Annual Report and Accounts 2007

Resolution plc

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Contents

Resolution

The Group has maintained its strong operational performance in 2007 despite significant levels of transaction related activity and increasing volatility in the financial markets.

The Group retained its focus on value-enhancing activities, including the establishment of a dedicated annuity company, Phoenix Pensions Limited (PPL) which has delivered both operational and financial synergies. An outsourcing agreement with Capita Group plc (Capita) came into force on 1 August 2007 with significant financial benefits and de-risking of the in-force cost base. The Group also undertook a major rebalancing of certain with-profit and non-profit portfolios across the Group incorporating closer alignment of assets and liabilities.

In September 2007, the Group acquired the protection broker consultant business from Abbey National plc (Abbey) for £30 million. This complements the Group's existing protection product manufacturing capability and will result in closer alignment of the broker consultants with the Group's strategic objectives.

External events have also played an important part in the overall results. In particular, the so-called "credit crunch" resulted in the widening of spreads on certain classes of fixed interest securities. This in turn has impacted reported profits adversely although the equity holder impact of actual credit defaults for the year amounted to only £10 million and there have been no further credit default losses since the year end. Even against the background of such events the Group has delivered a solid set of results.

The results which follow reflect a full year for all of the Group's businesses in 2007. The comparative numbers include the results of the former Abbey life businesses from 10 August 2006.

Results summary

IFRS operating profit[1] amounted to £587 million, an increase of £54 million on 2006. The increased 2007 profit is stated after charging £66 million for economic experience variances, principally due to the widening of credit spreads.

The asset management business delivered an excellent performance with operating profits up 47% at £47 million. Third party gross sales grew by 58% to £1.6 billion (2006: £1.1 billion).

1 IFRS operating profit is stated before amortisation of certain intangible assets, non-recurring items, short-term investment fluctuations, financing costs and equity holders' tax

Profits from the management services business were up 53% at £23 million reflecting the delivery of the expected £20 million per annum expense savings arising from the Britannic and Resolution merger. Profit improvements of £10 million per annum arising from the integration of the former Abbey life businesses are still expected to be delivered but may be delayed as a result of the proposed acquisition of the Group by Impala Holdings Limited. During the first half of the year the Group established a strategic partnership with Capita and will invest £140 million over the first four years of the contract. This investment will secure customer service enhancements, reduce significantly the long term expense risk inherent in the business and deliver additional substantial cost savings averaging £20 million per annum from 2010 for the following 25 years.

Corporate activity in 2007 has inevitably demanded significant levels of support from the Group's professional advisers. Transaction related costs incurred in 2007 totalled £77 million including fees for professional advisers, the £49 million break fee in respect of the termination of the proposed Friends Financial merger and the provision of retention payments through this period of uncertainty.

The establishment of PPL during 2007 has reduced the IFRS equity holder tax charge by £61 million. The Group has a substantial portfolio of in-force pension annuity business which will vest in the coming years and now has the facility to capture a share of this business as well as achieve operational and financial synergies from its existing portfolio. PPL will not, however, compete for annuity business in the open market.

The Group has maintained its strong cash-generative position with £1,280 million of net operational cash flows in 2007 enabling the repayment of Group debt of £695 million and payment of shareholder dividends of £154 million. Further cash of over £500 million has been paid from the life divisions to Group in April 2008.

IFRS Group results

The Group made an IFRS operating profit of £587 million (2006: £533 million) and profit after tax of £135 million (2006: £531 million). The comparative IFRS results include the results of the former Abbey life businesses from 10 August 2006, the date from which this acquisition is reflected in the results. The Group results on an IFRS basis are set out below.

Group IFRS basis financial results (after policyholder tax)

	Half year ended 30 June 2007 £m	Half year ended 31 December 2007 £m	Group results year ended ended 31 December 2007 £m	Group results year ended ended 31 December 2006 £m
Life division				
With-profit	**29**	**31**	**60**	75
Non-profit and unit-linked	**300**	**104**	**404**	325
Longer term return on equity holders' funds	**26**	**40**	**66**	78
Other income and charges	**1**	**(18)**	**(17)**	2
Life division operating profit after policyholder tax	**356**	**157**	**513**	480
Asset management	**24**	**23**	**47**	32
Management services	**9**	**14**	**23**	15
Group income and charges	**2**	**2**	**4**	6
Operating profit (i)	**391**	**196**	**587**	533
Amortisation of acquired in-force business	**(102)**	**(97)**	**(199)**	(230)
Amortisation of asset management internalisation costs	**(5)**	**(4)**	**(9)**	(7)
Amortisation of fair value of distribution agreements	**(10)**	**(12)**	**(22)**	(8)
Operating profit before non-recurring items	**274**	**83**	**357**	288
Non-recurring items				
- Transaction related costs	**–**	**(77)**	**(77)**	–
- Integration and reorganisation costs	**(24)**	**(15)**	**(39)**	(22)
- Enhanced controllership and governance costs	**(3)**	**(31)**	**(34)**	(7)
- Deferred consideration on transfer of Alba Life	**–**	**(12)**	**(12)**	–
- Other 2006 non-recurring items	**–**	**–**	**–**	326
Operating profit/(loss) attributable to equity holders, based on a longer term rate of investment return	**247**	**(52)**	**195**	585
Short term investment fluctuations	**(16)**	**15**	**(1)**	4
Operating profit/(loss) attributable to equity holders	**231**	**(37)**	**194**	589
Financing costs attributable to equity holders	**(29)**	**(16)**	**(45)**	(32)
Profit/(loss) before tax attributable to equity holders	**202**	**(53)**	**149**	557
Equity holders' tax	**(32)**	**18**	**(14)**	(26)
Profit/(loss) for the period attributable to equity holders	**170**	**(35)**	**135**	531

(i) Operating profit is stated as attributable to equity holders, based on a longer term rate of investment return, before amortisation of acquired in-force business, asset management internalisation costs and fair value of distribution agreements, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax

Life division operating profit

Profits from the with-profit business were £60 million in 2007 (2006: £75 million). The 2006 result included a one-off release of accounting provisions of £20 million in Alba Life relating to unallocated surplus. After excluding this release and incorporating a full year's with-profit result for the former Abbey life businesses, the 2007 result reflects the planned run-off of the business from 2006.

The non-profit and unit-linked businesses achieved a 2007 operating result of £404 million, an increase of £79 million from 2006. The increase reflects the full year contribution of the former Abbey life businesses in 2007 (£128 million for the post acquisition period in 2006). However, other major factors affecting the 2007 result comprise:

- adverse economic experience which generated a loss of £66 million in 2007, principally from credit spread widening;
- favourable experience variances of £42 million primarily due to modelling improvements and persistency experience; and
- positive assumption changes of £8 million, including releases of mortgage endowment provisions.

The 2006 result benefited from favourable lapse and morbidity experience combined with related favourable assumption changes, particularly in respect of mortality and morbidity, as well as releases of mortgage endowment provisions and positive economic experience. Allowing for all of these factors, the profit profile is in line with the run-off of the book of about 10% to 15% per annum.

The underlying performance of the non-profit and unit-linked businesses is broadly comparable across the first and second half of 2007. However, several factors have impacted the results, particularly economic experience variances, operating experience variances and assumption changes.

Economic experience variances had a significant impact on the operating profit in both halves of 2007. In the first half of the year, economic experience variances resulted in a profit of £39 million, largely comprising benefits from asset-liability management on annuity business. In the second half of 2007, economic variances reduced operating profit by £105 million. This was primarily due to the impact of the significant widening of credit spreads although the equity holder impact of actual credit defaults in 2007 was only £10 million.

Operating experience variances in the first half of 2007 contributed £44 million to profit primarily due to modelling improvements and favourable persistency experience. In the second half of the year, operating experience variances were broadly neutral overall, reducing profits by £2 million reflecting positive mortality experience offset by adverse persistency experience and project costs.

Assumption changes in the first half of 2007 reduced operating profit by £4 million. In the second half of the year, assumption changes increased operating profit by £12 million, primarily reflecting releases of mortgage endowment provisions.

The longer term return on equity holders' funds of £66 million is £12 million lower than 2006. This reflects the benefit of a full year's inclusion of investment return from the former Abbey life businesses offset by a reduction in the returns following the payment of dividends and loans to holding companies outside of the life division in both the second half of 2006 and the first half of 2007. The increase in return between the first and second half of 2007 reflects the movement in value of an interest rate swap held to hedge the £200 million subordinated debt issued by Scottish Mutual Assurance Limited (SMA).

A loss of £17 million from other income and charges (2006: £2 million profit) includes £13 million in respect of the minority interest's share of losses in the property investment subsidiary, UK Commercial Property Trust Limited.

Asset management

- Strong growth with operating profit before amortisation, non-recurring items and tax up 47% at £47 million (2006: £32 million)
- Third party gross sales over £1.6 billion, up 58% on 2006
- Successful joint venture strategy underlined with the first joint venture, Argonaut, achieving assets under management of £1 billion and the fourth joint venture, Maia, launched in September 2007

The operating profit of £47 million benefited from achieving the full run rate of additional profits of £18 million per annum on the Phoenix Life Group assets transferred during 2006. There were additional contributions to profit from the management of the former Abbey life businesses' portfolio and the third party business. There was also a one-off contribution to profit of £3 million from services performed in connection with asset-liability management for the Group's with-profit funds in the first half of 2007.

Third party sales grew by 58% to £1,679 million (2006: £1,060 million) with retail sales representing over half of the total. The growth in third party new business is due to greater engagement with consultants, IFAs and market participants and also reflects the positive impact of a new advertising campaign and additional sales staff. The success of the joint venture strategy is underlined by the first joint venture, Argonaut, achieving assets under management of £1 billion in just 2 years and the launch of a fourth joint venture, Maia, in September 2007.

Funds under management fell by £4 billion over the year to £57 billion. Whilst third party funds grew by £1 billion, the reduction in internal funds under management of £5 billion reflects the run-off of the closed life business and changes in market values during the period.

The cost income ratio fell to 52% (31 December 2006: 57%). The improvement in part reflects the one-off income in respect of asset-liability management, but also reflects the ongoing focus on cost management.

Management services

- Operating profit before amortisation, non-recurring items and tax of £23 million (2006: £15 million)
- Britannic / Resolution Life Group (RLG) merger savings delivered on time and on budget and the integration of former Abbey life businesses progressing
- Outsourcing agreement with Capita effective from 1 August 2007. Offshore presence established in December 2007

Operating profit from management services was up £8 million on 2006, reflecting the additional cost savings from the Britannic / RLG merger. All integration activity to deliver the £20 million annual cost savings from the merger is now complete. The costs to achieve these savings were originally estimated at £28 million and these have been incurred in full with the final £9 million expensed in the year. The integration has been delivered on time and in line with expected costs and has delivered the anticipated expense savings announced previously.

Additional margin benefits of £10 million per annum from the acquisition of the former Abbey life businesses are still expected to be deliverable although there will be some delay as a result of the process to complete the acquisition of the Group by Impala Holdings Limited. The outsourcing contract with Capita is a significant milestone in being able to achieve this benefit.

The strategic partnership with Capita was announced on 30 May 2007 and the outsourcing contract commenced on 1 August 2007. On that date some two thousand Resolution staff, predominantly from customer services and IT departments, were transferred to Capita. Customer facing roles, voice contact and customer data will not transfer abroad. A number of other customer service and IT roles will, however, be moved to India over the next three years. Over the same period Capita intends to concentrate its UK services to Resolution in Glasgow.

