal linked funds other than the Immediate Annuity Fund are wholly reassured ultimately to Phoenix Life Limited and the unit pricing of the funds is described in the Returns of that company.

#### **(8) Tax Deductions From Internal Linked Funds**

There is no deduction for tax within the Immediate Annuity Fund.

#### **(9) Tax Provisions for Internal Linked Funds**

There is no provision for tax within the Immediate Annuity Fund.

#### **(10) Discounts on Unit Purchases**

No commission is payable by the managers of F&C UK Equity OEIC on the purchase of units by the company. This OEIC backs the Family Fund and Equity Plan products of which only Equity Plan continues to purchase units.

## 4. VALUATION BASIS

### (1) Valuation Methods

The valuation methods used are as follows:

#### Gross Premium Method

Reserves for policies other than those products included in the section “Other Products” or “Accumulating With Profits Policies” have been established using a prospective gross premium method applied to each policy.

For with-profits policies an allowance has been made for policies being surrendered or being made paid-up in the future.

#### Accumulating With Profits Policies

Reserves for accumulating with profits policies on Form 52 have been calculated for each policy as the greater of:

- (i) the discounted value of:
  - (a) the guaranteed benefits at the maturity date or guarantee point allowing for future annual bonus rates in accordance with the table in paragraph 4 (7) (which is consistent with treating customers fairly); and
  - (b) assumed future expenses per paragraph 4 (6).
- (ii) the lower of:
  - (aa) the amount that would reasonably be expected to be paid if the policyholder exercised his option to take a cash sum on the valuation date, having regard to the representations of the company; and
  - (bb) the amount in (aa) disregarding all discretionary adjustments.

#### Other Products

Where benefits under property linked policies are reassured to Phoenix Life Limited, the method of calculation is fully disclosed in the Returns of that company..

Progressive Protection Plan contracts have been valued as one year’s premium for life cover and one and a half-year’s premium for critical illness cover.

#### Calculation Notes

Where annuity benefits are payable to any spouse that may exist at the date of death of the annuitant, we assume that 90% are married with the female 3 years younger than the male life.

Individual Permanent Health Insurance contracts with an extra premium have an additional reserve of 8.25 years' extra premiums.

## (2) Valuation Interest Rates

The valuation interest rates used are as follows:

|  | <b>Current Valuation</b> | <b>Previous Valuation</b> |
|--|--------------------------|---------------------------|
| <b>Life Business</b>                       |                          |                           |
| With-Profits Endowment Assurances          | 3.53%                    | 3.15%                     |
| Other With-Profits Assurances              | 3.10%                    | 2.90%                     |
| UWP Bond                                   | 3.10%                    | 2.50%                     |
| Non-Profit Endowment Assurances            | 3.30%                    | 3.25%                     |
| Other Non-Profits Assurances               | 3.10%                    | 2.90%                     |
| Annuities in payment (new GAF)             | 4.20%                    | 3.85%                     |
| Annuities in payment (old GAF)             | 4.70%                    | 4.25%                     |
| Monies on Deposit                          | 4.00%                    | 4.00%                     |
| RPI Linked Annuities in payment (net)      | 0.80%                    | 0.70%                     |
| <b>PHI</b>                                 |                          |                           |
| Claims In Payment                          | 4.35%                    | 4.00%                     |
| Other                                      | 3.85%                    | 3.60%                     |
| <b>Pensions Business</b>                   |                          |                           |
| With Profits Pure Endowment & With Profits |                          |                           |
| Deferred Annuities – Regular premiums      |                          |                           |
| Pre Vesting                                |                          |                           |
| Post Vesting                               | 4.01%                    | 3.90%                     |
|  | 4.01%                    | 3.83%                     |
| With Profits Pure Endowment & With Profits |                          |                           |
| Deferred Annuities – Single premiums and   |                          |                           |
| paid-ups:                                  |                          |                           |
| Initial rate                               | 4.81%                    | 4.20%                     |
| Reinvestment rate                          | 3.60%                    | 3.71%                     |
| Annuities in Payment                       | 4.70%                    | 4.25%                     |
| RPI Linked Annuities in payment            | 1.00%                    | 0.90%                     |
| RPI Linked Deferred Annuities              | 1.00%                    | 0.90%                     |
| Non-Profit Assurances                      | 3.98%                    | 3.65%                     |
| Non-Profit Deferred Annuities              |                          |                           |
| Pre Vesting                                | 3.98%                    | 3.65%                     |
| Post Vesting                               | 3.98%                    | 3.65%                     |
| Monies on Deposit                          | 7.00%                    | 7.00%                     |

### (3) Risk Adjustments

The yield on assets other than equity shares and land was reduced for risk as follows:

#### Fixed Interest

| Approved Securities | No reduction  |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
|---------------------|---|--------|---------------|-----------|-------|-----|-------|----|-------|---|-------|-----|-------|----|-------|---|-------|-----|-------------------------|
| Other Securities    | A deduction from the yield dependent on the credit rating of the security per the table below:  |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
|                     | <table><thead><tr><th>Rating</th><th>Deduction (d)</th></tr></thead><tbody><tr><td>Sovereign</td><td>0.00%</td></tr><tr><td>AAA</td><td>0.08%</td></tr><tr><td>AA</td><td>0.12%</td></tr><tr><td>A</td><td>0.24%</td></tr><tr><td>BBB</td><td>0.65%</td></tr><tr><td>BB</td><td>2.53%</td></tr><tr><td>B</td><td>7.22%</td></tr><tr><td>CCC</td><td>Yield assumed to be nil</td></tr></tbody></table> | Rating | Deduction (d) | Sovereign | 0.00% | AAA | 0.08% | AA | 0.12% | A | 0.24% | BBB | 0.65% | BB | 2.53% | B | 7.22% | CCC | Yield assumed to be nil |
| Rating              | Deduction (d)   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| Sovereign           | 0.00%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| AAA                 | 0.08%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| AA                  | 0.12%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| A                   | 0.24%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| BBB                 | 0.65%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| BB                  | 2.53%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| B                   | 7.22%   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |
| CCC                 | Yield assumed to be nil   |        |               |           |       |     |       |    |       |   |       |     |       |    |       |   |       |     |                         |

i.e. amended yield is  $y - d$  where  $y$  is the unadjusted yield

#### Variable Yield

|                                   |                                    |
|-----------------------------------|------------------------------------|
| Approved Securities               | No adjustment                      |
| Loans secured by Mortgages        | Reduction of 1.0% (r) of the yield |
| All other assets producing income | Reduction of 0.5% (r) of the yield |

i.e. amended yield is  $y * (1 - r)$  where  $y$  is the unadjusted yield.

The yield on equity shares and land was reduced by 2.5% of that yield. Furthermore, the yields on any individual properties in excess of 8% p.a. were restricted to 8% p.a.

#### (4) Mortality Basis

The mortality bases used for the valuation were:

| Product  | Current Year            |                         | Previous Year           |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | Male                    | Female                  | Male                    | Female                  |
| Endowment and Whole of Life Assurances           | 82% (AM92)              | 107.1% (AF92)           | 82% (AM92)              | 106% (AF92)             |
| Term Assurances                                  |                         |                         |                         |                         |
| - Aggregate                                      | 94.5%                   | 89%                     | 89.3%                   | 89%                     |
| - Smoker   | 142%                    | 142%                    | 142%                    | 142%                    |
| - Non-smoker                                     | 78.8%                   | 74%                     | 78.8%                   | 74%                     |
|  | (TM92)                  | (TF92)                  | (TM92)                  | (TF92)                  |
| Pensions pre-vesting and pension term assurances | 53.4% (AM92)            | 60.1% (AF92)            | 54.3% (AM92)            | 61% (AF92)              |
| Life annuities currently in payment              | Modified IM80 (c=2010)  | Modified IF80 (c=2010)  | Modified IM80 (c=2010)  | Modified IF80 (c=2010)  |
| Pensions post-vesting                            | Modified PMA92 (c=2020) | Modified PFA92 (c=2020) | Modified PMA92 (c=2020) | Modified PFA92 (c=2020) |
| Pensions immediate annuities                     | Modified PMA92 (c=2020) | Modified PFA92 (c=2020) | Modified PMA92 (c=2020) | Modified PFA92 (c=2020) |

#### Life annuities currently in payment

The mortality basis for the current (previous) year is:

Males: 82.5% (83.7%) of IM80 (c=2010) improving at 1.5% (1.5%) p.a.

Females: 83.0% (83.9%) of IF80 (c=2010) improving at 1.25% (1.25%) p.a.

The expectation of life under the current and previous year valuation assumptions for sample ages are:

| Age | Current Year |         | Previous Year |         |
|-----|--------------|---------|---------------|---------|
|     | Males        | Females | Males         | Females |
| 65  | 21.23        | 24.17   | 21.09         | 24.07   |
| 75  | 13.25        | 15.24   | 13.14         | 15.15   |

#### Pension annuities currently in payment

Specimen percentages of the base tables used for the current and previous years valuations are:

|           | Current Year |        | Previous Year |        |
|-----------|--------------|--------|---------------|--------|
|           | Male         | Female | Male          | Female |
| At age 65 | 135.3%       | 127.8% | 158.5%        | 116.6% |
| At age 75 | 80.5%        | 93.5%  | 85.8%         | 94.1%  |
| At age 85 | 77.4%        | 94.1%  | 79.4%         | 95.8%  |
| At age 95 | 78.5%        | 95.1%  | 79.9%         | 96.9%  |



Specimen annual improvement rates for the current valuation, dependent on calendar year, are:

| Males   |  | 2007  | 2017  | 2027  | 2037  | 2047  | 2057  |
|---------|--|-------|-------|-------|-------|-------|-------|
| 65      |  | 3.41% | 2.34% | 1.68% | 1.50% | 1.50% | 1.50% |
| 75      |  | 3.20% | 2.79% | 2.20% | 1.68% | 1.50% | 1.50% |
| 85      |  | 1.99% | 2.12% | 2.24% | 1.92% | 1.65% | 1.50% |
| 95      |  | 1.08% | 1.22% | 1.42% | 1.56% | 1.65% | 1.50% |
| Females |  | 2007  | 2017  | 2027  | 2037  | 2047  | 2057  |
| 65      |  | 2.74% | 1.96% | 1.46% | 1.30% | 1.30% | 1.30% |
| 75      |  | 2.49% | 2.23% | 1.84% | 1.46% | 1.30% | 1.30% |
| 85      |  | 1.36% | 1.68% | 1.79% | 1.63% | 1.43% | 1.30% |
| 95      |  | 0.77% | 0.95% | 1.17% | 1.26% | 1.41% | 1.30% |

Specimen annual improvement rates used for the previous valuation, dependent on calendar year are:

| Males   |  | 2006  | 2016  | 2026  | 2036  | 2046  | 2056  |
|---------|--|-------|-------|-------|-------|-------|-------|
| 65      |  | 3.57% | 2.43% | 1.70% | 1.50% | 1.50% | 1.50% |
| 75      |  | 3.28% | 2.89% | 2.29% | 1.70% | 1.50% | 1.50% |
| 85      |  | 1.94% | 2.14% | 2.32% | 1.97% | 1.68% | 1.50% |
| 95      |  | 1.05% | 1.16% | 1.37% | 1.56% | 1.67% | 1.50% |
| Females |  | 2006  | 2016  | 2026  | 2036  | 2046  | 2056  |
| 65      |  | 2.86% | 2.02% | 1.48% | 1.30% | 1.30% | 1.30% |
| 75      |  | 2.54% | 2.31% | 1.91% | 1.48% | 1.30% | 1.30% |
| 85      |  | 1.28% | 1.67% | 1.84% | 1.67% | 1.46% | 1.30% |
| 95      |  | 0.75% | 0.89% | 1.13% | 1.24% | 1.42% | 1.30% |

The expectation of life under the current and previous year valuation assumptions for sample ages are:

| Age | Current Year |         | Previous Year |         |
|-----|--------------|---------|---------------|---------|
|     | Males        | Females | Males         | Females |
| 65  | 24.44        | 25.59   | 23.97         | 25.48   |
| 75  | 14.89        | 16.05   | 14.62         | 15.87   |

Deferred pension contracts (post vesting) including Guaranteed Annuity Options

Sample percentages of the base tables used for the current year and previous year valuations are:

|              | Current Year |        | Previous Year |        |
|--------------|--------------|--------|---------------|--------|
|              | Male         | Female | Male          | Female |
| Up to age 55 | 547.8%       | 482.1% | 734.1%        | 530.9% |
| At age 65    | 148.4%       | 133.9% | 173.9%        | 134.5% |
| At age 75    | 88.4%        | 98.0%  | 94.2%         | 108.6% |
| At age 85    | 84.9%        | 98.6%  | 87.0%         | 110.5% |
| At age 95    | 86.1%        | 99.6%  | 87.6%         | 111.8% |