Capita is confident that, with natural staff turnover and a significant proportion of staff being redeployed within its existing UK operations, the number of potential redundancies as a result of transferring work offshore will be fewer than 500 over a three year period.

Group income and charges

Group income and charges were £4 million in 2007 (2006: £6 million). These represent interest of £32 million on external investments offset by costs of £28 million which include head office expenses, the cost of professional advisors and pension scheme service costs.

Amortisation of intangible assets

The acquired value of in-force business is being amortised in line with the run-off of the acquired businesses. This has led to an amortisation charge of £199 million in 2007. The charge for 2006 of £230 million included amortisation in respect of the former Abbey life businesses from 10 August 2006. The implementation of PS06/14 in the second half of 2006 resulted in a write-down in excess of £500 million of the acquired value of in-force business at the end of 2006. The write-down was matched by an equivalent release of reserves.

The £100 million value attributed to the Abbey distribution agreements, which formed part of the fair value adjustments on the acquisition of the former Abbey life businesses, is being amortised on a straight line basis over five years, leading to a charge of £20 million in 2007. In addition, a further amortisation charge of £2 million has been incurred in 2007 relating to the value attributed to the acquisition of the protection broker consultant business at the end of September 2007.

Non-recurring items

The principal non-recurring items in 2007 were transaction related costs of £77 million which included £49 million paid to Friends Provident plc in respect of termination of the proposed merger, £13 million of staff retention payments and £15 million for the cost of professional advisers.

Integration and reorganisation costs were £39 million in 2007 (2006: £22 million). This included reorganisation costs following the merger of Britannic and RLG of £9 million (2006: £19 million) and costs in respect of the integration of the former Abbey life businesses of £18 million (2006: £3 million). Provision for redundancy and other costs associated with the Capita agreement totalled £12 million in 2007.

The Group incurred £34 million in respect of improving the governance and control environment (2006: £7 million). Of this, £18 million was in respect of the programme to enhance the controllership of the former Abbey life businesses, giving a total programme spend since acquisition of £25 million, in line with expectations. The further £16 million incurred relates to other governance projects, including:

- the Group-wide project to enhance engagement with existing customers, in line with the FSA's "Treating Customers Fairly" initiative; and
- preparation for the impact of the EU Transparency Directive in 2008, which will enable the Group to report more frequently and faster.

In the second half of the year, deferred consideration of £12 million (including interest) became payable to the with-profit funds in respect of the transfer of Alba Life to equity holders. This is in line with the transfer agreement and reflects the release of certain reserves held by Alba Life at the time of the transfer which are no longer required.

Financing costs

Financing costs amounted to £45 million. Financing costs in 2006 were £32 million, of which £30 million was incurred in the second half of the year reflecting the interest on the loans used to fund the acquisition of the former Abbey life businesses. The £695 million loan repayments in 2007 have led to a decrease in interest cost in the year. Financing costs for 2007 include £15 million of interest on the subordinated debt issued by SMA together with the changes in the carrying value of the debt in the year.

Coupon payments on the perpetual reset capital securities, classified as equity under IFRS, are shown as movements on retained earnings.

Taxation

The Group tax charge for the year attributable to equity holders is £14 million (2006: £26 million). This represents an effective tax rate of 9% on equity holder profits of £149 million (5% on profits of £557 million for the comparative period in 2006).

The effective tax rates for 2007 and 2006 have been impacted by a number of one-off events. The 2007 one-off items include the reduction in the mainstream corporation tax rate from 30% to 28% enacted in the Finance Act 2007. This has reduced the deferred tax charge by £27 million. A further reduction in the deferred tax charge of £31 million arose from changes to tax legislation and other factors that have enabled the Group to recognise additional tax losses. In the second half of the year the Group has settled several open years of computations with HM Revenue and Customs which has enabled the release of provisions totalling £19 million.

The reassurance of pension annuity business into PPL has the consequential effect of altering the tax profile of the life business since pension business within the standalone annuity company is taxed under different rules than is pension business within a life company writing both pension and life business. This has further reduced the deferred tax charge by £61 million for the year on an IFRS basis. After taking into account an additional deferred tax charge of £17 million on the increase in the value of the non-profit surplus during the year, the net reduction is £44 million.

Offsetting these benefits is an impairment of deferred tax assets amounting to £22 million, the amortisation of deferred tax provided on acquired in-force business at a rate below the standard rate of corporation tax, which increases the tax charge by £12 million, and additional current year tax of £35 million in respect of expenses which are not deductible for tax purposes, including transaction related costs.

Equity holders' cash flow statement

The cash flow statement in the consolidated financial statements comprises both the policyholder and equity holder cash flows that have occurred during the year. The Board continues to believe that it would be helpful to provide a cash flow statement in relation to equity holders only. This statement reflects the cash flows of Resolution plc and its principal holding company, Resolution Life Limited (RLL). It therefore excludes all cash flows within the life, asset management and management services divisions.

A total of £1,571 million was received by the Group from subsidiaries in the year. This comprised:

- dividends received from subsidiaries of £937 million;
- net loans received (after loan repayments) from subsidiaries of £528 million; and
- reimbursement from Abbey of £106 million of contributions made on its behalf by the former Abbey life businesses to the Abbey pension schemes.

These receipts were used to:

- make total external loan repayments of £695 million (including £200 million of a revolving bank loan facility);
- pay interest on internal loans of £207 million;
- fund dividends to shareholders of £154 million, interest on the perpetual reset capital securities of £33 million and interest on bank loans of £30 million;
- provide additional funding of £50 million for Resolution Management Services (RMS) for its ongoing payments in respect of the Capita outsourcing contract and its acquisition of the protection broker consultant business from Abbey; and
- pay the break fee on termination of the proposed Friends Financial merger of £49 million and additional transaction related costs of £6 million.

A further £21 million of investment income (net of expenses) was received, leaving £368 million retained at the year end and resulting in a year end cash balance of £730 million.

Equity holders' cash flow statement for Group holding companies

		Year ended 31 December 2007		Year ended 31 December 2006
	£m	**£m**	£m	£m
Opening cash balance		**362**		43
Net cash generated from operations				
- Dividends from subsidiaries	**937**		290	
- Net loans from subsidiaries	**528**		1,811	
- Reimbursed by Abbey for pension fund contributions	**106**		–	
Net cash from subsidiaries	**1,571**		2,101	
- Net loan interest (to) / from subsidiaries	**(207)**		3	
- Capital injections to subsidiaries	**(50)**		(303)	
- Transaction related payments	**(55)**		–	
- Other Group receipts, net of expenses and tax	**25**		32	
- Transaction costs re acquisition of former Abbey life businesses	**(4)**		(81)	
- Acquisition of former Abbey life businesses	**–**		(3,600)	
		1,280		(1,848)
Capital and debt raised				
- Proceeds from rights issue	**–**		1,547	
- Bridging loan	**–**		1,680	
- Term loan and revolving credit facility	**–**		550	
- Refinanced bridging loan	**–**		380	
		–		4,157
Capital and debt repaid				
- Term loan and revolving credit facility	**(315)**		–	
- Refinanced bridging loan	**(380)**		–	
- Resolution plc senior debt	**–**		(85)	
- RLG minority interest preference shares	**–**		(87)	
- Bridging loan	**–**		(1,680)	
		(695)		(1,852)
Capital and debt servicing				
- Ordinary shareholders' dividends	**(154)**		(93)	
- RLG minority preference share dividends	**–**		(13)	
- Senior debt and bridging loan interest	**(30)**		(18)	
- Perpetual reset capital securities coupon	**(33)**		(14)	
		(217)		(138)
Closing cash balance		**730**		362

Capital and financing

Regulatory capital position

Resolution's Group Capital Adequacy surplus at 31 December 2007 was £1.2 billion (2006: £1.4 billion). The decrease from 2006 reflects the dividend to external shareholders and corporate costs, including transaction related costs, exceeding transfers from the long term funds.

Group borrowings

At 31 December 2007 the Group had outstanding borrowings comprising a term loan of £235 million with £115 million repayable in 2008 and £120 million repayable in 2009, and undated subordinated debt issued by SMA with a face value of £200 million and carrying an interest rate of 7.25%. The Group also had access to a £200 million undrawn revolving credit facility that matures in 2009.

On 13 May 2007 £125 million of undated 8.75% subordinated debt issued by SPI Finance plc was redeemed. The SPI bonds were guaranteed by SPL as the funds were used by the SPL with-profit fund and repayment was made by this fund.

Impact of credit restrictions

As outlined above, economic variances reduced IFRS operating profit in the second half of 2007 by £105 million, primarily due to the impact of the significant widening of credit spreads.

For the period to 31 December 2007 the equity holder impact of actual credit defaults amounted to £10 million and there have been no further credit default losses since the year end.

In common with the recent disclosure of other insurers Resolution sets out below the profile of its debt securities portfolio which management consider to be well supported by underlying assets. This table excludes assets held by the unit-linked funds where risk is borne by unit holders.

	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	TOTAL £m	
Gilts	9,095	–	–	–	–	–	9,095	49%
Sovereigns and supra nationals	2,884	138	5	2	–	11	3,040	16%
Corporate bonds	149	1,741	2,185	743	45	62	4,925	27%
Asset-backed securities (ABS)								
CDO/CLO	–	–	–	–	–	–	–	0%
Mortgage backed securities	149	148	9	46	–	–	352	2%
Other ABS	299	50	194	43	–	236	822	4%
Wrapped	345	–	1	–	–	–	346	2%
Other	19	–	–	–	–	10	29	0%
Total	12,940	2,077	2,394	834	45	319	18,609	100%
	70%	11%	13%	4%	0%	2%	100%	

The "wrapped" bonds are all asset-backed security issues that are guaranteed by a monoline insurer. The ratings for £19 million of these securities, of which £17 million have subsequently been sold, have been lowered to A in the period since 31 December 2007.

Of the bonds falling into the "not rated" category, the £236 million of "Other ABS" represents mainly first mortgage debentures that are secured by fixed and/or floating charges over assets and are subject to onerous asset cover ratio covenants.

The majority of unrated corporate bonds comprise issues from building societies, utilities and estate management companies. Only one holding, valued at £9 million, was trading significantly below par and this has since been sold.

Group pension scheme

The principal defined benefit scheme is the Resolution Group pension scheme, a final salary scheme which is generally closed to new entrants. The surplus in the scheme as at 31 December 2007 amounted to £79 million compared with £80 million at the beginning of the year.

The net reduction in the surplus is after absorbing a cost of changes in longevity assumptions amounting to £38 million, based on the results of the triennial valuation as at 30 June 2006. This cost is included in actuarial losses within the consolidated statement of recognised income and expense and is in addition to a cost of £49 million provided in the financial statements for the year ended 31 December 2006, based on the draft triennial valuation at that time.

In accordance with an agreement dated November 2005, certain of the Group's with-profit funds have indemnified the Group's equity holders in respect of contribution calls equal to their share of the cost of changes in the longevity assumptions. Completion of the triennial valuation has resulted in contribution calls totalling £75 million being made for the five year period to June 2012. Of this amount, £58 million has been attributed to the with-profit funds and accordingly a contribution from the with-profit funds in respect of actuarial losses of this amount, less tax, has been recognised in the consolidated statement of recognised income and expense.

Dividends

A final dividend in respect of 2006 of 13.28 pence per share was paid on 15 June 2007 at a total cost of £91 million. An interim dividend for 2007 of 9.17 pence per share (2006: 6.64 pence per share) was paid on 26 October 2007. The total cost of this interim dividend was £63 million. No final dividend in respect of 2007 has been proposed in view of the expected acquisition of the Group by Impala Holdings Limited.