Specimen annual improvement rates, dependent on calendar year, are:

|                | 2007  | 2017  | 2027  | 2037  | 2047  | 2057  |
|----------------|-------|-------|-------|-------|-------|-------|
| <b>Males</b>   |       |       |       |       |       |       |
| 55             | 2.45% | 1.68% | 1.50% | 1.50% | 1.50% | 1.50% |
| 65             | 3.41% | 2.34% | 1.68% | 1.50% | 1.50% | 1.50% |
| 75             | 3.20% | 2.79% | 2.20% | 1.68% | 1.50% | 1.50% |
| 85             | 1.99% | 2.12% | 2.24% | 1.92% | 1.65% | 1.50% |
| 95             | 1.08% | 1.22% | 1.42% | 1.56% | 1.65% | 1.50% |
| <b>Females</b> |       |       |       |       |       |       |
| 55             | 2.05% | 1.46% | 1.30% | 1.30% | 1.30% | 1.30% |
| 65             | 2.74% | 1.96% | 1.46% | 1.30% | 1.30% | 1.30% |
| 75             | 2.49% | 2.23% | 1.84% | 1.46% | 1.30% | 1.30% |
| 85             | 1.36% | 1.68% | 1.79% | 1.63% | 1.43% | 1.30% |
| 95             | 0.77% | 0.95% | 1.17% | 1.26% | 1.41% | 1.30% |

Specimen annual improvement rates used for the previous valuation, dependent on calendar year are:

|                | 2006  | 2016  | 2026  | 2036  | 2046  | 2056  |
|----------------|-------|-------|-------|-------|-------|-------|
| <b>Males</b>   |       |       |       |       |       |       |
| 55             | 2.55% | 1.70% | 1.50% | 1.50% | 1.50% | 1.50% |
| 65             | 3.57% | 2.43% | 1.70% | 1.50% | 1.50% | 1.50% |
| 75             | 3.28% | 2.89% | 2.29% | 1.70% | 1.50% | 1.50% |
| 85             | 1.94% | 2.14% | 2.32% | 1.97% | 1.68% | 1.50% |
| 95             | 1.05% | 1.16% | 1.37% | 1.56% | 1.67% | 1.50% |
| <b>Females</b> |       |       |       |       |       |       |
| 55             | 2.12% | 1.48% | 1.30% | 1.30% | 1.30% | 1.30% |
| 65             | 2.86% | 2.02% | 1.48% | 1.30% | 1.30% | 1.30% |
| 75             | 2.54% | 2.31% | 1.91% | 1.48% | 1.30% | 1.30% |
| 85             | 1.28% | 1.67% | 1.84% | 1.67% | 1.46% | 1.30% |
| 95             | 0.75% | 0.89% | 1.13% | 1.24% | 1.42% | 1.30% |

The expectation of life at age 65 for current ages 45 and 55 under the current (and previous year) valuation assumptions are:

| Age | Current Year |         | Previous Year |         |
|-----|--------------|---------|---------------|---------|
|     | Males        | Females | Males         | Females |
| 45  | 27.36        | 28.24   | 27.01         | 27.25   |
| 55  | 25.63        | 26.77   | 25.25         | 25.80   |

The mortality assumptions are as described. No explicit allowance has been made for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on mortality or morbidity.

## (5) Morbidity Basis

For Individual Permanent Health Insurance the assumed inception & recovery rates are based on modified CMIR12. The percentages of CMIR12 for sample inception & recovery rates, based on a 12 month deferred period, are as follows:

Percentages of Inception rates for the modified CMIR12 table at current year

| Age | 2 year duration |        | 5 year duration |        |
|-----|-----------------|--------|-----------------|--------|
|     | Male            | Female | Male            | Female |
| 25  | 288%            | 489%   | 288%            | 489%   |
| 35  | 288%            | 489%   | 288%            | 489%   |
| 45  | 311%            | 528%   | 311%            | 528%   |
| 55  | 311%            | 528%   | 311%            | 528%   |

Percentages of Inception rates for the modified CMIR12 table at previous year

| Age | 2 year duration |        | 5 year duration |        |
|-----|-----------------|--------|-----------------|--------|
|     | Male            | Female | Male            | Female |
| 25  | 288%            | 489%   | 288%            | 489%   |
| 35  | 288%            | 489%   | 288%            | 489%   |
| 45  | 311%            | 528%   | 311%            | 528%   |
| 55  | 311%            | 528%   | 311%            | 528%   |

Percentages of Recovery rates for the modified CMIR12 table at current year

| Age | 2 year duration |        | 5 year duration |        |
|-----|-----------------|--------|-----------------|--------|
|     | Male            | Female | Male            | Female |
| 25  | 59%             | 59%    | 59%             | 59%    |
| 35  | 59%             | 59%    | 59%             | 59%    |
| 45  | 59%             | 59%    | 59%             | 59%    |
| 55  | 59%             | 59%    | 59%             | 59%    |

Percentages of Recovery rates for the modified CMIR12 table at previous year

| Age | 2 year duration |        | 5 year duration |        |
|-----|-----------------|--------|-----------------|--------|
|     | Male            | Female | Male            | Female |
| 25  | 32%             | 32%    | 32%             | 32%    |
| 35  | 32%             | 32%    | 32%             | 32%    |
| 45  | 32%             | 32%    | 32%             | 32%    |
| 55  | 32%             | 32%    | 32%             | 32%    |

Mortality for Individual Permanent Health Insurance is assumed to be 81.0% TM92 for males and 80.7% TF92 for females.

Mortality for Individual Permanent Health Insurance as at the previous valuation was assumed to be 81.0% TM92 for males and 80.7% TF92 for females.

## (6) Expenses

For policies valued using a gross premium valuation, allowance has been made for renewal commission as paid and an annual renewal expense in accordance with the expense table below inflating at 7.1% p.a.

For with profit bonds renewal expenses we have compared the value of future policy fees with the value of future renewal expenses in accordance with the expense table below inflating at 7.1% p.a. We have determined that no additional reserve is required.

For other accumulating with profits policies the reserve, calculated formulaically, includes an allowance for expenses in accordance with the expense table below inflating at 7.1% p.a. Renewal commission is assumed to be payable from the margins within future premium allocations.

The inflation rate assumed in last year's valuation was 6.8% p.a..

## Expense Table

|                   |     | <b>Current<br/>Year</b> | <b>Previous<br/>Year</b> |
|-------------------|-----|-------------------------|--------------------------|
| Annuities (400)   |     | £14.31                  | £13.68                   |
| All other classes | [1] | £30.44                  | £29.09                   |

[1] basic policies only except for executive pensions where increments also deemed to incur expenses

Expenses on life policies are assumed to benefit from tax relief at 20%.

### (7) Unit Growth Rates

The unit linked business is reassured to Phoenix Life Limited and the valuation basis is disclosed in that company's returns.

### (8) Future Bonus Rates

For conventional with-profits business there is no allowance for future bonuses.

For accumulating with-profits business the assumed annual bonus rates are:

| <b>PRODUCT</b>     | <b>2007</b> | <b>2008 &amp; after</b> |
|--------------------|-------------|-------------------------|
| Bonds              | 0.08% p.a.  | 0% p.a.                 |
| Other life         | 0.08% p.a.  | 0% p.a.                 |
| UWP Group pensions | 1.50% p.a.  | 0% p.a.                 |
| Other pensions     | 0.17% p.a.  | 0% p.a.                 |

### (9) Persistency Assumptions

The Company anticipates voluntary premium discontinuances on the with profits life and pension contracts specified in the table below; no voluntary discontinuances are assumed for other products..

Initial discontinuance rates are in accordance with the tables below and are assumed to reduce linearly to 5% of the initial rate at maturity/retirement

For with profits life products (excluding whole life) and with profits pension products initial rates of discontinuance are:

#### Initial Surrender Rates (%)

| <b>Product</b>              |           | <u>Average surrender / paid-up rate for the policy years</u> |      |       |       |
|-----------------------------|-----------|--|------|-------|-------|
|                             |           | 1-5  | 6-10 | 11-15 | 16-20 |
| CWP savings endowment       | surrender | 1.3%   | 2.4% | 2.1%  | 2.1%  |
| CWP target cash endowment   | surrender | 2.1%   | 3.6% | 4.2%  | 4.2%  |
| CWP pension regular premium | PUP       | 3.8%   | 4.1% | 2.1%  | 2.1%  |
| CWP pension regular premium | Surrender | 2.2%   | 1.8% | 1.4%  | 1.4%  |
| CWP pension single premium  | Surrender | 1.0%   | 0.9% | 0.9%  | 0.9%  |

Policies becoming paid-up after the valuation date are assumed not to subsequently surrender.

For pension policies surrendering within 15 years of normal retirement date a proportion of surrenders are deemed to be early retirements with associated guaranteed annuity option entitlements. The proportion of surrenders assumed to be early retirements is 100% at normal retirement decreasing linearly to 0% 15 years prior to normal retirement.

## **(10) Other Material Assumptions**

Not applicable.

## **(11) Allowance for Derivatives**

The Company holds a number of swaps in connection with its fixed interest assets. The effect of the swaps has been taken into account by adding the value of the fixed interest assets to the value of the swaps and adjusting the yield on the fixed interest assets to take account of the effect of the swaps. The effect of the swaps has been determined by assuming that the future yields are in accordance with the yields implied by the forward swap curve.

## **(12) Effect of Basis Changes**

There have been no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

# **5. OPTIONS AND GUARANTEES**

## **(1) Guaranteed Annuity Rate Options**

(a) An additional reserve is calculated, where the value of the annuity is greater than the cash sum, using the assumptions set out in section 4 and, additionally, assuming

- All policyholders will exercise the option.
- The percentage of the cash sum which will be used to purchase the annuity on guaranteed terms will be :

85% for Pension Reserve contracts

85% for Personal Pension Scheme protected rights contracts

85% for Additional Pension Plan contracts

79% for Executive Benefits Plan and Retirement Security Plan

85% for Personal Pension Plan and Personal Pension Scheme contracts

87% for Transfer Plan

These are initial proportions and are assumed to increase linearly to 95% over 20 years.

Where the guaranteed annuity option may be exercised in different forms (e.g. with or without escalation, with or without spouse reversionary benefit) then suitable assumptions have been made regarding the proportion of policyholders electing for the various benefit format. Under certain contracts the spouse's annuity terms are not guaranteed under the policy.

- The expenses of payment are 3.0% of the value of the annuity
- For swaption contracts which are held in connection with these guarantees we have calculated an internal rate of return equating the market value of the swaption contracts to the intrinsic value of the underlying swap contracts. For this purpose we assume that swap rates at expiry are as implied by the forward swap yield curve at the valuation date. The internal rate of return so calculated is deemed to be the "yield" on the swaptions for the purposes of determining a valuation rate of interest used in the calculation of reserves for policies with guaranteed annuity options.

The reserves calculated as above have been compared with the market value of the options determined using market consistent swaption prices and the same demographic assumptions. If, in aggregate, the market value is higher then the reserves are increased to this amount. The additional reserve at the valuation date is £26.887m.