Financial key performance indicators

The Group managed the business during the year using a number of key performance indicators (KPIs) which included:

- *EEV per share:* calculated by taking the EEV at the period end and dividing it by the number of shares in issue at the period end.
- *EEV operating profit:* calculated by taking the life division EEV operating profit before tax after operating and experience variances but before non-recurring items, amortisation of intangible assets, economic experience variances, economic assumption changes and tax; this is combined with profits from the asset management and management services businesses on an IFRS basis and Group income and charges.
- *return on embedded value:* calculated by taking the components of EEV profit divided by the opening EEV where the opening EEV is adjusted to remove the goodwill on the management services and asset management businesses and to allow for the timing of dividend payments and the debt raised and repaid during the period.
- *IFRS operating profit:* calculated by taking IFRS profit before amortisation and impairment of intangible assets, non-recurring items, short term investment fluctuations, financing costs and equity holders' tax.
- *Gearing:* Group debt as a proportion of gross Market Consistent Embedded Value (MCEV) not to exceed 35% and to trend towards 25% in the medium term.
- *Interest cover:* Group annual cash flows to remain more than five times the sum of interest expense and other fixed charges.
- *Liquidity:* parent company liquidity to remain above 2 years' interest payments.

Additional KPIs relating to performance within the human resources area are provided in the Corporate Responsibility Report.

The KPIs will be re-evaluated as a result of the acquisition by Impala Holdings Limited.

Principal risks and uncertainties

Full details of the Group's risk management framework and financial exposures are included in note 51 to the consolidated financial statements: "Risk management policies". The principal risks and uncertainties are those that relate to the economic, financial and insurance risks underwritten or assumed by the life insurance businesses but which by their nature are outside the control of the Group. These will affect the profitability of any new business and the run-off of the closed books of business which will, in turn, impact on the profitability of the Group.

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

The Group has exposure to material economic movements through its investment portfolio and the investments supporting policyholder liabilities.

The risks principally associated with these movements comprise:

- credit risk: loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion;
- liquidity risk: failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due; and
- market risk: change in fair value of financial instruments from fluctuation in foreign exchange rates, market interest rates and market prices (including equities and property).

The Group seeks to manage these risks through a clearly defined governance framework that includes limit setting and monitoring, asset and liability matching, appropriate risk hedging and transfer activities, asset diversification and "natural hedging", and credit reviews and assessments.

The Group maintains a significant proportion of its investments in fixed interest securities, (including gilts and corporate bonds), the market value of which has been impacted by widening credit spreads in 2007. These investments are largely matched by duration to underlying policyholder liabilities and are therefore anticipated to be held until maturity, when they will offset the corresponding maturing liability.

The Group also holds structured derivatives within its with-profit funds to hedge certain guarantees within the with-profit policy portfolio. For unit-linked policies, the investment risk is borne wholly by the policyholders.

The principal insurance risks comprise:

- mortality: higher than expected number of death claims;
- longevity: faster than expected improvements in life expectancy;
- morbidity: higher than expected number of serious illness claims or more sickness claims which last longer;
- lapses: the number of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- options: unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

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

The Group is also subject to operational risk, namely, the risk of loss or adverse consequences arising from inadequate or failed internal processes and systems, human error, fraud, or external events. These risks and a review of scenarios under which they might impact the Group are considered through the Group's capital assessment processes and are reflected in the capital resources maintained to withstand specific events.

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

Jim Newman
Group Finance Director

28 April 2008

Board of directors

Clive Cowdery
Chairman, aged 44.
Clive Cowdery was previously the Chief Executive of Resolution Life Group Limited, a company that he founded in 2003. He was appointed Chairman of Resolution plc in September 2005 following the merger of Britannic Group plc and Resolution Life Group Limited. He started his career in insurance advising clients as a broker and was previously Chairman and Chief Executive of GE's primary insurance operations in Europe (GE Insurance Holdings), with over $3 billion of premium income. The businesses he led included Europe's largest credit insurer with operations in twelve countries and life and pensions companies in the UK and France. Before joining GE in 1998, he co-founded Scottish Amicable International/J. Rothschild International, a European cross-border insurance business based in Dublin and formed in 1992. He is Chairman of the charity the Resolution Foundation and a non-executive director of The British Land Company plc to which he was appointed in 2007.

Sir Malcolm Williamson
Deputy Chairman and senior independent director, aged 69.
Sir Malcolm Williamson was appointed to the Board of Britannic Group plc in March 2002 as a non-executive director, Deputy Chairman and senior independent director. He succeeded to the position of Chairman of Britannic Group plc in October 2004, a post he held until the merger with Resolution Life Group Limited in September 2005. He is a member of the Audit, Risk and Compliance Committee and Remuneration Committee. He was formerly the President and Chief Executive of Visa International Inc, Group Chief Executive of Standard Chartered plc and a non-executive director of National Grid Group plc. He currently chairs CDC Group plc, National Australia Group Europe Limited, Clydesdale Bank plc and Signet Group plc and is a non-executive director of National Australia Bank Limited, G4S plc and JPMorgan Cazenove Holdings, and chairs the Advisory Board of Youth Business International. He is a member of the Board of Trustees of the Prince of Wales International Business Leaders Forum.

Sir Brian Williamson CBE
Non-executive director, aged 63.
Sir Brian Williamson was previously the Chairman of Resolution Life Group Limited until the merger with Britannic Group plc in September 2005. He chairs the Nominations Committee and is a member of the Audit, Risk and Compliance Committee. He is a member of the Supervisory board of NYSE Euronext NV, a senior adviser to Fleming Family and Partners, Chairman of Electra Private Equity plc and also a non-executive director of HSBC Holdings plc and Climate Exchange plc. He is a former Chairman of The London International Financial Futures and Options Exchange and Gerrard Group plc and a former non-executive director of The Financial Services Authority and of the Court of the Bank of Ireland.

David Allvey FCA, ATII
Non-executive director, aged 63.
David Allvey was appointed to the Board of Britannic Group plc in March 2002 as a non-executive director. From October 2004 and until the merger with Resolution Life Group Limited, he was Deputy Chairman and senior independent director. He chairs the Audit, Risk and Compliance Committee and is a member of the Nominations Committee. He was formerly Group Finance Director of Barclays Bank plc and BAT Industries plc as well as chief operating officer of Zurich Financial Services plc and a non-executive director of McKechnie plc. In addition, he was a member of the UK Accounting Standards Board for ten years. He is currently the Chairman of Arena Coventry Limited of Costain Group plc and a non-executive director of Intertek Group plc, Thomas Cook Group plc and William Hill plc.

Sir David Cooksey GBE
Non-executive director, aged 67.
Sir David Cooksey was previously a non-executive director of Resolution Life Group Limited. He chairs the Remuneration Committee and is a member of the Nominations Committee. He was appointed a non-executive director of the Establishment Investment Trust in 2002. In February 2005, he retired as a non-executive director of the Bank of England having served on the Court for eleven years and as Chairman of the committee of non-executive directors since 2001. He was Chairman of the Audit Commission from 1986 to 1995 and a Governor of the Wellcome Trust from 1995 to 1999. He retired as Chairman of Advent Venture Partners LLP in 2006, a firm that he founded in 1981 and was Chairman of the European Private Equity and Venture Capital Association in 2005/6. He is currently Chairman of Diamond Light Source Limited, London & Continental Railways Limited and Eurasian Natural Resources Corporation Plc.

Paul Spencer BA, FCT, FCMA
Non-executive director, aged 58.
Paul Spencer was appointed to the Board of Britannic Group plc in August 2003 as a non-executive director. He is a member of the Remuneration Committee. He was associate director and treasurer of Hanson plc from 1986 to 1996 and Group Finance Director and subsequently Chief Executive UK of Royal and Sun Alliance plc from 1996 to 2002. He is currently the Chairman of National Savings and Investments, Managed Pension Funds and Sovereign Reversions plc and a non-executive director of WPP Group plc. He is a past President of the Association of Corporate Treasurers and currently Chairman of their advisory board and a Governor of the Motability charity.

Aram Shishmanian

BA, MSc

Non-executive director, aged 56.

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

David Woods

MA (Cantab), MSc, FIA

Non-executive director, aged 60.

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

Mike Biggs

MA (Oxon), ACA

Group Chief Executive, aged 55.

Mike Biggs was previously Chief Financial Officer of Resolution Life Group Limited and became Group Finance Director of the enlarged Group upon the merger with Britannic Group plc. On 7 March 2007 he was appointed as Group Chief Executive. He began his career at Williams & Glyns Bank and held management roles with Arthur Andersen, Hong Kong & Shanghai Banking Corporation and Morgan Grenfell prior to joining Norwich Union as Group Financial Controller in 1991. In 1995, he became General Manager of Norwich Union's international operations and was a member of the team that demutualised and floated the Society in 1997. He was appointed Group Finance Director of Norwich Union in that year and following the merger with CGU in 2000 that created CGNU, he was made Group Executive Director responsible for CGNU's UK general insurance business. He was promoted to Group Finance Director in 2001, a position he held until he left Aviva, the renamed CGNU business, at the end of 2003.

Jim Newman

BSc ACA

Group Finance Director, aged 43.

Jim Newman was appointed to the Board of Resolution plc upon the appointment of Mike Biggs as Group Chief Executive on 7 March 2007. He was previously Group Financial Controller of Resolution plc, having joined the Company in 2005 from Aviva plc. He held a number of different senior management positions at Aviva, culminating in that of Finance Director of Norwich Union Life Assurance, Aviva's UK life business. Prior to that appointment, he was responsible for managing the worldwide integration of CGU and Norwich Union businesses, following their merger in 2000.

Ian Maidens

BSc FIA FSAI ASA

Group Chief Actuary & Head of Corporate Development, aged 43.

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

Brendan Meehan

FCCA FCII

Group Chief Operating Officer, aged 50.

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

Directors

The names and biographies of the current directors are shown on the previous pages.

On 6 March 2007 Paul Thompson left the Group and was succeeded as Group Chief Executive by Mike Biggs whose former position of Group Finance Director was filled by Jim Newman. On 26 March 2007 Brendan Meehan was appointed Group Chief Operating Officer.

Upon the acquisition of Resolution by Impala Holdings Limited, a subsidiary of Pearl Group Limited, David Allvey, Mike Biggs, Sir David Cooksey, Clive Cowdery, Brendan Meehan, Jim Newman, Aram Shishmanian, Paul Spencer, Sir Brian Williamson, Sir Malcolm Williamson and David Woods will resign as directors of the Company.

Details of directors' interests in the Company's shares and reference to any agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid are shown in the Remuneration report.

The articles of association of the Company set out the powers of the directors, including provisions relating to their appointment and replacement. Amendments to the articles of association have to be approved by shareholders.

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

Principal activities

The principal activities of Resolution plc and its subsidiaries are the acquisition and management of in-force life funds and the writing of life and pensions business in the UK and various offshore jurisdictions.

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

The life division manages the Group's operating life companies utilising the services provided by the management services division. The life division provides regulated management of the life companies through governance support functions comprising financial control, actuarial operations, internal audit, legal, risk and compliance.

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

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

Business review

The audited results for the year are set out on pages 60 and 61. The detailed financial review of these results is set out on pages 2 to 15. This Operating and financial review includes details of the primary key performance indicators (KPIs) in the section entitled "Financial key performance indicators" on page 13. In addition KPIs relating to gearing and interest cover are set out in the "Capital and financing" section on page 11. The Operating and financial review also includes details of the principal risks and uncertainties in the section entitled "Principal risks and uncertainties" on pages 13 to 15. Risk management objectives and policies are also set out in note 51 of the consolidated financial statements.