(b)

| Product name             | Basic reserve (£000) | Spread of outstanding durations | Guarantee reserve (£000) | GAR <sup>1</sup>              | Increments       | Form of annuity <sup>3</sup>   | Retirement ages |
|--------------------------|----------------------|---------------------------------|--------------------------|-------------------------------|------------------|--|-----------------|
| Additional Pension Plan  | 9,538                | 0 to 41 years                   | 3,884                    | 10.0%<br>8.1%<br>8.1%<br>6.2% | Yes <sup>2</sup> | Level - single life<br>Escalating at 3% - single life<br>Level - 60% spouse<br>Escalating at 3% - 60% spouse | Ages 50 to 75   |
| Executive Benefit Plan   | 160,006              | 0 to 39 years                   | 58,845                   | 10.0%<br>7.6%<br>8.1%<br>5.6% | Yes <sup>2</sup> | Level - single life<br>Escalating at 4% - single life<br>Level - 60% spouse<br>Escalating at 4% - 60% spouse | Ages 50 to 75   |
| Retirement Security Plan | 101,134              | 0 to 41 years                   | 34,345                   | 10.0%<br>8.1%<br>8.1%<br>6.2% | Yes <sup>2</sup> | Level - single life<br>Escalating at 3% - single life<br>Level - 60% spouse<br>Escalating at 3% - 60% spouse | Ages 50 to 75   |
| Transfer Plan            | 294,335              | 0 to 34 years                   | 101,710                  | 10.0%<br>8.1%<br>8.1%<br>6.2% | Yes <sup>2</sup> | Level - single life<br>Escalating at 3% - single life<br>Level - 60% spouse<br>Escalating at 3% - 60% spouse | Ages 50 to 75   |
| PPP81                    | 348,209              | 0 to 31 years                   | 153,142                  | 10.0%<br>8.1%                 | Yes              | Level - single life<br>Level - 60% spouse  | Ages 50 to 75   |
| Fowler                   | 449,338              | 0 to 43 years                   | 188,398                  | 10.0%<br>8.1%<br>8.1%<br>6.2% | Yes <sup>2</sup> | Level - single life<br>Escalating at 3% - single life<br>Level - 60% spouse<br>Escalating at 3% - 60% spouse | Ages 50 to 75   |
| Fowler (DSS)             | 725,914              | 0 to 35 years                   | 259,899                  | 10.0%<br>8.1%<br>8.3%<br>6.4% | Yes <sup>2</sup> | Level - single life<br>Escalating at 3% - single life<br>Level - 50% spouse<br>Escalating at 3% - 50% spouse | Ages 60 to 75   |
| Pensions Reserve         | 16,171               | 0 to 32 years                   | 6,868                    | 10.0%<br>8.1%                 | Yes <sup>2</sup> | Level - single life<br>Level - 60% spouse  | Ages 50 to 75   |

<sup>1</sup> GAR for a male life at age 65 with form of annuity as described.

<sup>2</sup> Benefits secured by DSS payments after 6 April 1998 and increments commencing after 1 December 1998 do not include a guaranteed annuity option.

<sup>3</sup> Annuity is payable monthly in advance and guaranteed for 5 years. The forms of annuity represent the various forms assumed in the reserving calculation. Not all forms are necessarily contractual obligations and may represent a concession by the Company.

## (2) Guaranteed Surrender and Unit-linked Maturity Values

### UWP Bond

- (a) MVRs are not applicable on encashment or partial surrender on the 10<sup>th</sup> policy anniversary for with-profit bonds commencing between June 1996 and January 1999.

The policy reserve is not less than the value of the benefits at the 10<sup>th</sup> policy anniversary calculated on the assumptions in Paragraph 4.

- (b) Policies established on the administration system after 29 September 1997 are wholly reassured with Phoenix Life Limited and the required disclosure for these policies may be found in the Returns of that company. For policies retained by this Company the required disclosure is:

|        |                                 |   |
|--------|---------------------------------|---|
| (i)    | Product Name                    | Unitised With Profits Bond  |
| (ii)   | Basic Reserve                   | £69,010,559   |
| (iii)  | Spread of outstanding durations | 0 to 9 months.  |
| (iv)   | Guarantee Reserve               | £69,010,559   |
| (v)    | Guaranteed Amount               | £69,479,964   |
| (vi)   | MVR Free conditions             | MVRs are not applicable on full or partial surrender on the 10 <sup>th</sup> policy anniversary, on death or regular withdrawal within certain limits |
| (vii)  | In Force Premiums               | N/A   |
| (viii) | Increments                      | No  |

### Executive Pension Plan, Company Pension Scheme, Company Additional Pension Scheme, Individual Personal Pension Plan, Group Personal Pension Plan & Personal Additional Pension Plan

Unitised With Profits benefits secured are wholly reassured with Phoenix Life Limited and the required disclosure may be found in the Returns of that Company.

### Guaranteed Unit-Linked Maturity Values

In respect of business retained by the Company there are no guaranteed unit-linked maturity values.

In respect of unit-linked business written by the Company and reassured to Phoenix Life Limited, the guarantees are fully described in the Returns of Phoenix Life Limited.

## (3) Guaranteed Insurability Options

Various endowments purchased in connection with a mortgage include options to effect additional cover in certain circumstances without requiring additional evidence of health. Take-up of this option has been extremely low and no additional reserve is held.

Some of the term assurance policies include options to convert to other policies without requiring further evidence of health. Take-up of this option has been extremely low and no additional reserve is held. The sum assured under the policies is less than £1bn.

#### **(4) Other Guarantees and Options**

None

### **6. EXPENSE RESERVES**

#### **(1) Aggregate Expense Loadings**

The aggregate amount of expense contributions arising during the 12 months following the valuation date from explicit and implicit margins made in the valuation are:

| Homogeneous risk group | Implicit allowances | Explicit allowances (investment) | Explicit allowances (other) | Non-attributable expenses | Total |
|------------------------|---------------------|----------------------------------|-----------------------------|---------------------------|-------|
| All products           | 7.2                 | 0                                | 13.1                        | 6.1                       | 26.4  |

#### **(2) Implicit Allowances**

The implicit allowances above are in respect of investment management expenses. They are based on the rate of investment fees payable to the investment manager applied to the amount of reserves. This implicit allowance is met by the difference between the risk-adjusted yield on the assets and the valuation rate of interest.

#### **(3) Form 43 Comparison**

Of the aggregate amount in 6.1, £20.3m would be reported on line 14 of Form 43 and this amount is not significantly different from the amount reported on that line in this Return. The balance of the aggregate amount in 6.1 would be reported on lines 13 and 15 of Form 43.

#### **(4) New Business Expense Overrun**

Since the company is closed to new business, except for contractual increments, it does not expect to incur any material strain in writing new business so no additional reserve is required.

#### **(5) Maintenance Expense Overrun**

Expense reserves in accordance with 6(1) are considered to be sufficient to meet the expenses likely to be incurred in the future in fulfilling the existing contracts.

The expense assumptions allow for the standard fees payable under a management services agreement plus a prudent allowance for costs that are not covered by these fees.

An allowance has been made for redundancy costs in respect of redundancies following compensation review exercises. The company is not liable for redundancy costs in general due to its outsourcing arrangement with Resolution Management Services.

No costs of terminating the management services agreement have been allowed for because the contract is not cancellable by the services provider.



**(6) Non-attributable expenses**

The non-attributable expense reserve is the expected cost of certain planned projects of a non-recurring nature that are not covered by the standard fee under the management services agreement.

**7. MISMATCHING RESERVES**

**(1) Analysis of Reserves by Currency**

The mathematical reserves (other than liabilities for property linked benefits) after distribution of surplus comprise:

| Currency | Reserves | Percentage matched in same currency |
|----------|----------|-------------------------------------|
| Sterling | £5,739m  | 100%                                |
| Other    | £1m      | 100%                                |

**(2) Other Currency Exposures**

See table in paragraph 7 (1).

**(3) Currency Mismatching Reserve**

The liabilities in currencies other than sterling are matched by assets in the same currency. The currency mismatching reserve is therefore nil.

**(4) Most Onerous Scenario Under INSPRU 3.1.16(R)**

Phoenix & London Assurance Limited, being a realistic basis life firm, is not required to calculate a resilience capital requirement under INSPRU 3.1.9.

**(5) Most Onerous Scenario Under INSPRU 3.1.23(R)**

Not applicable.

**(6) Resilience Capital Requirement**

Not applicable.

**(7) Additional Reserves Arising From INSPRU 1.1.34(2)(R)**

No further reserve is required for mismatching as investments are closely matched to the liabilities.

**8. OTHER SPECIAL RESERVES**

Details of other special reserves are set out below.

Endowment Compensation Reserve

Some policyholders may have been given non-compliant advice to take out an endowment policy to repay a mortgage.

An amount to cover the cost of providing compensation to them has been assessed from the number of complaints expected to be received, the proportion anticipated to be valid and the expected amount of compensation per case payable, account being taken of the FSA guidelines on determination of compensation. Provision has also been made for the cost of handling complaints received. This amount has been included within the reserves for Endowment Assurances.

The amount of this reserve is £26.5m.

#### Additional Guaranteed Annuity Option Reserve

Additional reserves are held in respect of expected additional payments on with profits pension claims in 1999, 2000, 2001 and 2002. Terminal bonus on the claim amounts had been calculated by deducting an amount for the expected cost of providing the guaranteed annuity option on those claims. Subsequent legal advice has indicated that this was not in accordance with the House of Lords judgement in Hyman v Equitable Life Assurance Society.

The amount of this reserve is £89.9m.

#### Additional Reserves

Further additional reserves, exceeding the lesser of £10m and 0.1% of total mathematical reserves, comprise:

- data contingency reserves of £20m for additional liabilities which may arise in connection with data errors affecting the long-term business.
- reserves of £15m for future litigation settlements and other similar costs.
- reserves of £12m for additional annuity payments arising from amounts withheld from past payments due to the application of statutory limits

## **9. REINSURANCE**

### **(1) Unauthorised reinsurers**

- (a) No premiums were payable on a facultative basis to a reinsurer that was unauthorised to carry on insurance business in the UK.
- (b) No premiums were payable to a connected company reinsurer that was unauthorised to carry on insurance business in the UK.

### **(2) Reinsurance Treaties**

The required details of reinsurance treaties in force at the valuation date are set out below.

- (g) Not applicable since there are no deposit back arrangements under any of the treaties.
- (h) All treaties are open to new business, other than those marked with an asterisk.

New business only arises from incremental policies or the exercising of options under existing contracts.

- (i) There are no undischarged obligations
- (n) Credit risk arises from a possible failure of the reinsurer to meet its obligations. For reinsurers which are not connected companies the risk is not deemed material. No provision has been made for credit risk in respect of reinsurance with other companies in the Resolution group.

Legal risks arises from disputes regarding the operation of the treaties. Provision for any associated costs is by way of the litigation provision described in 8 above

- (o) No provision has been made under any of the treaties for any liability of the company to refund any amount of reinsurance commission in the event of the lapse or surrender of the contracts. Where such a liability exists, then the refund of commission will be more than offset by the return of the premium from the reinsurer.

- (p) There is a financing arrangement in place to provide support to the long-term fund. The details of the arrangement are described fully in note 1508.

For the purposes of the regulatory valuation no provision has been made for the contingent repayment of £106.388m from the long-term fund to the shareholder fund.

| (d)                  | (e)                       |                             |                 | (f)           | (j)                      | (l)                 | (m)                     |
|----------------------|---------------------------|-----------------------------|-----------------|---------------|--------------------------|---------------------|-------------------------|
| Name of Reinsurer    | Type of Business          | Type of Reinsurance         | Extent of Cover | Premiums<br>£ | Reserve<br>Ceded<br>£000 | Authorised in<br>UK | Connected to<br>Company |
| Revios Re            | Individual Life Assurance | 2nd Surplus                 | 100,000         | 3,130         | See Note 2               | No                  | No                      |
| *Munich Reinsurance  | Individual Life Assurance | 1st Surplus (Risk Premium)  | 375,000         | 4,353         | See Note 2               | Yes                 | No                      |
| Phoenix Life Limited | Note 1 (a)                | Original Terms              | No maximum      | 6,044,371     | 976,064                  | Yes                 | Yes                     |
| Phoenix Life Limited | Note 1 (b)                | Original Terms/Risk Premium | Max of 350,000  | 40,764,352    | 205,233                  | Yes                 | Yes                     |
| Phoenix Life Limited | Note 1 (c)                | Original Terms              | No maximum      | 20,721,536    | 346,035                  | Yes                 | Yes                     |
| Hannover Re          | Individual Life Assurance | 2nd Surplus                 | 200,000         | 361           | See Note 2               | Yes                 | No                      |
| Swiss Reinsurance    | Individual Life Assurance | 1st Surplus (Risk Premium)  | 1,125,000       | 918,650       | See Note 2               | Yes                 | No                      |
| GE Frankona          | Individual Life Assurance | 1st Surplus (Risk Premium)  | 375,000         | 74,544        | See Note 2               | Yes                 | No                      |
| *Scottish Re         | Individual Life Assurance | 2nd Surplus (Risk Premium)  | 50,000          | 33,372        | See Note 2               | Yes                 | No                      |

Note 1:

The treaties with Phoenix Life Limited include:

- (a) the reassurance of the unit linked liability in respect of:
  - Lifetime Plan
  - Universal Protection Plan
  - Challenger Bond
  - Personal Pension Plan
  - Personal Pension Scheme
  - Executive Benefits Plan
  - Pension Reserve
  - Executive Pension Plan
  - Company Pension Scheme
  - Company Additional Pension Scheme
  - Individual Personal Pension Plan
  - Group Personal Pension Plan
  - Personal Additional Pension Plan;
- (b) the reassurance of the Group Pensions unitised with profits contract, certain with profit endowments and Moneymaker contracts on original terms, term assurance, Progressive Protection and PHI on original terms and Universal Protection Plans on risk premium terms and life cover benefits under unitised with profits pensions, MSP and RSP.
- (c) the reassurance of:
  - (i) Unitised With Profit Bond business written after September 1997
  - (ii) The UWP liabilities for:
    - Executive Pension Plan
    - Company Pension Scheme
    - Company Additional Pension Scheme
    - Individual Personal Pension Plan
    - Group Personal Pension Plan
    - Personal Additional pension Plan

The business described in (c) above was reassured to Phoenix Life and Pensions Limited (“PLP”) throughout 2006 and the premiums shown were paid to that company. The business of PLP was transferred to Phoenix Life Limited as at the end of the year so the business is reassured with that company at the valuation date.

Note 2:

Reinsurance ceded external reserves total £13,918,000. This total has not been split between the respective reinsurers.

## 10. REVERSIONARY (OR ANNUAL) BONUS

### (1) Details of bonus rates

The following rates of reversionary bonus, which are independent of age and original term of the contract, were declared on 31st December 2006:

| (a)<br>Bonus Series                     | (b)<br>Net Math Res.<br>(£000) | (c)<br>Bonus<br>Current Year | (d)<br>Bonus<br>Previous Year | (e)<br>Total<br>guaranteed rate |
|---|--------------------------------|------------------------------|-------------------------------|---------------------------------|
| Category 1 Contracts                    | 2,864,241                      | 0.05%/0.05%                  | 0.05%/0.05%                   | 0.0%                            |
| Category 2 Contracts                    | 1,617,694                      | 0.1%/0.1%                    | 0.1%/0.1%                     | 0.0%                            |
| Unitised with profits life <sup>1</sup> | 92,829                         | 0.58%                        | 1.0%                          | 0.0%                            |

<sup>1</sup> The Company also writes unitised with profits business which is wholly reassured to Phoenix Life Limited. The reversionary bonuses applying to these contracts are fully described in the Returns of that company.

Category 1 contracts are:

- Additional Pension Plan
- Executive Benefit Plan
- Jersey Prosperity Plan
- Pension Reserve
- Personal Pension Plan
- Retirement Security Plan
- Transfer Plan

Category 2 contracts are all other contracts entitled to participate in profits excluding unitised with profits contracts.

### (2) Unitised with-profits business unit price increases

For unitised with profits life policies, the reversionary bonus is added daily in the form of growth of the unit price. For business retained by the Company the reversionary bonus rate was 1.0% until 1<sup>st</sup> March 2006, and 0.5% thereafter. Business reassured to Phoenix Life Limited is described in the Returns of that Company.

### (3) Super compound bonus

The table in 10 (1) shows bonus rates expressed as X%/Y% where X% is the bonus rate applied to the sum assured and Y% is the bonus rate applied to the attaching bonuses.

### (4) Bonus series

Within a bonus series bonus rates do not vary.

## APPENDIX 9.4A

### PHOENIX & LONDON ASSURANCE LIMITED

#### Abstract of Valuation Report for Realistic Valuation

## 1. INTRODUCTION

### (1) Valuation date

The valuation date is 31<sup>st</sup> December 2006.

### (2) Previous valuation

The previous valuation related to 31 December 2005.

### (3) Interim valuations

There was no published interim valuation.

## 2. ASSETS

### (1) Economic assumptions for valuing non-profit business

The economic assumptions for non-profit products are as follows:

| Item                    | Current Valuation (%) | Previous Valuation (%) |
|-------------------------|-----------------------|------------------------|
| Gross Investment Return | See below             | See below              |
| RPI Inflation           | 3.30                  | 3.00                   |
| Risk Discount Rate      | See below             | See below              |

The value of future profits on non-profit products was calculated by assuming risk free rates of investment return and discount rates. These were based on a zero coupon gilt yield curve plus 10 basis points as at the valuation date.

Earned rates of return were assumed to be annual forward yields derived from the curve, net of tax and investment expenses.

Discount rates used were spot yields taken from the curve, net of tax and investment expenses.

The risk free yield curves (gilt yield curve plus 10 basis points) at the current and previous valuation dates were as follows:

| Term (years) | Risk Free Yield                      |                                       |
|--------------|--------------------------------------|---------------------------------------|
|              | Current Valuation Market + 10 bp (%) | Previous Valuation Market + 10 bp (%) |
| 1            | 5.38                                 | 4.40                                  |
| 2            | 5.31                                 | 4.31                                  |
| 3            | 5.25                                 | 4.30                                  |
| 4            | 5.19                                 | 4.30                                  |
| 5            | 5.13                                 | 4.29                                  |
| 6            | 5.07                                 | 4.28                                  |
| 7            | 5.01                                 | 4.26                                  |
| 8            | 4.96                                 | 4.25                                  |
| 9            | 4.91                                 | 4.24                                  |
| 10           | 4.86                                 | 4.24                                  |
| 12           | 4.76                                 | 4.22                                  |
| 15           | 4.63                                 | 4.20                                  |
| 20           | 4.45                                 | 4.14                                  |
| 25           | 4.29                                 | 4.08                                  |

**(2) Amount determined under INSPRU 1.3.33R(2)**

Not applicable.

**(3) With profit benefit reserves below de minimis limit**

Not applicable.

**(4) Different sets of assumptions**

Not applicable.

**3. WITH-PROFITS BENEFITS RESERVE LIABILITIES**

**(1) Calculation of with profits benefits reserve**

| Product Type   | Method        | With-profits Benefit Reserve (£m) | Future Policy Related Liabilities (£m) |
|--|---------------|-----------------------------------|--|
| With-profits – Whole Life                            | Prospective   | 44                                | (3)                                    |
| With-profits – Other Life                            | Retrospective | 1,915                             | (131)                                  |
| With-profits – Pensions (Regular and Single Premium) | Retrospective | 1,573                             | 853                                    |
| With-profits – Pensions (Paid-Up)                    | Prospective   | 519                               | 282                                    |
| UWP Life   | Retrospective | 92                                | (1)                                    |
| Other  |               | 5                                 |  |
| <b>TOTAL</b>   |               | <b>4,148</b>                      | <b>1,000</b>                           |

In the table above, the future policy related liabilities for with profits life business and with profits pensions business have been split in proportion to the with profits benefit reserves.



**(2) Correspondence with Form 19**

Not applicable.

**(3) With profits benefit reserves below de minimis limit**

The amount categorised as “Other” above falls within the de minimis limit.

**4. WITH-PROFITS BENEFITS RESERVE – RETROSPECTIVE METHOD**

**(1) Retrospective methods**

(a), (b)

| Product Type   | Proportion Calculated using Individual Data (a) | Proportion Calculated using Grouped Data (b) |
|--|---|--|
| With-profits – Life (excluding whole life)           | 100%  | 0%   |
| With-profits – Pensions (excluding paid-up policies) | 100%  | 0%   |
| UWP Life   | 100%  | 0%   |

(i) Whilst the asset shares have been calculated using individual data in all cases, the method used for unitised with-profits business has been the application, to the individual data, of a factor (ratio of asset share to face value of units) which has been calculated by reference to grouped / sample data. This is consistent with the way the business is operated in practice.

**(2) Significant changes to valuation method**

(a) There are no significant changes.

(b) Not applicable.

**(3) Expense allocation**

(a) The previous expense investigation was carried out in the fourth quarter of 2006.

(b) Expense investigations are carried out twice annually.

(c)

|   |                                 |
|---|---------------------------------|
|   |                                 |
| (i) Initial Expenses  | £Nil <sup>1</sup>               |
| (ii) Maintenance Expenses   | £12.0m                          |
| (ii) Investment Expenses  | £6.8m                           |
| (iii) Method  | Average expense charge deducted |
| (iv) Expenses charged other than to with-profits benefits reserve | £11.3m                          |

<sup>1</sup> Since the company is closed to new business (apart from contractual increments etc.), there are no material acquisition expenses.

Investment expenses were deducted from the with-profits benefits reserve at the rate of 0.125% p.a.

**(4) Significant charges**

The charges deducted from the with-profits benefit reserve in the year to the valuation date and the preceding year were (£m):

|   | Current year | Previous year |
|---|--------------|---------------|
| Net losses on non-profit business                                   | 6.2          | 77.9          |
| Proportion of up-front outsourcing costs attributable to the period | 4.4          | 4.4           |
| Write-off of initial spreads on derivative contracts                | 16.4         | 16.0          |
| Capital support costs   | 2.3          | 1.9           |
| Change in valuation of assets from mid to bid basis                 | 0.9          | n/a           |
| Charges for guarantees and smoothing                                | 70.0         | 58.5          |

**(5) Charges for non-insurance risk**

Not applicable.

**(6) Ratio of claims to reserve**

Terminal bonus rates are set in advance for conventional with-profits policies. The terminal bonus rate is set based on assumptions about future investment returns. Terminal bonus rates on maturing endowment life policies and pension policies vesting at the intended retirement date were set to give the following percentages of the with profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with profits benefits reserve but not less any exit charge, for the following specimen products and terms:

|                         | Endowment Policies | Regular Premium Personal Pension Plan | Single Premium Personal Pension Plan | Regular Premium Executive Benefits Plan | Single Premium Executive Benefits Plan |
|-------------------------|--------------------|---------------------------------------|--------------------------------------|---|--|
| 1/1/2004 to 17/8/2004   |                    |                                       |                                      |   |  |
| 10 year term            | 100                | 100*                                  | 104*                                 | 101                                     | 109*                                   |
| 15 year term            | 98                 | 99                                    | 102                                  | 97                                      | 107*                                   |
| 20 year term            | 98                 | 98                                    | 98                                   | 98                                      | 98                                     |
| 25 year term            | 98                 |                                       |                                      |   |  |
| 18/8/2004 to 31/12/2004 |                    |                                       |                                      |   |  |
| 10 year term            | 98                 | 98                                    | 98                                   | 97                                      | 99*                                    |
| 15 year term            | 98                 | 98                                    | 106                                  | 94                                      | 114*                                   |
| 20 year term            | 98                 | 98                                    | 99                                   | 98                                      | 98                                     |
| 25 year term            | 98                 |                                       |                                      |   |  |
| 1/1/2005 to 30/04/2005  |                    |                                       |                                      |   |  |
| 10 year term            | 100*               | 104*                                  | 99                                   | 98                                      | 104*                                   |
| 15 year term            | 102                | 101                                   | 110                                  | 96                                      | 117                                    |
| 20 year term            | 98                 | 101                                   | 100                                  | 102                                     | 102                                    |
| 25 year term            | 99                 |                                       |                                      |   |  |
| 1/5/2005 to 31/8/2005   |                    |                                       |                                      |   |  |
| 10 year term            | 100*               | 104*                                  | 100*                                 | 95                                      | 108*                                   |
| 15 year term            | 95                 | 100*                                  | 107*                                 | 95                                      | 109*                                   |
| 20 year term            | 95                 | 95*                                   | 98*                                  | 95                                      | 97*                                    |
| 25 year term            | 95                 |                                       |                                      |   |  |
| 1/9/2005 to 31/12/2005  |                    |                                       |                                      |   |  |
| 10 year term            | 101*               | 105*                                  | 105*                                 | 98*                                     | 113*                                   |
| 15 year term            | 96*                | 101*                                  | 103*                                 | 99                                      | 105*                                   |
| 20 year term            | 92                 | 96*                                   | 102*                                 | 95                                      | 102*                                   |
| 25 year term            | 93                 |                                       |                                      |   |  |
| 1/1/2006 to 30/4/2006   |                    |                                       |                                      |   |  |
| 10 year term            | 101*               | 105*                                  | 106*                                 | 96*                                     | 114*                                   |
| 15 year term            | 95*                | 102*                                  | 98*                                  | 94                                      | 105*                                   |
| 20 year term            | 92                 | 99*                                   | 102*                                 | 92                                      | 103*                                   |
| 25 year term            | 92                 |                                       |                                      |   |  |
| 1/5/2006 to 31/8/2006   |                    |                                       |                                      |   |  |
| 10 year term            | 104*               | 106*                                  | 110*                                 | 92                                      | 117*                                   |
| 15 year term            | 95*                | 103*                                  | 102*                                 | 92                                      | 109*                                   |
| 20 year term            | 92                 | 101*                                  | 103*                                 | 92*                                     | 104*                                   |
| 25 year term            | 92                 |                                       |                                      |   |  |
| 1/9/2006 to 31/12/2006  |                    |                                       |                                      |   |  |
| 10 year term            | 99*                | 108*                                  | 116*                                 | 92                                      | 120*                                   |
| 15 year term            | 94*                | 105*                                  | 105*                                 | 92                                      | 112*                                   |
| 20 year term            | 92                 | 101*                                  | 111*                                 | 94*                                     | 111*                                   |
| 25 year term            | 92                 |                                       |                                      |   |  |

(\*) Denotes that zero terminal bonus rate applied

Payouts on surrenders for conventional with profits policies will generally have been based on a lower percentage of the with profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with profits benefits reserve before deducting any exit charge.