The Operating and financial review on pages 2 to 15 reviews the performance of the business and provides information on likely future developments.

The Group presents its policies in relation to human resources (including KPIs), health and safety, customer impact, community relations and charitable donations and environment in the Corporate responsibility report on pages 33 to 39.

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

Transactions

On 30 May 2007, the Company entered into an outsourcing agreement with Capita Life & Pensions Regulated Services Limited ("Capita") under which Capita would carry out some of the customer service and IT functions of RMS. The outsourcing agreement is for an initial period of twelve years from 1 August 2007.

On 25 July 2007, the Company entered into a merger agreement with Friends Provident plc which was subsequently terminated by mutual agreement on 26 October 2007. Upon termination, the Company paid Friends Provident plc a break fee of approximately £49 million pursuant to the terms of the merger agreement.

On 28 September 2007, the Company, through RMS, acquired the 65 strong broker consultant business from Abbey National plc for £30 million enabling it to directly market Scottish Provident and Scottish Mutual products to independent financial advisers.

On 26 October 2007, the Board of directors of the Company announced that it had recommended a cash and share offer by Standard Life plc which was subsequently withdrawn on 29 October 2007.

On 16 November 2007, the Boards of directors of the Company and Pearl Group Limited ("Pearl") announced that they had agreed the terms of a recommended acquisition by Impala Holdings Limited ("Impala"), a subsidiary of Pearl, of the entire issued and to be issued share capital of the Company ("the Acquisition"). At Court and General Meetings of the Company held on 9 January 2008, shareholders approved the implementation of the acquisition by scheme of arrangement under section 425 of the Companies Act 1985.

On 16 November 2007, Resolution, Impala and Pearl entered into an Implementation Agreement in connection with the Acquisition. The Implementation Agreement provides, among other things, for the implementation of the Acquisition, the conduct of the business of Resolution in the ordinary course and in all material respects consistent with past practice pending completion of the Acquisition, and certain preparatory work in connection with implementation of a framework agreement dated 10 October 2007 between Pearl, Impala and The Royal London Mutual Insurance Company Limited prior to completion of the Acquisition.

Approval of the change of control of the Company was given by the Financial Services Authority on 16 April 2008 and the scheme of arrangement was sanctioned by the Court on 28 April 2008. The effective date of the scheme of arrangement is expected to be 1 May 2008.

Significant agreements

The agreements summarised below have been identified as those that at 31 December 2007 take effect, alter or terminate upon a change of control of the Company:

- ***Perpetual Reset Capital Securities Issue***

In November 2005, the Company issued a series of £500 million 6.5864% fixed/floating rate perpetual reset capital securities (the "Notes"). The trustee for the issue is HSBC Trustee (C.I.) Limited (the "Trustee"). An alternative coupon satisfaction mechanism ("ACSM") is in place for the Notes.

Pursuant to the terms attaching to the Notes, if there is a change of control of the Company, the ACSM shall be suspended. Unless the new owner of the Company is a listed company incorporated by or on behalf of the Company and arrangements are put in place within six months of the change of control to ensure that the economic effect of holding the Notes is preserved, the Company and the Trustee will make such amendments to the documentation relating to the Notes as determined by an independent investment bank to be appropriate in order (a) to preserve substantially the economic effect of holding of the Notes prior to the suspension and (b) to replicate the ACSM in the context of the capital structure of the new owner.

If the investment bank is unable to determine appropriate amendments or if the Company is unable to appoint an investment bank to make such determination, then the Notes shall (in each case subject to the Issuer receiving no objection from the FSA) either (i) be substituted for, or varied so that they become, securities issued by the Company that have terms no less favourable to an investor than the terms of the Notes and are admitted to trading on a market of the London Stock Exchange, or (ii) be redeemed at the principal amount of each Note or at a price determined by the gross redemption yield on a reference gilt, plus a margin of 0.75%, whichever is higher, if the redemption occurs prior to 25 April 2016 and at the principal amount of each Note if the redemption occurs on or after the 25 April 2016, in each case together with all outstanding payments.

- ***Facilities Agreement***

On 7 June 2006, the Company executed a facilities agreement consisting of a £350 million term loan facility and a £200 million revolving credit facility (the "Facilities Agreement"). This was initially provided by Citi Global Markets Limited and Goldman Sachs International, who subsequently syndicated the facilities to other financial institutions (the "Lenders").

The final maturity date for the facilities is 15 April 2009. The term loan facility is to be repaid in three instalments, the last of which falls on 15 April 2009. There is an option for the company to extend the final maturity date of the revolving credit facility to 15 April 2010.

Pursuant to the Facilities Agreement, the Lenders can require all amounts outstanding under the facilities to be repaid upon change of control of the Company within 30 days of receiving notice of such requirement from each lender. As at 28 April 2008, £120 million was outstanding under the Facilities Agreement.

- ***Retail Distribution Agreement***

In June 2006, the Company entered into a retail distribution agreement with Abbey National plc. The agreement formed part of the overall acquisition of the UK life and offshore life businesses of Abbey National plc which was completed on 1 September 2006. The agreement provides for an exclusive arrangement whereby Resolution's insurance products are sold through Abbey's branch network and is a major channel for Resolution's new business. The agreement entitles Abbey to terminate it by written notice with immediate effect in the event that there is a change of control of Resolution and the new owner is considered to be a retail banking competitor of Abbey.

Share capital

As at 31 December 2007, the Company's issued share capital was made up of 686,473,548 ordinary shares of 5p each with a total nominal value of £34.3 million. Details of the structure of the

Company's authorised and issued share capital and the rights and obligations attaching to the shares are given in note 16 of the financial statements on page 76.

There are no restrictions on the transfer of the Company's shares other than in respect of 2,272,686 shares held by six directors and former directors of companies within the Group which are subject to lock-in arrangements in connection with the merger of Britannic Assurance plc and Resolution Group Limited in 2005 which will expire on 31 August 2008.

The allotment of shares in the Company and the purchase of its own shares requires authorisation by shareholders. The 2007 annual general meeting granted authority for the Company to be able to purchase up to 68,519,259 of its ordinary shares which has not been utilised. The authority will expire at the 2008 annual general meeting.

Financial instruments

Details concerning the use of financial instruments by the Group, the financial risk management objectives, policies and exposure to such risks are set out in note 51 of the consolidated financial statements.

Results and dividends

The results for the year are set out on pages 60 to 61.

A final dividend in respect of 2006 of 13.28 pence per share was paid on 15 June 2007 and an interim dividend for 2007 of 9.17 pence per share (2006: 6.64 pence per share) was paid on 26 October 2007. No final dividend has been proposed in view of the expected acquisition of Resolution by Impala.

Creditor payment policy

The Group does not follow any code or standard on payment practice, but it is the Group's policy to pay its suppliers within 30 days of the invoice date or if different, in accordance with any terms agreed with suppliers. As at 31 December 2007, the amounts owed to trade creditors represented 27 days' worth of goods and services supplied to the Group (2006: 28 days). The Company, had no trade creditors as at 31 December 2007.

Statement of going concern

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

Significant shareholdings

As at 31 December 2007 and at 23 April 2008 (being the latest practicable date prior to printing this report) the Company had been notified of the following direct and indirect interests in voting rights equal to or in excess of 3% of its issued share capital.

	31 December 2007 No. of shares	% of issued capital	23 April 2008 No. of shares	% of issued capital
Pearl Group Ltd	**177,983,359**	**25.93**	**177,983,359**	**25.93**
Black Rock	**33,501,767**	**4.88**	**33,501,767**	**4.88**
Legal & General Group plc	**27,903,453**	**4.06**	**27,903,453**	**4.06**
Credit Suisse (Europe) Ltd	**32,310,543**	**4.70**	**26,414,735**	**3.85**
Royal Bank of Scotland Group plc	**–**	**–**	**23,790,154**	**3.47**
Perry Partners International Inc	**20,919,067**	**3.05**	**20,919,067**	**3.05**
UBS Investment Bank	**44,019,979**	**6.41**	**–**	**–**
Deutsche Bank AG	**21,225,925**	**3.09**	**–**	**–**

Disclosure of information to the Company's auditors

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

2008 Annual general meeting

Resolutions will be proposed at the annual general meeting to receive the 2007 report and accounts, approve the 2007 Remuneration report, reappoint Ernst & Young LLP as auditors of the Company and authorise the directors to determine the auditors' remuneration.

By order of the Board

Randal Barker
Company Secretary
28 April 2008

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

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

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

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

Clear Board and Board sub-committee structures, membership and terms of reference have also been implemented and adopted by all divisions within the Group.

Board of directors

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

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

In reviewing the Group's overall corporate governance arrangements the Board continues to give due consideration to balancing the interests of policyholders, customers, shareholders, employees and the wider community, including ensuring that the group has in place appropriate processes to ensure that its policyholders and customers are treated fairly.

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

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

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

The Board held 35 meetings during the year. The Board currently comprises a non-executive Chairman, four executive and seven other non-executive directors. The non-executive directors, all of whom the Company determines to be independent, play a full role in constructively challenging and developing strategic proposals as well as chairing and being members of various Board committees. Separate meetings are held between the non-executive directors and the Chairman without the executive directors being present. They similarly scrutinise management performance, financial controls and systems of risk management. There is a clearly documented division of responsibilities between the Chairman and Group Chief Executive, details of which are available on the Group website.

Sir Malcolm Williamson continued to fulfil the role of senior independent director during the year as well as that of Deputy Chairman. The senior independent director is available to shareholders should they have concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate. There were no such meetings held during the year.

Company Secretary

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

Directors' evaluation and training

Performance evaluation of the Board, its committees and individual directors during the year was planned to be undertaken using an external facilitator. However, the application of the evaluation process was delayed whilst consideration was being given to prospective corporate transactions which would have had an impact upon the future board structure. The performance evaluation of the Chairman would be undertaken by the non-executive directors, led by the senior independent director, Sir Malcolm Williamson.

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

Board committees

The number of Resolution plc Board and committee meetings held in the year and the attendance of each director is set out below. In addition to the eight scheduled Board meetings, 27 meetings were held which were principally concerned with the consideration of prospective corporate transactions, culminating in the recommendation of the offer by Impala Holdings Limited, a subsidiary of Pearl Group Limited.

Audit, Risk and Compliance Committee

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

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

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

The Audit, Risk and Compliance Committee also considers and reviews other risk management and control documentation, including the Group's policy on whistleblowing, financial crime prevention and the

Attendance at meetings in 2007

	Group Board	Audit, Risk and Compliance Committee	Remuneration Committee	Nominations Committee
David Allvey	29 (35)	8 (8)	n/a	3 (3)
Mike Biggs	27 (35)	n/a	n/a	n/a
Sir David Cooksey	28 (35)	n/a	9 (9)	3 (3)
Clive Cowdery	34 (35)	n/a	n/a	n/a
Ian Maidens	35 (35)	n/a	n/a	n/a
Brendan Meehan	32 (35)	n/a	n/a	n/a
Jim Newman (appointed 7 March 2007)	27 (31)	n/a	n/a	n/a
Aram Shishmanian	30 (35)	n/a	8 (9)	3 (3)
Paul Spencer	29 (35)	n/a	8 (9)	n/a
Paul Thompson (left 6 March 2007)	3 (4)	n/a	n/a	n/a
Sir Brian Williamson	27 (35)	7 (8)	n/a	3 (3)
Sir Malcolm Williamson	24 (35)	6 (8)	8 (9)	n/a
David Woods	28 (35)	6 (8)	6 (9)	n/a

Figures in brackets indicate maximum number of meetings during the period in which each individual was a Board/committee member.

results of internal and external audit and compliance reviews as well as legal reports and the terms of any letters of representation issued to the external auditors. On an annual basis the committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and that of the Head of Internal Audit. A resolution proposing the reappointment of Ernst & Young LLP as Group auditors will be put to shareholders at the forthcoming annual general meeting.

Remuneration Committee

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

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

Nominations Committee

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

The committee assists the Board in discharging its responsibilities relating to its structure, size and composition, including the skills, knowledge and experience required of its members. It is also responsible for consideration of succession planning for directors and other senior management, identifying and nominating for approval by the Board suitable candidates to fill Board vacancies as and when they arise.

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

Changes to the management team were instigated by the Board in March 2007. Paul Thompson resigned as Group Chief Executive and, upon the recommendation of the committee, Mike Biggs was appointed Group Chief Executive on 7 March 2007 and replaced as Group Finance Director by Jim Newman, formerly Group Financial Controller. On 26 March 2007 Brendan Meehan was appointed as Group Chief Operating Officer.

During the year, the committee also initiated a process to refresh Board membership by seeking new non-executive director appointments and external search consultants were appointed for that purpose. Subsequently, the search process was suspended whilst prospective corporate transactions were being considered.

Group Executive, Risk and Treating Customers Fairly (TCF) Committees

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

The Group Executive Committee, chaired by the Group Chief Executive, meets monthly on a formal basis and also comprises the Group Finance Director, the divisional Managing Directors, the Group Chief Actuary & Head of Corporate Development and, since

March 2007, the Group Chief Operating Officer, the Group Legal Director & Group Company Secretary and the Group HR Director. This committee assists the Group Chief Executive in developing strategy and by challenging and reviewing business plans and performance for ultimate consideration by the Board.

The Group Risk Committee, a sub-committee of the Group Executive Committee, chaired by the Group Chief Executive, meets monthly with the same membership as the Group Executive Committee with the addition of the Group Risk & Compliance Director. The committee assists the Group Chief Executive in the formulation of the Group's overall risk appetite, tolerances and strategies for managing all significant financial and non-financial risks facing the Group. The committee regularly reviews management information produced by the Group Risk & Compliance Director and the Group Head of Internal Audit to ensure that the business is operating within agreed risk tolerances, to modify when necessary those tolerances and to ensure an appropriate internal control environment is maintained.

The Group Treating Customers Fairly (TCF) Oversight Committee, is also a sub-committee of the Group Executive Committee, chaired by the Group Chief Executive, with the same membership as the Group Executive Committee with the addition of the Group Risk & Compliance Director and the Group TCF Champion. The committee, which meets monthly, supports the Group Chief Executive in monitoring the implementation and embedding of TCF throughout the Group, monitoring the performance of TCF through regular management information and dealing with Group TCF issues escalated to it.

Directors' remuneration

Details of remuneration policy, service contracts and the remuneration of directors are provided in the Remuneration report on pages 40 to 49 which has been prepared in accordance with the requirements of the Companies Act 1985.

Investor relations

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

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

Votes representing some 59% of issued share capital were cast at the 2007 annual general meeting of which votes in favour of the resolutions were 99%.

Responsibilities as institutional shareholders

As a major institutional shareholder itself, the asset management division on behalf of the Group continues to exercise its responsibility as a shareholder by using its voting rights and seeking regular contact with the management of those companies in which it is invested. Investment managers at Resolution Asset Management with responsibility for some £58 billion of funds, take into account any factor that might have a bearing on performance as part of their stock selection process.

Accountability and audit

The responsibilities of the directors and auditors in relation to the financial statements are set out on pages 50 and 139 and pages 51 and 140 respectively.

Risk management and internal control

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

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

On 1 August 2007, a significant element of the Group's customer services and IT operations was transferred to Capita Life & Pensions Regulated Services Limited ("Capita") under an outsourcing agreement with Resolution which is overseen by the in-house retained Resolution Management Services division. Risk assessments were conducted before, during and after completion, with particular focus on the risk, audit and compliance governance of the transferred operations.

Engagement by the risk, audit and compliance functions throughout the process including contract drafting, setting criteria for the transfer of governance functions to Capita and defining the governance oversight model ensured that the Group's risk management and internal control framework was not significantly weakened as a result of the transfer of operations. The Committee reviewed and approved the transfer based on the investigations undertaken by the risk, audit and compliance functions.

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

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

On a six monthly basis FSA regulated senior managers are required to perform a review of the systems of control and management of risk in their area of responsibility. Each manager considers the scope of their role, the risks they face and how effectively the controls have operated. A declaration is made by each manager to confirm that either all risks and issues that are material to the Group have been reported through the regular reporting mechanisms or that exceptions exist. The results of this exercise for 2007, which are reported initially to divisional Audit, Risk and Compliance committees, have shown no material exceptions to report to the Group Audit, Risk and Compliance Committee.

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

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

Risk appetite identification, evaluation and management

Throughout 2007, the Group has monitored and made strategic decisions consistent with key elements of its risk appetite. Items such as return on embedded value and issues of customer fairness have been fundamental to the Group's decision-making processes. All external announcements relating to results or corporate initiatives have provided shareholders with the Group's opinion of the likely impact on these risk appetite elements.

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

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

To support management with the recording, assessment, evaluation and reporting of these risks, the Group has implemented a consistent approach to managing risks and the associated controls via a Control Risk Self-Assessment methodology supported by an operational risk application.

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

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

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

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

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

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

During 2007, due to rapid growth, the Group decided to split the role of the Group Risk, Audit & Compliance Director and appoint a Group Head of Internal Audit who reports directly to the Group Chief Executive. In addition internal audit organisational structures are being reviewed to establish a direct reporting line between divisional functions and the Group Head of Internal Audit, to strengthen the independence of the internal audit functions.

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

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

- processes are in place at Board level to ensure that strategy is focused, remains clear, can accommodate internal corporate restructuring and can respond to the corporate development of competitors;
- the life division has committees to review investment strategy, asset and liability management, investment performance and the performance of asset managers. These committees, which ensure the appropriate implementation of investment and credit risk policies, report to the divisional executive management team;
- a formal function and governance process has been established for the close and regular monitoring of the Group's outsourced providers, in particular in relation to policyholder administration activities. This includes monthly review meetings with outsourcers to review performance and adherence to service level agreements;
- the Group uses derivatives, where appropriate, for the purposes of efficient portfolio management and to mitigate the risk of adverse

market movements. The Group has policies in place in relation to such transactions and robust approval procedures;

- there are detailed control procedures in place at the life and pensions and new business divisions surrounding underwriting risk and the reassurance of this risk. Underwriting practices and reassurance treaties are subject to regular reassessment, review and monitoring. Specialist actuarial resource has been allocated to further developing insurance risk management;
- detailed plans, budgets and key performance indicators aligned with corporate strategy are developed and monitored by the boards and executive committees of each operating subsidiary on a regular basis. Key performance indicators cover all aspects of each division including customer service, human resources, technology, products and sales and marketing; and
- the Audit, Risk and Compliance Committee responsible for each business division within the Group receives regular reporting on internal controls and on compliance with all key regulation and legislation to which the business division is subject.

The Group Risk & Compliance Director is responsible for ensuring that the Group has appropriate insurance cover to mitigate certain risks that have been identified.

Apart from those items identified as having been implemented during 2007, the risk management processes and internal control environment described above have been in place across the Group throughout 2007 and accord with the Turnbull Guidance on internal control. These processes are subject to continual review and enhancement and further improvements are planned for 2008.

Combined Code compliance

The Board confirms that the Company complied with the provisions set out in section 1 of the Combined Code throughout the twelve months ended 31 December 2007, save that the annual evaluation of the Board's performance had to be deferred whilst consideration was being given to prospective corporate transactions (Code provision A.6) and not all of the Board were available to attend the 2007 annual general meeting (Code provision D.2.3).

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

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

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

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

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

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

Human resources

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

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

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

Employment policy

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

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

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

Throughout the Group a variety of informal and formal means are used to gain feedback from employees including confidential questionnaires, employee consultative groups and on-line surveys. The results of these are evaluated and areas identified for attention and action. Confidential and open e-mail boxes also enable employees to provide feedback and offer suggestions for improvements throughout the year.

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

Resolution is an equal opportunity employer and encourages, through the ongoing development of its HR policies, the recruitment and retention of a fully diverse workforce. Policies are reviewed and revised as necessary in line with current and emerging legislation, with appropriate management education and training implemented during the year. 'Family-friendly' policies are also in place to encourage flexible working and are consistent with the need to maintain effectiveness and levels of customer service. Many of these arrangements improve upon current legislative requirements.

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

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

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

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

The Group HR department monitors numerous people metrics across the Group throughout the year. This assists the Company in analysing people trends and performance against comparable companies. During 2007 some of the key 'people' performance indicators were:-

Key performance indicator description	Annual measure[1]
Annual staff turnover (Intended to illustrate the turnover of the population choosing to leave the company voluntarily)[1]	13%
Annual new starter turnover (Intended to illustrate the number of employees leaving voluntarily within first 12 months of employment)[1]	10%
Percentage days lost through sickness (Intended to illustrate the total days lost as a result of the absence instances in the population)[1]	2%
Percentage employees sponsored on Professional Qualification (Intended to illustrate the number of employees being sponsored, by the company, through a professional qualification in 2007)[2]	28%
Percentage employees promoted internally (Intended to illustrate the number of employees who had an internal promotion in 2007)[1]	6%

1 Source: Company HR Information System

2 Source: Resolution Learning and Development

Recruitment

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

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

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

Learning and development

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

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

The Group monitors Training and Competence through the formal performance management system. Monitoring is carried out by the Learning and Development team and is directed by a Corporate Governance Forum. In addition, the maintenance of competence of any regulated overseers is formally reviewed half-yearly by Learning and Development.

During the year, Scottish Provident International, which employs approximately 140 staff in the Isle of Man, was re-accredited with the Investors in People Standard. This programme recognises employers that have enhanced the performance of their organisation through the way they manage and develop their employees.

Succession planning

Whilst a corporate overview is maintained by the Nominations committee via the Group Chief Executive and the Group HR Director, succession planning is managed by the divisional Managing Directors and plans are maintained for key roles within the divisions. It is the responsibility of the Group HR Director to ensure that individuals who have been identified as possible successors for senior Group roles and key specialist Group roles have an up-to-date development plan and to track performance against the development plan.

Reward policy

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

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

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

Health and safety policy

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

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

Customer Impact Scheme

Resolution Plc is a signatory to the Association of British Insurers' (ABI) Customer Impact Scheme and supports the following three customer commitments:

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

The Customer Impact Scheme is part of our industry's commitment to continuously build on customers' experiences.

An annual customer telephone survey is conducted to understand our customers' experience and attitudes. In November 2007, Resolution took part in its second annual survey. The results of this survey will be available from June 2008.

The results of the 2006 survey are available via the Group website at www.resolutionplc.com, or in hard copy format on request by telephoning 01564 202529. For more information about the scheme, please visit the ABI website www.customerimpact.org.

Community relations and charitable donations

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

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

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

2007 was also the eleventh successive year that Resolution Asset Management was the title sponsor of the annual Women's 10k Road Race in Glasgow. Over 110,000 women have taken part since the first race raising a large amount of money for charity as a result.

Scottish Provident International Life Assurance Limited (SPILA) continues to support the Isle of Man children's cycling league, which this year alone has seen 'Team Scotprov' produce three UK champions.