Payouts on surrenders of unitised with profits bonds have been set to the following percentages of the with profits benefits reserve plus any past miscellaneous surplus less any miscellaneous deficit attributed to the with profits benefits reserve but not less any exit charge.

| Year |                 |
|------|-----------------|
| 2003 | 98.0% to 100.0% |
| 2004 | 98.0%           |
| 2005 | 91.0% to 95.0%  |
| 2006 | 91.9% to 100%   |

**(7) Allocated return**

The rate of investment return attributed to the with-profits benefits reserve of a policy depends on the asset mix for it. The asset mix and the outstanding term of the hypothecated fixed interest securities depend on the outstanding term and the level of guarantees under the policy (see PPFM for more details).

The average rates of investment return (before tax and expenses) added for the year to the valuation date are:

| Product Type          | Investment Return (%) |
|-----------------------|-----------------------|
| Conventional Life     | 4.7%                  |
| Conventional Pensions | 1.5%                  |
| UWP Bond              | 4.0%                  |
| Other UWP Life        | 7.0%                  |

## 5. WITH-PROFITS BENEFITS RESERVE – PROSPECTIVE METHOD

### (1) Key assumptions

A prospective method has been used for with-profits whole life business and for paid-up with-profits pensions business.

Bonus rates on with-profits whole life business and paid-up pensions contracts are the same as the bonus rates on endowments and regular premium pension contracts respectively for the same term. A bonus reserve valuation is used to determine the with-profits benefits reserve, where:

- the bonus rates are the supportable bonus rates determined from the relevant product, and
- the economic assumptions are consistent with the supportable bonus rates (rather than being derived from the risk free rate)

The assumptions underlying this method are as follows:

#### With-Profits Whole Life Business

The discount rate is 4.0% p.a., which is the same as the investment return assumption. This is consistent with the calculation of the supportable bonus rates and is net of tax, investment expenses and guarantee charge.

The investment return is 4.0% p.a. (net of investment management expenses, tax and guarantee charge).

Expense inflation is 7.0% p.a., which is the rate that underlies the supportable bonus rates for this product.

Future reversionary bonuses are assumed to be 0.1%p.a.

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

| Elapsed Term in Years | Year of Payment |         |         |         |         |        |         |         |
|-----------------------|-----------------|---------|---------|---------|---------|--------|---------|---------|
|                       | 2007            | 2012    | 2017    | 2022    | 2027    | 2032   | 2037    | 2042    |
| 10                    | 2.60%           | 21.70%  |         |         |         |        |         |         |
| 15                    | 9.10%           | 18.50%  | 25.50%  |         |         |        |         |         |
| 20                    | 25.00%          | 26.40%  | 32.30%  | 36.60%  |         |        |         |         |
| 25                    | 53.00%          | 43.70%  | 41.40%  | 45.20%  | 49.00%  |        |         |         |
| 30                    | 184.90%         | 84.10%  | 66.80%  | 54.70%  | 48.40%  | 43.30% |         |         |
| 35                    | 492.40%         | 255.00% | 123.40% | 86.20%  | 79.70%  | 87.20% | 96.30%  |         |
| 40                    | 859.40%         | 593.40% | 341.10% | 168.30% | 108.30% | 87.40% | 110.20% | 115.60% |

The assumed per policy maintenance expense for with-profits whole life business is £29.98 for 2007, which is the rate that underlies the supportable bonus rates for this product.

There are no lapses.

Paid-Up With-Profits Pensions Business

The discount rate is 5.375% p.a., which is the same as the investment return assumption. This is consistent with the calculation of the supportable bonus rates.

The investment return is 5.375% p.a.

Expense inflation is 7.0% p.a., which is the rate that underlies the supportable bonus rates for this product.

Future reversionary bonuses are assumed to be 0.1% p.a. on personal pension deferred annuities and 0.05% p.a. for other products.

Future terminal bonus rates vary by duration in force (at time of payment) and the actual year of payment.

Sample terminal bonus rates are as follows:

Personal Pension Plan

| Elapsed Term in Years | Year of Payment |       |       |       |       |        |        |        |
|-----------------------|-----------------|-------|-------|-------|-------|--------|--------|--------|
|                       | 2007            | 2012  | 2017  | 2022  | 2027  | 2032   | 2037   | 2042   |
| 5                     | 0.00%           |       |       |       |       |        |        |        |
| 10                    | 0.00%           | 2.10% |       |       |       |        |        |        |
| 15                    | 0.00%           | 0.00% | 3.10% |       |       |        |        |        |
| 20                    | 0.00%           | 0.00% | 0.00% | 4.40% |       |        |        |        |
| 25                    | N/A             | 0.00% | 0.00% | 0.00% | 0.00% |        |        |        |
| 30                    | N/A             | N/A   | 0.00% | 2.10% | 0.20% | 12.50% |        |        |
| 35                    | N/A             | N/A   | N/A   | 0.00% | 9.60% | 9.70%  | 0.00%  |        |
| 40                    | N/A             | N/A   | N/A   | N/A   | 0.00% | 15.60% | 19.00% | 17.90% |

## Executive Benefit Plan

| Elapsed Term in Years | Year of Payment |       |        |        |       |       |      |      |
|-----------------------|-----------------|-------|--------|--------|-------|-------|------|------|
|                       | 2007            | 2012  | 2017   | 2022   | 2027  | 2032  | 2037 | 2042 |
| 5                     | 12.40%          |       |        |        |       |       |      |      |
| 10                    | 1.60%           | 8.40% |        |        |       |       |      |      |
| 15                    | 4.80%           | 2.60% | 1.30%  |        |       |       |      |      |
| 20                    | 10.90%          | 6.70% | 0.00%  | 0.00%  |       |       |      |      |
| 25                    | 15.20%          | 4.20% | 0.00%  | 0.00%  | 4.70% |       |      |      |
| 30                    | N/A             | 8.30% | 11.90% | 4.10%  | 0.60% | 1.20% | N/A  |      |
| 35                    | N/A             | N/A   | 10.40% | 13.70% | 3.60% | 0.00% | N/A  | N/A  |
| 40                    | N/A             | N/A   | N/A    | 0.00%  | 2.00% | N/A   | N/A  | N/A  |

## Personal Pension Plan (Deferred Annuity)

| Elapsed Term in Years | Year of Payment |         |        |      |
|-----------------------|-----------------|---------|--------|------|
|                       | 2007            | 2012    | 2017   | 2022 |
| 25                    | N/A             |         |        |      |
| 30                    | 50.50%          | N/A     |        |      |
| 35                    | 209.80%         | 55.80%  | N/A    |      |
| 40                    | 291.00%         | 217.70% | 60.50% | N/A  |

The assumed per policy maintenance expense for with-profits paid up pensions business is £29.98 for 2007, which is the rate that underlies the supportable bonus rates for this product.

There are no lapses.

### (2) Different sets of assumptions

Not applicable.

## 6. COST OF GUARANTEES, OPTIONS AND SMOOTHING

### (1) De minimis limit

Not applicable.

### (2) Valuation methods for guarantees etc.

|              | Cost of Guarantees & Options | Smoothing Cost            | Extent of Grouping | No of Individual policies | No of model points |
|--------------|------------------------------|---------------------------|--------------------|---------------------------|--------------------|
| All Business | Stochastic model             | Deterministic calculation | All business       | 345,451                   | 6,593              |

(a) Cost of Guarantees & Options

The costs of guarantees are determined using a stochastic model, with the asset returns being generated by a proprietary model. The following items were calculated stochastically:

- (i) Guaranteed annuity option reserves.
- (ii) The reserves required in addition to asset share to meet guaranteed benefits.
- (iii) Future retentions at maturity where payouts of less than 100% of asset share are being targeted
- (iv) Future profits and losses where amounts payable upon surrender are less or more than asset share.
- (v) The value of future guarantee charges deducted from asset share.

The calculations were carried out using a risk neutral approach.

Format of the GARs

The customer can elect to take the annuity guarantee in a number of different forms (e.g. with escalation, with spouse's pension). The value of the GAR is initially calculated assuming all male aged 65, non-escalating, no spouse's pension and then a factor is used in the stochastic model to weight the value of the GAR to allow for the expected take- up of benefits in alternative forms and the resulting expected variation in cost. The weighting factors vary between contract and are as follows:

| <b>Product</b>           | <b>Weighting Factor</b> |
|--------------------------|-------------------------|
| Fowler PPP (non DSS)     | 91%                     |
| Fowler PPP (DSS)         | 88%                     |
| Transfer Plan            | 88%                     |
| Executive Benefit Plan   | 92%                     |
| Pension Reserve          | 85%                     |
| Retirement Security Plan | 88%                     |
| Additional Pension Plan  | 94%                     |
| PPP '81                  | 91%                     |

Early Retirements

Contracts provide a guaranteed annuity option upon early retirement. It is probable that some surrenders are actually early retirements with a GAR. We assume that 0% of surrenders are early retirements 15 years or more before maturity increasing linearly to 100% immediately prior to maturity. A factor is also applied to reflect the earlier application of the GAR at a younger age. These adjustments are made within the stochastic model.

Our calculations allow for the assumed expenses of paying the annuity.

We assume that policyholders elect to take a proportion of their benefits as cash where permitted.



### Personal Pension Deferred Annuity (PPDA)

For PPDA's the liability for guarantees is calculated on the basis that all policyholders will take a cash sum equal to 3 times the amount of the starting annuity with the balance of the benefit being taken in annuity form. The whole of the guarantee liability is shown within the future cost of contractual guarantees.

### Cost of Smoothing

The small amount of smoothing cost was determined deterministically as the excess of the projected actual payouts over the projected target payouts.

For pensions policies the smoothing cost allows for any GARs that will be provided on the overpayment.

We compare actual payouts at the valuation date with target payouts.

Where there is currently an overpayment relative to the target we anticipate a change to terminal bonus rates effective from 1<sup>st</sup> January 2007 and assume that payouts can be cut by up to 5% at declarations every 4 months limited to 15% over a 12 month period.

In the stress scenarios the maximum cut increases to 10% each time and 25% in any 12 months.

The calculation is carried out separately for each major class of traditional business but a weighted average overpayment across different terms is used.

- (b) (i) None
- (ii) All of the contracts are valued on a grouped basis.
- (iii) For each product type we initially create separate model points for each combination of year of commencement and year of maturity. For unitised with profits bonds we split by commencement month.

This grouping allows for the asset mix associated with each cohort of business. It is aligned with the way in which we declare bonus rates on our business (our actual terminal bonus rate calculation are based on specimen policies split out in the same way i.e. product type, year of commencement and year of maturity although at quinquennial rather than annual intervals with monthly cohorts for UWP bonds).

The initial model point files outlined above are then more heavily grouped to improve the run times in the stochastic model by amalgamating some of the smaller model points that were not making a significant contribution to the overall results. In order to test that this heavier grouping did not materially affect the results 3000 simulations were run at both levels of grouping and the results differed by less than 1% for the GAR & non GAR reserves.

- (c) Less than 1% is unmodelled. The guarantee cost on this business is not material.

**(3) Significant changes**

None

**(4) Further information on stochastic approach**

- (a) (i) The following tables give an indication of the extent to which the guarantees are in or out of the money at the valuation date. The table shows the percentage of the with profits benefits reserve (including miscellaneous profit items) for each product that falls within each band. The bands are defined below.

| %Asset Share              | Band A | Band B | Band C | Band D |
|---------------------------|--------|--------|--------|--------|
| Endowments & Whole Life   | 3.0%   | 0.1%   | 0.3%   | 96.6%  |
| Conventional Pensions     | 48.3%  | 16.0%  | 15.4%  | 20.3%  |
| Unitised With Profit Bond | 86.7%  | 0%     | 0%     | 13.3%  |

Where:

|        |  |
|--------|--|
| Band A | Contracts would need to earn >10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee           |
| Band B | Contracts need to earn between 7.5% and 10%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee |
| Band C | Contracts need to earn between 5% and 7.5%p.a. (higher for shorter terms) on the equities & property backing their asset share to meet the maturity guarantee  |
| Band D | Contracts need to earn <5%p.a. on the equities & property backing their asset share to meet the maturity guarantee   |

- (ii) The asset returns in the stochastic model were generated by a proprietary model licensed from Barrie & Hibbert.