In conjunction with the Isle of Man Government's Department of Education, SPILA staff have been involved from the early planning stages of a project to help build a full-sized working Viking Longhouse on the island. When complete the Longhouse will be used as a unique educational facility for young people and adults to gain an understanding of how Vikings lived. The Project has continued into 2008 and staff are involved in the physical build as well as fundraising.

At the life division's Wythall office, involvement with the local community continues. As part of British Food fortnight a team of staff led by the company Catering Manager worked with children at a local primary school to increase their awareness of healthy food choices. In addition, throughout the year a number of older children received work experience placements at the Wythall site. These programmes are designed to give students a meaningful experience with the Group and provide them with an insight into the business environment. The Wythall office also sponsored a local school's road race to help raise money for the re-development of a cottage they own. The cottage will provide students with the opportunity to experience outward bound style activities.

During the year £228,204 (2006: £108,839) was donated by Resolution companies for charitable purposes. This included donations to charities in recognition of employees giving their time to volunteer for charities and matching employee fundraising efforts, as well as donations to a number of charities based close to Company sites and national causes. It also includes a donation made by the Company in lieu of sending Company Christmas cards in 2007 and donations to charities selected by employees from around the Group.

Resolution also made a £400,000 (2006: £400,000) charitable donation to the Resolution Foundation. The purpose of the Foundation, which was established by Resolution Chairman Clive Cowdery, is to carry out research into the financial decisions made by and the financial advice available to, people on limited incomes and to provide education on financial matters and the making of responsible financial decisions.

Employee charity consultative groups are established within the Group with responsibility for coordinating employee fundraising and reviewing requests from employees to support specific charities. Such fundraising events organised by staff have included raffles, dress down days and various competitions. During the year a total of £36,549 (2006: £22,411) was raised by employees around the Group.

In addition, on the evening of 16 March 2007, the call centres at Wythall and Glasgow were used to take donations for Comic Relief, with staff volunteers manning the phones.

No political donations were made during the year.

Environment

Resolution takes the threat of climate change seriously and recognises that business has an immediate responsibility to help reduce carbon dioxide emissions to the atmosphere. It also recognises that business has a responsibility to mitigate its wider environmental impact.

Resolution understands that the behaviour of its own people as well as those from whom it buys in goods and services together contribute to the global carbon footprint and its overall environmental impact. It is also aware that companies in which it invests are part of the same footprint. The potential influence that the financial services sector can bring to shift behaviours and business practices is clear and meaningful action is needed.

Carbon footprint

The Board decided in 2006 to take steps to help tackle the escalation of

Corporate responsibility
(continued)

carbon emissions to the atmosphere on a sustainable basis. For the second year, Resolution has calculated its own carbon footprint, as a means of disclosing and tracking its carbon emissions. Recognised experts were retained to conduct a review of carbon emissions across the main UK locations and to audit the results to ensure they were prepared on a recognised and comparable basis. Resolution reported its carbon emissions to the Carbon Disclosure Project and will do so again for 2007.

Programme for 2007/08

A programme of activities has taken place throughout 2007 and continuing into 2008 to reduce our carbon emissions. These activities include:

- ***Reducing energy consumption***

  Substantial progress has been made on this objective. Working groups across the business have identified key areas for action to reduce our carbon emissions. These have included reviewing our IT use, energy consumption in premises and facilities, impact of working practices, procurement and supplier management. These actions have been reviewed and approved by the Executive and are in the process of implementation. Many actions have already been implemented, but we would not expect the impact to show up in 2007 emissions, as the full effect will take place in 2008. This work has included discussions with our outsource suppliers and work to influence employee behaviour around commuting, recycling etc. Ongoing work is taking place in 2008 to monitor the effectiveness of these actions and engage employees in changing workplace behaviour to reduce energy consumption. There has been a

Emissions Summary[1]

Resolution's carbon footprint calculation, 2007 (tCO_2)

Emissions Source	2007	2006	% Variance
Energy	**7,835**	10,350	**-26%**
Business travel	**1,836**	1,323	**+39%**
Total 'Core' Emissions	**9,671**	11,673	**-17%**
Commuting/other	**2,481**	3,202	**-23%**
Outsourcer emissions	**7,794**	5,468	**+43%**
Total Emissions	**19,946**	20,343	**-2%**
Core Emissions per employee	**3.6**	3.4	**+7%**

The 2007 calculation has used updated DEFRA guidelines on carbon emission factors and so 2006 emissions have been restated to ensure we have comparable figures.

Resolution's core emissions stand at 11,673 tCo2, down 17% on 2006. This is the level of emissions over which the Group has direct control and that, through a programme of activities in 2007/08, it is committed to reduce and neutralise by end 2008. The reduction in 2007 is primarily due to the significant outsourcing deal which took place with Capita in mid 2007 (which also explains the increase in outsourcer emissions). This explains the fact that emissions per employee have actually risen, as a large number of employees have moved to outsourcers. The increase in business travel emissions is largely due to the acquisition of the Abbey life insurance businesses, which has led to increased business travel between Resolution offices, particularly to the new site in Glasgow.

The Group recognises that other emissions, such as employee commuting and supplier emissions, contribute to its overall carbon footprint but as these are outside its direct control, it will continue efforts to reduce them by influencing the behaviour and actions of suppliers and employees. Capita is Resolution's largest outsourcer supplier and accounts for the majority of outsourcer emissions. Ongoing discussions are being held with Capita, who as a socially responsible FTSE100 company have their own, well-advanced carbon reduction programme and we have committed to work jointly with them to manage the emissions associated with the activities we have outsourced to them.

very positive response from employees to the Carbon Reduction Programme, with considerable voluntary engagement in activities to reduce our carbon footprint.

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

  The Group has taken advice on how to procure green or renewable energy that qualifies towards its emissions reduction target. It aims to procure an increased proportion of green energy, where it directly controls the energy contract, when current contracts come up for review in 2008. Resolution did investigate the opportunity to procure green energy in 2007, but the combination of existing contractual arrangements and very limited supply of genuine renewable energy supplies made this impossible. It will ensure that the source of green energy purchased is verified and accredited. As green energy currently sells at a premium, the fluctuation of supply versus demand and any premiums paid for such green energy will be prudently monitored to ensure that energy expenditure is reduced when possible.

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

  Having reduced energy consumption and procured the optimum amount of green energy, the Group will obtain certified carbon credits for the remaining emissions. These credits will be offset within schemes that can clearly demonstrate their benefits. Resolution has retained the help of recognised experts to evaluate options for offsetting and to verify transparency. The aim is to calculate emissions for 2008 and offset the residual emissions.

Communications

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

Resolution is already a member of the FTSE 4Good index. In 2006, it was invited to join initiatives such as the Carbon Disclosure Project and to subscribe to the Principles for Responsible Investment launched by the United Nations Environment Program Finance Initiative. The Group plans to continue to support industry initiatives and to subscribe to carefully selected environmental programmes.

Other environmental issues

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

Collection systems are in place to recycle waste paper, cardboard, cans and plastic bottles, disused fluorescent light tubes and photocopier/printer toner cartridges. These were extended in 2007 to include the premises acquired as a result of the Abbey acquisition.

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

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

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

During 2007, at our site in Wythall, our local environmental work continued, including enhanced planting within the grounds and continuing to provide areas to support local wildlife.

The Company's Remuneration Committee determines overall pay policy, the remuneration packages and service contracts of individual executive directors and their direct reports, and of the managing directors of the Group's life, management services and asset management divisions. This report has been prepared in accordance with the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002. It also describes how the principles of the Combined Code on Corporate Governance are applied by the Company in relation to directors' remuneration and sets out the remuneration policy for the year ended 31 December 2007, the current year and, subject to the pending acquisition by Impala Holdings Limited, a subsidiary of Pearl Group Limited ("Pearl") and to ongoing review, future financial years.

Remuneration Committee

Throughout 2007, Sir David Cooksey (Committee Chairman), Sir Malcolm Williamson, Aram Shishmanian, Paul Spencer and David Woods were members of the Remuneration Committee (the committee). The Chairman and Group Chief Executive were invited to attend meetings but were not present when their own remuneration was discussed. During the year the Group Human Resources Director presented recommendations to the committee on remuneration levels, including bonuses, in conjunction with external advice commissioned by the committee directly from its appointed independent remuneration consultants, New Bridge Street Consultants LLP (NBSC), which provided no other services to the Company. Hewitt Associates acted as the Group pension scheme administrators and pensions consultants as well as providing actuarial and technical advice to the Group's pensions review unit. Following the year end, NBSC was acquired by Hewitt Associates and continues to operate as an autonomous division providing advice to the committee. The Group Company Secretary was secretary to the committee.

Remuneration policy

It is the Group's policy to recruit and retain high calibre executives. An annual review of remuneration is generally undertaken to ensure reward levels are appropriate to the duties and responsibilities of each role. This includes ensuring a suitable balance between fixed and variable performance related elements of pay. As such, policy has been to gradually enhance variable pay to a level more commensurate with a company of the Company's size and complexity, provided that performance exceeds challenging objectives. In determining salary levels for executives, due regard is given to external market data concerning all elements of remuneration, to comparisons across the financial services sector and with similar sized companies ranked 31 to 100 within the FTSE all-share index and to pay and employment conditions generally within the Group. The comparisons used are all generally related to median market reward levels. The policy also aims to match remuneration appropriately to the objectives of the respective divisions within the Group.

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

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

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

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

Remuneration

Base salary and benefits

The committee reviewed directors' salaries with effect from 1 January 2007, taking into account individual and Group performance, the scope and nature of the specific role, remuneration policy within the Group and known salary levels in comparable companies.

The review of directors' salaries in 2008 awaits the outcome of the recommended offer by Pearl for the Company.

On 6 March 2007, Paul Thompson left the Company (details of his compensation arrangements are set out on page 46). With effect from 7 March 2007, Mike Biggs was appointed to Group Chief Executive from that date with a base salary of £600,000 (increased from £400,000) and Jim Newman was appointed to the Board as Group Finance Director with a base salary of £380,000. Those figures were set at a slightly lower level than the prevailing mid-market levels to give scope for further increases to the appropriate level as they gained experience in their new roles. To reflect their enlarged responsibilities under the new management structure the base salaries of Ian Maidens and Brendan Meehan were also increased from £360,000 to £380,000 with effect from 7 March 2007 and 27 March 2007 respectively.

Clive Cowdery, non-executive Chairman, continued to waive any fee to which he would otherwise be entitled as consideration for his chairmanship. The Company instead donated £400,000 to the charity, the Resolution Foundation, which he also chaired.

The executive directors' remuneration also includes a non-pensionable car cash allowance which is paid monthly. In place of a car allowance, the Group continued to meet the travel costs of Clive Cowdery which included the use of taxis and a chauffeur as and when requested. Jim Newman, as result of his relocation, also received a mortgage supplement which was paid monthly. Non-pensionable benefits in kind also include, for the executive directors, private medical insurance.

Annual bonus

The Company operates a single bonus arrangement for executives and management at Group and divisional levels. It is non-pensionable.

For 2007 executive directors were set a short term target bonus at 62.5% (maximum 125%) of base salary. Of the bonus, 60% was set against an European Embedded Value (EEV) operating profit target and 40% against personal objectives.

The Group Executive Committee determined, in accordance with the powers delegated to them by the Board and the committee, and in accordance with the Implementation Agreement between Resolution and Pearl, that, due to the particular set of exceptional circumstances surrounding the corporate activity, the 2007 Staff Bonus Scheme should be paid before the end of February 2008 and was paid in full.

Following measurement of both the corporate and personal measures for 2007 the committee awarded Mike Biggs, Ian Maidens, Brendan Meehan and Jim Newman bonuses of 125% of base salary.

For 2008 the executive directors have all been set short term target bonuses at 62.5% (maximum 125%) of base salary. Of the bonus, 60% was set against an European Embedded Value (EEV) operating profit target and 40% against personal objectives.

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

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

Long term incentives

Under the 2005 Long Term Incentive Plan (LTIP) selected executive directors and other senior executives of the Group receive, on an annual basis, performance related conditional share awards subject to a limit of 200% of base salary. In 2007, executive directors received awards of 200% of base salary and, in addition, awards were made to a further thirty six senior managers of between 30% and 100% of salary. Awards would normally vest following the third anniversary of grant subject to satisfaction of performance conditions.

For awards made in 2007, 50% of each award was subject to a Total Shareholder Return (TSR) condition measured against those of companies ranked by reference to market capitalisation from 51 to 150 inclusive in the FTSE All-Share Index on the dealing day prior to grant, and 50% was subject to a separate Adjusted Embedded Value (Adjusted EV) per share target, measured over three financial years from the 1 January immediately prior to the grant.

- For the TSR part of an award, 25% of the shares subject to this part of an award will vest if, over a single fixed three year performance period, the Company's TSR ranking against the comparator group is equal to median, increasing on a straight line basis to 100% vesting if the Company's TSR is ranked within the upper quintile.

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

For the Adjusted EV part of an award, 25% of the shares subject to this part of an award will vest for average growth in Adjusted EV per share of 3.5% per annum in excess of the risk free rate, increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 7% per annum, in each case in excess of the risk free rate at the start of the period.

The "risk free rate" used for determining performance in respect of any given LTIP grant would be that used in the most recent published EEV immediately prior to the relevant LTIP grant being made.

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

Participants in the LTIP will be awarded a cash payment in lieu of the shares that they would have become entitled to under the plan, subject to the performance period being shortened to the date of acquisition and no pro-rating taking place for the proportion of the vesting period that has elapsed. The full award will be subject to performance conditions being met to the satisfaction of the Remuneration Committee.

Details of performance conditions applying to past awards are set out under the Directors' interests in the long term incentives table on page 48.

In view of the proposed acquisition by Pearl, no further LTIP awards are currently envisaged.

Details of the accounting treatment of LTIPs and share options are disclosed in note 17 of the consolidated financial statements.

Sharesave Scheme

The Group encourages employee participation through share ownership. All UK based staff, including executive directors, are eligible under defined criteria for grants of options to acquire shares under the Resolution Savings Related Share Option Scheme (Sharesave). The scheme provides for the grant of options to subscribe for Company shares at the end of fixed three or five year periods, using the proceeds of respective three or five year savings contracts entered into at the time the option was granted. Options under the schemes are granted at a discount of up to 20% of the market price at the time of the grant. As at 31 December 2007, 1,134 participants held options over 1.676 million shares under the Sharesave Scheme.

In view of the proposed acquisition by Pearl, no further Sharesave grants are currently envisaged. Existing employees who are SAYE option holders as at the date of acquisition will be able to exercise their share options under the scheme early. The share option entitlement will be pro-rated for the proportion of the vesting period that has elapsed and the amount of saving contributions that have accrued at that date. The remaining proportion of the share options will lapse. In addition, the Company has undertaken to compensate SAYE option holders in cash for the loss of benefit in respect of lapsed share options and to bear the cost of income tax and national insurance that would otherwise fall on option holders from the early vesting of the share option schemes.

Service contracts

Mike Biggs has a service contract dated 6 September 2005 (as varied by letter of 6 March 2007) while Ian Maidens and Brendan Meehan both have service contracts dated 17 July 2006 (that of Ian Maidens' varied by letter dated 10 January 2008). Jim Newman has a service contract dated 7 March 2007 (as subsequently rectified by an agreement dated 20 September 2007 and varied by a letter of 27 March 2007). In all cases their contracts are for a term until normal retirement age of 65 and twelve months' notice of termination is required on either side. The Company can terminate without notice (or liability to pay compensation) in certain cases where a director is dismissed for cause.

The executive directors' contracts provide for payment in lieu of notice of 1.5 times base salary on termination which may be paid on a phased basis or in one amount on termination. The figure of 1.5 is stated to be a conservative pre-estimate of amounts due under employment after mitigation. Except as summarised in respect of Jim Newman below there are no special arrangements arising on a change of control.

In the case of Jim Newman, it has been agreed that should there be any merger and/or acquisition activity that leaves him without suitable alternative employment within the London area, then he will be entitled to receive one year's salary, in addition to any redundancy or severance payment to which he may be entitled, as long as he agrees to provide his services to Resolution for a period of not less than six months but not greater than twelve months.

Upon the acquisition of the Company by Pearl proceeding, the period of notice of termination required to be given by Ian Maidens to the Company will reduce to three months.

Mike Biggs, Brendan Meehan and Jim Newman have all entered into Compromise Agreements dated 25 April 2008 which are conditional upon the acquisition of the Company by Pearl proceeding under which they will resign as directors of the Company on 1 May 2008 following the acquisition by Pearl. They will be entitled to 1.5 times their base salary (2 times in the case of Jim Newman) and will be paid in three instalments, 50% on leaving, 25% after six months and the final 25% after eight months. The second and third payments will be subject to reduction to the extent they enjoy any earnings from a third party during the period to 14 November 2008 in respect of the second payment and 14 January 2009 in respect of the third payment. They will not receive any other payments other than being treated in accordance with the rules of the executive share plans. Such payments will be determined by reference to their salary as at 1 May 2008 and no other compensation payments will be made.

As explained in the long term incentives section above, they will also be entitled to the early vesting of outstanding LTIP awards to the extent that performance targets are met.

External appointments

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

Non-executives

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

Pension policy

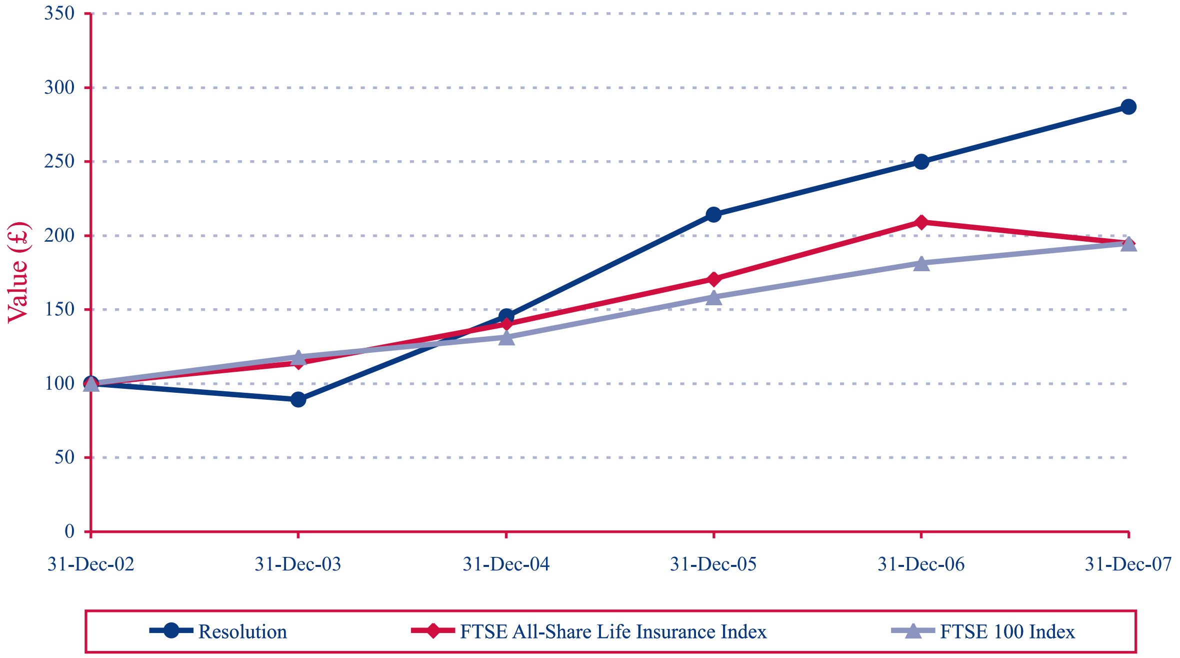
Executive directors are entitled to membership of the Company's defined contribution pension scheme. No pension provision is made for non-executive directors.

In lieu of contributions to any pension arrangement, Mike Biggs received a monthly non-pensionable salary supplement equivalent in aggregate to 17.73% of base salary.

In respect of Ian Maidens and Brendan Meehan pension contributions of 20% and for Jim Newman 25% of base salary were paid into the Company's defined contribution pension scheme.

Paul Thompson was a member of the defined benefit section of the Resolution Group Pension Scheme where a contribution holiday was in place and therefore no specific payments were made in respect of his membership of the scheme during 2007.

Total Shareholder Return - Source: Thomson Financial



This graph shows the value, by the end of 2007, of £100 invested in Resolution plc on 31 December 2002 compared with the value of £100 invested in both the FTSE All-Share Life Insurance Index and FTSE 100 Index. The other points are the values of intervening financial year-ends. The chosen indices represent broad equity market indices in which the Company is a constituent member.

Directors' interests

The interests of the directors (including family interests) in Resolution plc ordinary 5 pence shares both during the year and up to 28 April 2008 were as follows:

	As at 1 January 2007 or date of appointment if later	As at 31 December 2007 and 28 April 2008 or date of leaving if earlier
David Allvey	1,133	1,133
Mike Biggs	1,482,482	1,078,921
Sir David Cooksey	371,553	–
Clive Cowdery	20,548,532	2,099,859
Ian Maidens	1,482,482	741,241
Brendan Meehan	1,482,482	741,241
Jim Newman (appointed 7 March 2007)	–	–
Aram Shishmanian	–	–
Paul Spencer	4,722	4,722
Paul Thompson (left 6 March 2007)	8,784	8,784
Sir Brian Williamson	37,777	–
Malcolm Williamson	37,777	37,777
David Woods	11,474	11,474

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

Remuneration report
(continued)

Directors' remuneration

	Fees/salary £'000	Salary in lieu of benefits £'000	Benefits £'000	Bonus £'000	Compensation for loss of office £'000	**2007 Total £'000**	2006 Total £'000
Executive directors:							
Mike Biggs	564	123	1	750	–	**1,438**	825
Ian Maidens	377	19	1	475	–	**872**	481
Brendan Meehan	376	19	1	475	–	**871**	471
Jim Newman (appointed 7 March 2007)	311	52	1	390	–	**754**	–
Paul Thompson (left 6 March 2007)	106	32	1	137	854	**1,130**	1,317
Non-executive directors:							
Clive Cowdery (Chairman)	–	–	65	–	–	**65**	81
David Allvey	65	–	–	–	–	**65**	65
Sir David Cooksey	65	–	–	–	–	**65**	65
Aram Shishmanian	50	–	–	–	–	**50**	50
Paul Spencer	50	–	–	–	–	**50**	50
Sir Brian Williamson	65	–	–	–	–	**65**	65
Sir Malcolm Williamson	160	–	–	–	–	**160**	160
David Woods	50	–	–	–	–	**50**	50
Total	2,239	245	70	2,227	854	**5,635**	3,680

Notes:

1. Clive Cowdery has waived his fee entitlement and the Company made a £400,000 donation to the Resolution Foundation.
2. Salary in lieu of benefits comprised a non pensionable company car cash allowance and, in the case of Mike Biggs and Paul Thompson (up to the date he ceased to be Group Chief Executive), a salary supplement in lieu of contributions to their pension arrangements. Within Jim Newman's salary in lieu of benefits is included mortgage supplement payments.
3. Benefits for the executive directors comprised private medical insurance. Clive Cowdery's benefits comprised travel costs associated with taxis and a chauffeur utilised for private use, together with the associated tax payable.
4. Salary in lieu of bonus, benefits and bonus for Jim Newman relate to the period following his appointment as a director on 7 March 2007.
5. The comparator figures for Ian Maidens and Brendan Meehan relate only to remuneration following their appointment to the board on 17 July 2006.
6. As disclosed in last year's Remuneration Report, Paul Thompson ceased to be Group Chief Executive on 6 March 2007. He was entitled to 1.5 times his base salary under his contract on termination of employment which was paid in two equal instalments of £393,750, the first on leaving and the second six months later on 6 September 2007. He did not receive any other payments following his departure other than a pro-rated bonus for 2007, being treated as a good leaver in accordance with the rules of the executive share plans and a contribution of £6,000 (plus VAT) to his legal costs incurred in connection with his departure. Based on legal advice, a further payment of £60,000 was also made in settlement of any potential legal claims. Such payments were determined by reference to a salary set in September 2005 and no other compensation payments were made.