The asset classes modelled are UK equities, overseas equities, UK property, UK corporate bonds and UK gilts.

UK gilt returns are modelled using a gilts + 10bps calibration in an Annual LIBOR Market Model. The Government Nominal Bond yield curve is a direct input into the model.

Excess returns over risk free on UK equities, overseas equities and property are modelled using separate (but correlated) lognormal models. The equity model uses a local volatility surface calibrated to market implied volatilities for a range of strikes and maturities. Volatilities are assumed to be constant beyond quoted strikes and maturities.

The volatilities used for UK equities are set out in 6(4)(a)(vi). The split between UK and overseas equities was 72%/28%.

Corporate bond returns are modelled using the extended Jarrow-Lando-Turnbull model. This describes bond prices in terms of a real-world transition matrix, which gives the probability of a transition to each credit rating over one year. Risk neutral transition probabilities are assumed to vary stochastically. The transition matrix is consistent with best estimates based on historic data of long term transition probabilities and spread volatilities and corporate bond prices. The model was fitted to a sample of predominantly investment grade sterling corporate bonds.

The following are examples of observed correlations of year 10 returns from the scenarios used (ZCB = zero coupon bond):

|                   | Cash | Equities | Property | Overseas Equities | 5yr Govt ZCB | 15yr Govt ZCB | 5yr Corp ZCB | 15yr Corp ZCB | 5yr Index Linked ZCB | 15yr Index Linked ZCB |
|-------------------|------|----------|----------|-------------------|--------------|---------------|--------------|---------------|----------------------|-----------------------|
| Cash              | 1    | -0.03    | 0.12     | -0.06             | 0.62         | -0.49         | 0.28         | -0.39         | 0.50                 | 0.20                  |
| UK Equities       |      | 1        | 0.21     | 0.38              | 0.10         | 0.18          | 0.45         | 0.35          | 0.17                 | 0.24                  |
| Property          |      |          | 1        | 0.14              | 0.08         | -0.02         | 0.12         | 0.03          | 0.16                 | 0.13                  |
| Overseas Equities |      |          |          | 1                 | 0.07         | 0.24          | 0.19         | 0.28          | 0.24                 | 0.32                  |
| 5yr Govt ZCB      |      |          |          |                   | 1            | 0.15          | 0.55         | 0.13          | 0.42                 | 0.21                  |
| 15yr Govt ZCB     |      |          |          |                   |              | 1             | 0.18         | 0.84          | -0.14                | 0.10                  |
| 5yr Corp ZCB      |      |          |          |                   |              |               | 1            | 0.55          | 0.26                 | 0.21                  |
| 15yr Corp ZCB     |      |          |          |                   |              |               |              | 1             | -0.07                | 0.15                  |
| 5yr IL XCB        |      |          |          |                   |              |               |              |               | 1                    | 0.81                  |
| 15yr IL ZCB       |      |          |          |                   |              |               |              |               |                      | 1                     |

(iii) The table below is based on 3000 scenarios.

| Asset type (all UK assets) |  | K=0.75      |          |          |          | K=1         |          |          |          | K=1.5       |          |          |          |
|----------------------------|--|-------------|----------|----------|----------|-------------|----------|----------|----------|-------------|----------|----------|----------|
| n                          |  | 5           | 15       | 25       | 35       | 5           | 15       | 25       | 35       | 5           | 15       | 25       | 35       |
| r                          | Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)                       | 5.13%       | 4.64%    | 4.29%    | 4.04%    | x           | X        | X        | x        | x           | x        | x        | X        |
| 1                          | Risk-free zero coupon bond   | £778,817    | £506,763 | £349,944 | £250,179 | x           | X        | X        | x        | x           | x        | x        | X        |
| 2                          | FTSE All Share Index (p=1)   | £53,075     | £194,544 | £282,862 | £354,593 | £149,385    | £331,719 | £445,227 | £531,511 | £524,753    | £685,537 | £820,018 | £924,597 |
| 3                          | FTSE All Share Index (p=0.8)   | £44,108     | £150,566 | £202,943 | £239,769 | £125,892    | £259,749 | £321,989 | £362,203 | £460,169    | £542,583 | £603,071 | £638,326 |
| 4                          | Property (p=1)   | £33,221     | £100,513 | £157,964 | £217,861 | £135,803    | £231,393 | £305,347 | £378,410 | £520,880    | £605,120 | £681,838 | £760,228 |
| 5                          | Property (p=0.8)   | £24,816     | £64,957  | £93,134  | £122,265 | £110,155    | £159,661 | £191,981 | £224,465 | £456,669    | £452,704 | £460,442 | £480,257 |
| 6                          | 15 year risk free zero coupon bonds (p=1)  | £2,753      | £5,721   | £6,419   | £12,085  | £53,372     | £55,060  | £68,913  | £114,602 | £500,397    | £499,432 | £504,197 | £531,274 |
| 7                          | 15 year risk free zero coupon bonds (p=0.8)  | £1,508      | £2,138   | £1,793   | £1,700   | £34,221     | £19,017  | £11,840  | £13,976  | £428,660    | £312,079 | £237,172 | £216,957 |
| 8                          | 15 year corporate bonds (p=1)  | £5,052      | £14,435  | £23,000  | £38,256  | £63,458     | £82,909  | £104,787 | £141,726 | £502,416    | £504,445 | £513,799 | £546,383 |
| 9                          | 15 year corporate bonds (p=0.8)  | £3,111      | £6,061   | £7,280   | £9,847   | £43,305     | £37,983  | £35,744  | £41,140  | £430,681    | £318,602 | £255,542 | £238,143 |
| 10                         | Portfolio of 65% FTSE All Share and 35% property (p=1)   | £29,077     | £124,792 | £192,214 | £254,211 | £118,270    | £251,864 | £339,489 | £414,824 | £511,117    | £607,279 | £703,322 | £790,667 |
| 11                         | Portfolio of 65% FTSE All Share and 35% property (p=0.8)   | £22,382     | £87,534  | £125,828 | £156,168 | £94,903     | £183,735 | £226,585 | £260,931 | £443,971    | £460,639 | £490,273 | £515,434 |
| 12                         | Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)   | £22,949     | £110,207 | £171,012 | £226,618 | £104,094    | £229,331 | £309,752 | £379,678 | £506,778    | £582,764 | £670,578 | £750,136 |
| 13                         | Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)   | £17,233     | £75,826  | £109,519 | £135,315 | £81,887     | £165,003 | £202,924 | £232,951 | £437,561    | £435,048 | £457,515 | £477,304 |
| 14                         | Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)   | £9,293      | £56,655  | £98,653  | £141,787 | £79,525     | £162,901 | £221,001 | £280,014 | £502,751    | £532,257 | £583,981 | £645,744 |
| 15                         | Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8) | £5,953      | £32,435  | £52,044  | £68,866  | £57,874     | £102,580 | £124,888 | £147,157 | £431,643    | £373,732 | £365,668 | £373,428 |
|                            |  |             |          |          |          |             |          |          |          |             |          |          |          |
|                            |  | <b>L=15</b> |          |          |          | <b>L=20</b> |          |          |          | <b>L=25</b> |          |          |          |
| 16                         | Swaptions with 5% strikes  | 7.95%       | 9.43%    | 8.30%    | 6.74%    | 10.56%      | 11.92%   | 10.34%   | 8.36%    | 12.97%      | 14.08%   | 12.09%   | 9.73%    |

- (iv) UK initial equity yield: 3.95%  
UK initial property rental yield: 4.30%
- (v) Not applicable – there are no significant territories other than the UK.
- (vi) The following table shows the outstanding guarantees analysed by term. In addition, the guarantees in column B have a GAR at vesting at various strike rates as shown below.

| £m   | Guaranteed Benefit<br>(Policies With No GAR) | Guaranteed Benefit<br>(Policies With GAR) | PPPDA (Guaranteed<br>Cash) | No MVA Guarantee<br>(Bonds) |
|------|--|---|----------------------------|-----------------------------|
|      | A  | B   | C                          | D                           |
| 2007 | 143  | 97  | 0                          | 57                          |
| 2008 | 236  | 99  | 0                          | 0                           |
| 2009 | 195  | 117                                       | 1                          | 0                           |
| 2010 | 134  | 115                                       | 1                          | -                           |
| 2011 | 195  | 133                                       | 1                          | -                           |
| 2012 | 235  | 152                                       | 2                          | -                           |
| 2013 | 251  | 146                                       | 2                          | -                           |
| 2014 | 178  | 144                                       | 4                          | -                           |
| 2015 | 170  | 144                                       | 2                          | -                           |
| 2016 | 75   | 157                                       | 3                          | -                           |
| 2017 | 37   | 153                                       | 3                          | -                           |
| 2018 | 40   | 151                                       | 2                          | -                           |
| 2019 | 28   | 140                                       | 2                          | -                           |
| 2020 | 6  | 154                                       | 1                          | -                           |
| 2021 | 2  | 152                                       | 1                          | -                           |
| 2022 | 2  | 148                                       | 1                          | -                           |
| 2023 | 1  | 157                                       | 1                          | -                           |
| 2024 | 1  | 154                                       | 0                          | -                           |
| 2025 | 1  | 156                                       | 0                          | 0                           |
| 2026 | 2  | 149                                       | 0                          | 0                           |
| 2027 | 2  | 145                                       | 1                          | 0                           |
| 2028 | 1  | 138                                       | 0                          | 0                           |
| 2029 | 0  | 130                                       | -                          | 0                           |
| 2030 | 0  | 117                                       | -                          | 0                           |
| 2031 | -  | 95  | -                          | 0                           |
| 2032 | 5  | 80  | -                          | 0                           |
| 2033 | 0  | 67  | -                          | -                           |
| 2034 | -  | 53  | -                          | 0                           |
| 2035 | -  | 42  | -                          | 0                           |
| 2036 | 3  | 31  | -                          | 0                           |
| 2037 | 4  | 19  | -                          | 0                           |
| 2038 | 0  | 10  | -                          | 0                           |
| 2039 | -  | 5   | -                          | 0                           |
| 2040 | -  | 2   | -                          | 0                           |
| 2041 | -  | 1   | -                          | -                           |

Specimen guaranteed annuity (£) per £1,000 cash:

|                                      | Retirement Age | Annuity £ p.a. |        |
|--------------------------------------|----------------|----------------|--------|
|                                      |                | Male           | Female |
| Executive Benefits Plan <sup>1</sup> | 60             | 86.58          | 78.43  |
|                                      | 65             | 100            | 88.5   |
|                                      | 70             | 117.65         | 102.04 |
| Personal Pension Plan <sup>2</sup>   | 60             | 92.6           | 82.5   |
|                                      | 65             | 109.3          | 94.2   |
|                                      | 70             | 133.8          | 111.3  |
|                                      | 75             | 170.3          | 136.7  |

<sup>1</sup> guaranteed five years and payable monthly in advance

<sup>2</sup> payable annually in arrears

#### UK Equities

The asset model was calibrated by reference to the implied volatility of FTSE100 options for a range of strikes (from 0.8 to 1.2) and maturities of up to 10 years. All strikes are expressed as a proportion of at-the-money.

Implied volatility data (%) at the valuation date is shown below:

#### Market

| Term | Strike |       |       |       |       |
|------|--------|-------|-------|-------|-------|
|      | 0.8    | 0.9   | 1.0   | 1.1   | 1.2   |
| 1    | 19.90  | 17.12 | 14.40 | 12.20 | 10.91 |
| 2    | 19.32  | 17.22 | 15.26 | 13.60 | 12.36 |
| 3    | 19.40  | 17.63 | 16.02 | 14.61 | 13.49 |
| 5    | 20.09  | 18.68 | 17.39 | 16.25 | 15.29 |
| 10   | 22.18  | 21.12 | 20.13 | 19.25 | 18.48 |

#### Model

| Term | Strike |       |       |       |       |
|------|--------|-------|-------|-------|-------|
|      | 0.8    | 0.9   | 1.0   | 1.1   | 1.2   |
| 1    | 14.18  | 14.68 | 14.76 | 14.73 | 14.54 |
| 2    | 16.79  | 16.21 | 15.35 | 14.54 | 13.90 |
| 3    | 17.46  | 16.63 | 15.81 | 15.00 | 14.31 |
| 5    | 17.56  | 16.86 | 16.19 | 15.60 | 15.12 |
| 10   | 21.99  | 21.35 | 20.79 | 20.32 | 19.92 |

Beyond 10 years the estimated volatility implied by the model calibration rises as follows:

| Term | Strike |       |       |       |       |
|------|--------|-------|-------|-------|-------|
|      | 0.8    | 0.9   | 1.0   | 1.1   | 1.2   |
| 15   | 24.78  | 24.13 | 23.57 | 23.13 | 22.78 |
| 20   | 25.38  | 24.91 | 24.53 | 24.21 | 23.94 |
| 25   | 24.97  | 24.66 | 24.41 | 24.17 | 23.97 |
| 30   | 26.71  | 26.32 | 26.00 | 25.72 | 25.50 |

Difference (Model – Market) %

| Term | Strike |        |        |        |        |
|------|--------|--------|--------|--------|--------|
|      | 0.8    | 0.9    | 1.0    | 1.1    | 1.2    |
| 1    | (5.72) | (2.44) | 0.36   | 2.53   | 3.63   |
| 2    | (2.53) | (1.01) | 0.09   | 0.94   | 1.54   |
| 3    | (1.94) | (1.00) | (0.21) | 0.39   | 0.82   |
| 5    | (2.53) | (1.82) | (1.20) | (0.65) | (0.17) |
| 10   | (0.19) | 0.23   | 0.66   | 1.07   | 1.44   |

Property

There are no tests against market traded instruments for properties since there are no such instruments. A best estimate has therefore been used of 15% constant volatility.

Fixed Interest

A LIBOR Market Model calibrated to Gilts + 10 basis points is used. The calibration at the valuation date was as follows:

| Term | Govt. + 10bp | Model | Difference (Model – Market bp) |
|------|--------------|-------|--------------------------------|
| 1    | 5.38         | 5.38  | 0                              |
| 2    | 5.31         | 5.31  | 0                              |
| 3    | 5.25         | 5.25  | 0                              |
| 4    | 5.19         | 5.19  | 0                              |
| 5    | 5.13         | 5.13  | 0                              |
| 7    | 5.01         | 5.01  | 0                              |
| 10   | 4.86         | 4.86  | 0                              |
| 15   | 4.63         | 4.64  | 1                              |
| 20   | 4.45         | 4.45  | 0                              |
| 25   | 4.29         | 4.29  | 0                              |

The volatility within the model is calibrated to the market implied volatility for at the money swaptions (for 20 year swaps). The calibration at the valuation date is as follows:

| Term | Market IV | Model | Difference (Model – Market bp) |
|------|-----------|-------|--------------------------------|
| 1    | 11.55     | 11.48 | -7                             |
| 2    | 11.75     | 11.52 | -23                            |
| 3    | 11.90     | 11.80 | -10                            |
| 4    | 12.00     | 11.83 | -17                            |
| 5    | 12.00     | 12.28 | 28                             |
| 7    | 12.10     | 12.35 | 25                             |
| 10   | 12.35     | 12.90 | 55                             |
| 15   | 12.70     | 12.68 | -2                             |
| 20   | 12.65     | 12.88 | 23                             |
| 25   | 12.50     | 12.56 | 6                              |
| 30   | 12.35     | 12.33 | -2                             |

### Credit (Corporate Bonds)

The asset model uses a credit transition matrix. The fit of the model is targeted to the market spread on a 7 year A rated bond only. Credit derivatives are not used to derive market implied transition probabilities.

- (vii) We carry out comprehensive tests on the output produced by the Barrie & Hibbert asset model as follows:

For UK and Overseas equities and for UK property we have verified that the ratio of the average (over the simulated scenarios) of the discounted present values of projected asset values (with income reinvested) to the original asset value are acceptably close to unity– the martingale property.

The same test has been undertaken for 15-year zero-coupon gilts and for 4 classes of zero-coupon corporate bonds with terms of 1, 5, 10, 15, 20, 25 and 30 years. Departures from unity in the average discounted present values have not had a significant impact on the valuation result.

We have verified that zero coupon bond yields calculated from the model cash output matches yields calculated from input Government spot rates and initial spot rates output from the model at time zero within an acceptable error margin.

For UK equity options we have verified, within acceptable limits, that the option prices calculated from the model output and converted into implied volatilities using the Black-Scholes formula reproduce the expected volatility surface.

We have also verified, within acceptable limits, that implied volatilities calculated from the simulation model output reproduces the market volatility term structure for 20 year at the money swaptions.

- (viii) The assets and liabilities have been computed using 3,000 (1,500 antithetic pairs of) simulated scenarios. This results in standard errors in the calculated yield curve of less than 1bp for terms 1- 30 years

For a 10-year at the money (based on the forward price) UK equity put option at a strike of 1.0, the standard error of the estimated option price represents 3.1% of its calculated value.

Similarly, for a range of swaptions with maturities between 5 and 25 years on underlying 20 year swaps the standard errors in the calculated prices represent, typically, 1.7% of these prices.

- (b) Not applicable
- (c) Not applicable



(5) **Management actions**

- (a) We do not assume that any scenario specific management actions take place in the stochastic model. However the model allows for our investment strategy as follows:
- a) Re-balancing of property and equities during 2007 to bring the actual asset mix into balance with the strategic target.
  - b) Close matching by outstanding term of fixed interest assets to liabilities by means of a swap overlay.
  - c) An internal delta-hedge for equities and property which has an effect in the stress scenario.
  - d) Reduction in equity/property backing as policies near guarantee date.
  - e) We assume that policy classes do not move from the guarantee-related asset mix band to which they are allocated at the valuation date, although in practice some change will occur in more extreme stochastic scenarios.

We will continue to apply existing MVA policy i.e. we allow for MVA's on surrender of UWP business (but with a "floor" based on a discounted value of the no MVA guarantee).

Annual bonus rates will remain at current levels in future years.

Future miscellaneous surplus will be nil.

- f) Except when less than the discounted value of maturity guarantees, exit charges on surrender will be 5% higher than on maturity. This differential reduces to nil over the last 10 years of the policy term

(b)

| <b>% UK &amp; Overseas Equities</b> |    | 31/12/06  | 31/12/11  | 31/12/16  |
|-------------------------------------|----|-----------|-----------|-----------|
|                                     | i  | 13%       | 11%       | 10%       |
|                                     | ii | Unchanged | Unchanged | Unchanged |
|                                     | ii | Unchanged | Unchanged | Unchanged |
|                                     | i  |           |           |           |

  

| <b>Annual Bonus Rates on accumulating with profits</b> |    | 31/12/06 | 31/12/11 | 31/12/16 |
|--|----|----------|----------|----------|
| UWP Bond   | i  | 0.5%p.a. | 0.5%p.a. | 0.5%p.a. |
|  | ii | Nil      | Nil      | Nil      |
|  | ii | Nil      | Nil      | Nil      |
|  | i  |          |          |          |

Derivative contracts do not have any significant impact on the figures shown.

**(6) Persistency Assumptions**

The surrender and paid-up assumptions are:

| Product                                |                           | Average surrender / paid-up rate for the policy years |          |       |       |
|--|---------------------------|---|----------|-------|-------|
|  |                           | 1-5   | 6-10     | 11-15 | 16-20 |
| CWP savings endowment                  | Surrender                 | 1.8%  | 3.4%     | 3.0%  | 3.0%  |
| CWP target cash endowment              | Surrender                 | 3.0%  | 5.2%     | 6.0%  | 6.0%  |
| UWP savings endowment                  | Surrender                 | n/a   | n/a      | n/a   | n/a   |
| UWP target cash endowment              | Surrender                 | n/a   | n/a      | n/a   | n/a   |
| UWP bond                               | Surrender                 | 1.8%  | 16.0%(*) | 10.0% | 10.0% |
| UWP bond                               | Automatic withdrawals(**) |   |          |       |       |
| CWP pension regular premium            | PUP                       | 5.4%  | 5.8%     | 3.0%  | 3.0%  |
| CWP pension regular premium            | Surrender                 | 3.2%  | 2.5%     | 2.0%  | 2.0%  |
| CWP pension single premium             | Surrender                 | 1.4%  | 1.3%     | 1.3%  | 1.3%  |
| UWP individual pension regular premium | PUP                       | n/a   | n/a      | n/a   | n/a   |
| UWP individual pension regular premium | Surrender                 | n/a   | n/a      | n/a   | n/a   |
| UWP individual pension single premium  | Surrender                 | n/a   | n/a      | n/a   | n/a   |

(\*) The surrender rate for UWP bonds in the above table excludes an additional assumption for surrenders at the 10 year “no MVA” guarantee point. We assume 90% of policies surrender at this date. The figure in the table above has been derived assuming a 10% lapse rate in the tenth policy year which is consistent with the lapse rate for policies that have been in force for longer than 10 years

(\*\*) We assume that policies that are taking automatic withdrawals will continue to do so at the current rates.

We assume that future paid-up policies will lapse at the same rate as policies already paid up at the valuation date.

For pension policies surrendering within 15 years of normal retirement date a proportion of surrenders are deemed to be early retirements with associated guaranteed annuity option entitlements. The proportion of surrenders assumed to be early retirements is 100% at normal retirement decreasing linearly to 0% 15 years prior to normal retirement

Take up Rates of Guaranteed Annuity Options

The assumed proportion of cash in each scenario is dynamic according to the following formula: -

$$Cash = \text{Min}(L, (\text{Max}(10\%, (CxF)))x(1 - \text{Min}(t, T) / SxT))$$

where

$$F = R^{k(j)x100} \times R^{(i-j-k(j))x100x(ABS(i-j)>semirange)}$$

and

$$k(j) = i - \text{Min}(\text{Max}(j, i - semirange), i + semirange)$$

where

|                         |   |
|-------------------------|---|
| <b><i>L</i></b>         | Overall limit on cash proportion. For PALAL PPP81 and Fowler Personal Pensions we set this to the IR maximum of 25%. For all other products we set it to 1.25 x C |
| <b><i>C</i></b>         | Current experience assumption   |
| <b><i>F</i></b>         | Overall reduction factor comprising R and R' components (see below) to reflect decline in cash as interest rates decline and GARs become more valuable.           |
| <b><i>R</i></b>         | Reduction factor that applies outside of central "plateau" range (R=2/3)  |
| <b><i>R'</i></b>        | Reduction factor that applies within central "plateau" range (R'=0.9)   |
| <b><i>k(j)</i></b>      | Interim calculation variable depending on i,j, and semirange  |
| <b><i>semirange</i></b> | Central "plateau" assumed to apply over a range from (i-semirange) to (i + semirange). Set at 1%.   |
| <b><i>t</i></b>         | Time in years from the valuation date   |
| <b><i>T</i></b>         | Period over which we recognise a decline in cash due to longevity making GARs more valuable (T=30)  |
| <b><i>S</i></b>         | Amount of longevity decline (S=3 so that cash declines by 1/3 over T years)   |
| <b><i>i</i></b>         | Average 20 year interest rate over the period used to set the current experience assumption. This is 4.39% at the valuation date                                  |
| <b><i>j</i></b>         | 20 year gilt rate at maturity for the particular scenario   |

#### Annuitant Mortality

The mortality assumption for annuities in possession arising from the exercising of guaranteed annuity options is 5% higher than that described in Appendix 9.4, paragraph 4 (4).

#### **(7) Policyholders' actions**

Modelled policyholder behaviour is static i.e. it does not vary between the different stochastic simulations apart from GAR take up rates, which vary according to the formula in (6) above.

## **7. FINANCING COSTS**

There is a financing arrangement in place to provide support to the long-term fund. This is fully described in note 1508. For the purposes of the realistic valuation £51.630m is deemed not repayable being the amount required to produce a value of zero on line 68 of Form 19 and is included as an item within the reconciliation of regulatory and realistic current liabilities in section 9.

## 8. OTHER LONG-TERM INSURANCE LIABILITIES

### (a) Endowment Compensation Reserve

Some policyholders have been given non-compliant advice to take out an endowment policy to repay a mortgage.

A realistic amount to cover the cost of providing compensation to them has been assessed from the number of complaints expected to be received, the proportion anticipated to be valid and the expected amount of compensation per case payable, account being taken of the FSA guidelines on determination of compensation. Provision has also been made for the cost of handling complaints received.

The liability as at the valuation date amounted to £21.3m.

### (b) Additional Guaranteed Annuity Option Reserve

Additional realistic reserves are held in respect of expected additional payments on with-profits pensions claims in 1999, 2000, 2001 and 2002. Terminal bonus on the claim amounts had been calculated by deducting an amount for the expected cost of providing the guaranteed annuity option on those claims. Subsequent legal advice has indicated that this was not in accordance with the House of Lords judgement in Hyman v Equitable Life Assurance Society.

The liability as at the valuation date amounted to £71.9m.

### (c) Data error provision

A liability of £10.0m has been included for additional liabilities which may arise in connection with data errors affecting the long-term business.

### (d) Litigation Costs and potential other costs

A liability of £15.0m has been included for future litigation settlements and other similar costs

### (e) Other additional reserves

A liability of £6.3m has been included.

## 9. REALISTIC CURRENT LIABILITIES

### (a) Future Tax Adjustment

The realistic balance sheet calculations assume that tax will be payable in relation to the realistic proportion of life business. In reality the tax is calculated by reference to statutory liabilities. An adjustment is made to assume that future tax will be based on the statutory life proportion rather than the realistic life proportion.

In addition, we assume deferred tax is discounted in the realistic valuation. The regulatory liabilities assume undiscounted deferred tax. The difference in liability at the valuation date is £0.3m.

The liability as at the valuation date amounted to £(39.3)m, i.e. the future tax profit is an asset.

(b) Additional Tax on Shareholder Transfers

An allowance is made for the additional tax arising on transfers to shareholders in respect of life business. This is calculated as a percentage of the present value of future transfers to shareholders in respect of life business; the percentage is as used in the embedded value calculation.

The liability at the valuation date amounted to £5.6m.

(c) Future Reinsurance Profits

The Company reinsures part of its endowment, whole life and UWP liabilities to Phoenix Life Limited (“PLL”).

We recognise the value of the excess of future expected reinsurance claims over payments to the Company’s policyholders.

At the valuation date the value of these excesses amounted to £81.8m in respect of endowment and whole life reinsurances to PLL and £17.4m in respect of the UWP reinsurances to PLL

(d) Contingent Loan

In the regulatory valuation no liability is recognised to repay the £106m contingent loan. In the realistic valuation it is assumed that the excess over the £51.63m required to give zero working capital is repayable

The reconciliation of the realistic current liabilities to the regulatory current liabilities is:

|   |             |
|---|-------------|
| Regulatory current liabilities          | £m          |
| Future Tax Profit                       | 301         |
| Additional Tax on Shareholder Transfers | (39)        |
| Reinsurances                            | 6           |
| Contingent loan                         | (99)        |
| <b>Realistic current liabilities</b>    | <b>(52)</b> |
|   | <b>116</b>  |

## 10. RISK CAPITAL MARGIN

- (a) The risk capital margin amounts to £167.4m.
- (i) The market risk scenario assumes that equities fall by 20% and real estate falls by 12.5%.
- (ii) The nominal change in yields for fixed interest securities for the purpose of the market risk scenario is 0.81%. This is consistent with a rise, or fall of 17.5% in the long term gilt yield. A fall in yields is the most onerous scenario.

- (iii) The average change in spread for bonds backing with profits liabilities, other than those issued or guaranteed by a credit risk scenario exempt organisation, is 0.44%:
  - (a) The change in the market value of bonds backing with profits liabilities, other than those issued or guaranteed by a credit risk scenario exempt organisation, is -3.37%
  - (b) not applicable
  - (c) not applicable
  - (d) not applicable
  - (e) The change in the market value of swaps is -61.6%. (ie it changes from £62.1m to £23.8m)

In addition, application of the credit risk scenario reduces the value of the present value of future profits on non-profit insurance contracts written in the fund by £10.8m.

- (iv) The average change in persistency experience is a 32.5% reduction in future lapse and paid-up rates. The overall percentage change in the realistic value of liabilities from applying the persistency risk is +1.6%.
  - (v) The change in asset value in (iii) is materially independent of the change in liability values in (iv).
- (b) (i) In the stress scenarios we further assume that:
- Annual bonus rates will be reduced to nil on traditional business and UWP business
- The impact of the combined stress will be partially offset by increasing guarantee charges. We assume that exit charges on maturity/normal retirement increase from the base scenario assumption of 7.2% of asset share reducing to 0% over 8 years to an increased assumption of 10.0% reducing to 0% over 8 years and that the annual guarantee charge increases from 0.90% of asset share to 1.25% of asset share.
- The data contingency provision increases from the £10m in the base scenario to £20m.
- These actions are consistent with our PPFM and investment strategy.
- (ii) The effect of assuming reduced annual bonuses is to reduce the RCM by £23m. The effect of increasing the exit charges and annual guarantee charge is to reduce the RCM by £71m.
  - (iii) If the management actions described in 10(b)(i) were integrated into the projection of assets and liabilities and thus disclosed in 6(5)(a), the effect on table 6(5)(b) would be that annual bonus rates on accumulating with profits policies would be nil for each future year in question and for each scenario. There would be no change to future proportions of equity assets
  - (iv) The requirements of INSPRU 1.3.188R would be met if the actions described in 10(b)(i) were integrated into the projection of assets and liabilities.

- (c) (i) The risk capital margin is covered by a combination of assets in the long term fund (being part of the contingent loan deemed not repayable) and shareholders' funds principally invested in government gilts.
- (ii) The Company has in place an internal capital support memorandum which provides for the transfer of contingent loan within the shareholders' fund to the long term fund should the need arise.

## **11. TAX**

Tax on assets backing the with-profits benefits reserve for BLAGAB business is charged to those asset shares approximately and allowance is made for relief on expenses.

Tax on any future policy related liabilities for BLAGAB business is allowed for in determining those liabilities.

An approximate adjustment is made to allow for any differences between the tax calculated as described and the tax expected on a corporate basis. The adjustment is calculated within the stochastic model.

## **12. DERIVATIVES**

At the valuation date the company had a number of significant positions in interest rate swaps and swaptions.

The interest rate swaps are held in connection with the fixed interest portfolio and are used to improve the matching between the assets and the liabilities against changes in the yield curve for the long-term fund as a whole.

The interest rate swaptions are held in respect of the GAR liabilities. Receiver swaptions are held to cover part of the GAR liability where the with-profits benefits reserve is invested in equities or property. Payer swaptions are held where the with-profits benefits reserve is invested in fixed interest assets and the expected annuity benefit arising is matched by fixed interest investments. The quantum of swaptions held is based on a prudent assessment of future GAR liabilities taking account of expected future lapse rates and take up rates. The duration and tenor of the swaptions corresponds broadly with the liabilities.

The strike rates for the receiver swaptions are 5%. The strike rates for the payer swaptions vary according to the rate at which it is expected the cash option will become more valuable than the GAR allowing for future improvements in mortality.

Both the swaps and swaptions are wholly sterling denominated.

The counterparties to the swaps and swaptions are approved credit institutions. Variation margin (collateral) arrangements are in place under both the swaps and swaptions. In addition the swaps provide for initial margins by both parties.

### 13. ANALYSIS OF WORKING CAPITAL

The movement in working capital over the twelve months to the valuation date is shown in the following table.

|   | <b>£m</b>  |
|---|------------|
| <b>Opening working capital</b>                        | <b>0</b>   |
| Modelling changes                                     | 3          |
| Retrospective changes to asset shares                 | 2          |
| Investment return on revised working capital          | (0)        |
| Investment mis-match                                  | (49)       |
| Policyholder action assumption changes on guarantee   | 4          |
| Non-economic assumption changes on guarantee costs    | (24)       |
| Experience deviations on guarantee costs              | (2)        |
| Policyholder action assumption changes on charges     | 19         |
| Non-economic assumption changes on charges            | 0          |
| Experience deviations on charges                      | (1)        |
| Economic effects on value of charges                  | 16         |
| Tax   | 18         |
| Compensation costs                                    | 15         |
| Transfers into/out of fund as a result of fund merger | 0          |
| Other   | (10)       |
| Change in contingent loan utilised                    | (15)       |
| Unexplained   | 25         |
| <b>Closing working capital</b>                        | <b>(0)</b> |

The following table shows a breakdown of the liabilities shown on lines 47 and 51 of Form 19 at the start and end of the year:

| £m  | 31.12.2005 | 31.12.2006 |
|---|------------|------------|
| Compensation costs                        | 134.0      | 93.2       |
| Other                                     | 47.6       | 31.3       |
| Accounting liabilities                    | 453.5      | 300.7      |
| Future tax profit                         | (34.1)     | (39.2)     |
| Additional tax on shareholders' transfers | 5.7        | 5.6        |
| Reassurance assets                        | (96.8)     | (99.2)     |
| Contingent loan                           | (66.3)     | (51.6)     |
| Total                                     | 443.6      | 240.8      |

The effect of the change in the provisions for compensation costs together with the amounts paid are shown as "compensation costs" in the analysis of change table.



## **14. OPTIONAL DISCLOSURE**

None

**Certificate required by rule 9.34(1)**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

We certify that:

- (1)(a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU.
- (b) the directors are satisfied that:
  - (i) throughout the financial year, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS) and either PRU or GENPRU and INSPRU, as applicable; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
- (2)(a) in the directors' opinion, premiums for contracts of long-term insurance business entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular to establish adequate mathematical reserves;
- (b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- (d) the directors have taken and paid due regard to:
  - (i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

R CRAINE  
Director

R E K GREENFIELD  
Director

I G MAIDENS  
Director

28 March 2007

Returns under the Accounts and Statements Rules

**Certificate required by rule 9.34**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

- (3) Paragraph (2)(c) which relates to the management of the with profits fund in accordance with the Principles and Practices of Financial Management (PPFM) has been omitted from the return due to certain minor instances where the management of the fund differed from the published PPFM but these have not resulted in the unfair treatment of policyholders.

Returns under the Accounts and Statements Rules

## **Independent auditors' report to the directors pursuant to rule 9.35 of the Accounts and Statements Rules**

### **Phoenix and London Assurance Limited**

#### **Global business**

#### **Financial year ended 31st December 2006**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of the Interim Prudential Sourcebook for Insurers, the General Prudential Sourcebook and the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 11 to 19, 40 to 45, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the reports required by rule 9.31 ("the valuation reports").

We are not required to examine and do not express an opinion on:

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by rules 9.30 and 9.36;
- the certificate signed in accordance with rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with rule 9.35 of the Accounts and Statements Rules. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules 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 insurer for our examination, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the statements and the valuation reports) under the provisions of the Rules. Under rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statements and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

#### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statements and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on

29 March 2007. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statements and the valuation reports.

We planned and performed our work 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 Forms, the statement and the methods and assumptions included in the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

In accordance with rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

**Opinion**

In our opinion:

- (a) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules and have been properly prepared in accordance with the provisions of those Rules; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with rule 9.31 appropriately reflect the requirements of INSPRU 1.2 and 1.3.

**Ernst & Young LLP**  
**Registered Auditor**  
**London**

30 March 2007

Returns under the Accounts and Statements Rules

**Statement of information on the Actuary appointed to perform the With-Profits Actuary function required by rule 9.36**

**Phoenix and London Assurance Limited**

**Global business**

**Financial year ended 31st December 2006**

In accordance with rule 9.36 of the Interim Prudential Sourcebook for Insurers, the Actuary appointed to perform the With-Profits Actuary function of Phoenix & London Assurance Ltd has been requested to furnish the particulars required in paragraph 1 of the rule and has accordingly furnished the following statement. The Company has reviewed the requirements of rule 9.36 and is not aware of any further information to that provided by the Actuary.

**Particulars of Shareholdings**

At 31st December 2006 the With-Profits Actuary to the Company held:

- (a) 1,100 ordinary shares in Resolution Plc, the ultimate holding company; and
- (b) options to subscribe for 8,862 ordinary shares in Resolution Plc granted under the Company's Long Term Incentive Plan and the Savings Related Share Option Scheme.

**Particulars of Pecuniary Interests**

There was one contract of insurance in existence between the With-Profits Actuary and companies in the Resolution group, being a term assurance policy effected on normal terms with Scottish Provident Institution prior to it being part of the Resolution Group.

Particulars of Remuneration, Benefits, Directors Emoluments, Pensions or Compensation

The aggregate amount receivable by way of remuneration and the value of other benefits under a contract of employment with Resolution was £200,159 during 2006.

The With-Profits Actuary was a member of the Resolution Group Pension Scheme. The figure shown above excludes the relevant contributions.

Note:

The above information relates to Mr A E Burke the With-Profits Actuary from 1st January 2006.