Directors' pension benefits information

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

Director	Accrued benefit at date of leaving	Increase in accrued benefits excluding inflation (A)	Increase in accrued benefits including inflation	Transfer value of (A) less directors' contributions (including death benefit risk value)	Transfer value of accrued benefits at 1 Jan 2007	Transfer value of accrued benefits at date of leaving	Increase in transfer values less directors' contributions	FURBS contributions paid or payable in respect of service during 2007
	£	£	£	£	£	£	£	£
Paul Thompson	11,539	453	453	7,018	143,372	154,513	11,141	–

Notes:

1. The pension entitlement is based on service to the date of leaving, plus any service bought by amounts transferred in from schemes of previous employers.
2. The transfer values of the increase have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 after deducting directors' contributions.
3. Members of the Resolution Group Pension Scheme have the option to pay Additional Voluntary Contributions: neither the contributions nor the resulting benefits are included in the above table.
4. The funded unapproved retirement benefits scheme (FURBS) run by the Company is a defined contribution arrangement.

For the year ended 31 December 2007 the total paid directly by the Company to the defined contribution schemes of Ian Maidens and Brendan Meehan was £75,000 each and for Jim Newman was £85,000.

Directors' interests in share options

The following directors held options to subscribe for Resolution plc ordinary shares of 5 pence each granted under the Resolution Sharesave and executive share option schemes further details of which are set out in note 17 of the consolidated financial statements.

		Options held at 1 January 2007 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2007 or date of appointment	Exercise price (pence)*	Dates from which exercisable
Mike Biggs		–	–	–	–	–	–	–
Ian Maidens	Sharesave[2]	–	3,179	–	–	3,179	515.00	1 June 2012
Brendan Meehan	Sharesave[2]	2,055	–	–	–	2,055	454.76	1 June 2009
Jim Newman		–	–	–	–	–	–	–
Paul Thompson	Sharesave[2]	2,055	–	–	2,055	–	454.76	–
	Executive[1]	22,420	–	22,420	–	–	134.00	–
	Executive[1]	185,723	–	185,723	–	–	138.00	–

Notes:

1. All performance conditions applying to Paul Thompson's options were fully satisfied. At the date of exercise of Paul Thompson's executive options, the market price was £6.16.
2. As required by the relevant legislation, options granted under the Resolution 1998 Sharesave were not subject to performance targets. Paul Thompson's Sharesave option over 2,055 shares lapsed upon his leaving the Company on 6 March 2007.

Directors' interests in long term incentives

The following executive directors have been made notional allocations of shares under the Resolution 2002 and Resolution 2005 long term incentive plans which are subject to the attainment of the performance conditions measured over a three year period as explained on pages 42 and 43 and as set out below and in note 17 of the consolidated financial statements.

	Date granted	Rights held under plan at 1 January 2007 or date of appointment	Rights awarded during 2007	Notional price of each share on date of grant in pence	Rights lapsed during 2007	Rights vested during 2007	Dividend roll-up shares on vesting	Market price at date of vesting in pence	Rights held under plan at 31 December 2007	Potential date of vesting
Mike Biggs	10 April 2006[5]	98,865	–	569.00	–	–	–	–	98,865	10 April 2009
	11 April 2007[5]	–	187,207	641.00	–	–	–	–	187,207	11 April 2010
Ian Maidens	10 April 2006[5]	85,760	–	569.00	–	–	–	–	85,760	10 April 2009
	11 April 2007[5]	–	118,564	641.00	–	–	–	–	118,564	11 April 2010
Brendan Meehan	10 April 2006[5]	85,760	–	569.00	–	–	–	–	85,760	10 April 2009
	11 April 2007[5]	–	118,564	641.00	–	–	–	–	118,564	11 April 2010
Jim Newman	6 Oct 2005[4]	74,981	–	534.00	–	–	–	–	74,981	6 Oct 2008
	10 April 2006[5]	65,969	–	569.00	–	–	–	–	65,969	10 April 2009
	11 April 2007[5]	–	118,564	641.00	–	–	–	–	118,564	11 April 2010
Paul Thompson	15 April 2003[1]	212,998	–	134.00	–	212,998	–	638.00	–	15 April 2006
	8 April 2004[2]	252,003	–	318.00	–	252,003	–	638.00	–	8 April 2007
	1 April 2005[3]	228,694	–	316.00	136,073	92,621	–	638.00	–	1 April 2008
	21 Sep 2005[4]	162,381	–	534.00	162,381	–	–	–	–	25 Sep 2008
	10 April 2006[5]	184,713	–	569.00	141,923	42,790	5,640	638.00	–	10 April 2009

Notes:

Performance conditions:-

Resolution 2002 Long Term Incentive Plan:

1 Share price growth compared to FTSE 250 companies over three years to 31 December 2005. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking.

2 TSR growth compared to FTSE 250 companies over three years to 31 March 2007. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking.

3 TSR growth compared to FTSE 250 companies over three years to 31 March 2008. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quartile ranking.

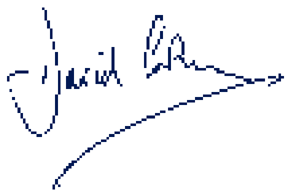
Resolution 2005 Long Term Incentive Plan:

4 TSR growth compared to UK companies ranked 51 to 150 by reference to market capitalisation on the FTSE All-Share Index over three years to 3 July 2008. 25% of shares vest for median ranking increasing on a straight line basis to 100% vesting for top quintile ranking. In addition, the committee must be satisfied that the TSR performance reflects the underlying financial performance of the Company over the performance period. The number of shares subject to an award will be increased on vesting to reflect dividend accrual over the period.

5 50% of awards are based on TSR growth compared to UK companies ranked 51 to 150 by reference to market capitalisation on the FTSE All-Share Index over three years commencing from the date of grant. 25% of shares subject to this part of the award will vest for median ranking increasing on a straight line basis to 100% vesting for top quintile ranking. In addition, the committee must be satisfied that the TSR performance reflects the underlying financial performance of the Company over the performance period. 50% of awards are based on Adjusted EV per share targets measured over three financial years commencing from 31 December prior to the date of grant. For awards granted in 2006, 25% of shares subject to this part of the award will vest for average growth in Adjusted EV per share of 2.5% p.a. in excess of the risk free rate increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6% p.a in excess of the risk free rate at the start of the relevant period. In respect of awards granted in 2007, the Adjusted EV targets were increased to 3.5% per annum and 7% per annum in excess of the risk free rate respectively. The number of shares subject to an award will be increased on vesting to reflect dividend accrual over the period.

On 31 December 2007, the middle market price of Resolution plc ordinary 5 pence shares was £7.12 per share, having varied during the year between a low of £6.02 on 16 August 2007 and a high of £7.35 on 2 November 2007.

By order of the Board



Sir David Cooksey

Chairman of the Remuneration Committee

28 April 2008

Statement of directors' responsibilities

in respect of the consolidated financial statements

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

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

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

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

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

We have audited the consolidated financial statements of Resolution plc for the year ended 31 December 2007 which comprise the accounting policies, the consolidated income statement, the analysis of equity holders' attributable profit, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 52. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Resolution plc for the year ended 31 December 2007 and on the information in the Remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the consolidated financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Directors' report.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Operating and financial review, the Directors' report, the Corporate governance statement, the Corporate responsibility statement and the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report to the members of Resolution plc

(continued)

Basis of audit opinion

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

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

Opinion

In our opinion :

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the consolidated financial statements.

Ernst & Young LLP
Registered auditor
London

28 April 2008

(a) Basis of preparation

The consolidated financial statements of the Company for the year ended 31 December 2007 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group").

The financial statements are presented in pounds sterling, rounded to the nearest £ million except where otherwise stated. This is a change from the previous basis of presenting the financial statements to the nearest £0.1 million and accordingly the comparative amounts have been restated. The financial statements are prepared on the historical cost basis except that investment property, derivatives, equities, fixed income securities and collective investment schemes are stated at fair value.

European Union (EU) law requires that the consolidated financial statements of the Group for the year ended 31 December 2007 are prepared in accordance with international financial reporting standards adopted for use in the EU (IFRS).

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

(b) Critical accounting estimates and judgements

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

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (f) and (i) with further detail of the key assumptions made in determining insurance and investment contract provisions included in note 26.

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (s). They are valued on the basis of listed market prices insofar as this is possible. If prices are not readily determinable, fair value is based on management estimates based on prices supplied by suitably qualified counterparties, of amounts that could be realised under current market conditions.

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

The accounting policy for income tax is detailed in accounting policy (o).

(c) Basis of consolidation

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

Subsidiary undertakings are consolidated from the date that effective control is obtained by the Group and are excluded from consolidation from the date they cease to be subsidiary undertakings.

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

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

(d) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the transacting Group entity using the average exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

Income statements and cash flows of overseas operations are translated into the Group's presentational currency at the average exchange rates prevailing during the year and their balance sheets are translated at the exchange rates ruling on the balance sheet date. The differences arising are recognised in the statement of recognised income and expense.

(e) Classification of contracts

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

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

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

Premiums

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

Claims

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

Liabilities under insurance contracts

The liabilities under insurance contracts have been computed having due regard to the principles laid down in Council Directive 2002/83/EC.

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

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

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

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

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

(g) Unallocated surplus

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

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

(h) Investment contracts without DPF

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

(i) Liabilities under investment contracts

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

(j) Revenue from investment contracts

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

(k) Net investment income

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

Interest income is recognised in the income statement as it accrues. Dividend income is recognised in the income statement on the date the right to receive payments is established, which in the case of listed securities is the ex dividend date.

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

(l) Longer term investment return

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

(m) Employee benefits

Defined contribution plans

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

Defined benefit schemes

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

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

Part of the cost of changes in the longevity assumptions is recoverable from certain with-profit funds to the extent that cash contributions are made to the pension scheme. Recoveries are recognised when the related cash contributions are agreed with the Trustees of the pension scheme and are accounted for as a transfer to the statement of recognised income and expense from unallocated surplus or, for the major with-profit funds that are closed to new business, insurance contract liabilities.

Share-based payment transactions

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

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

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

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

(n) Borrowings

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

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in the statement of recognised income and expense, in which case it is recognised in that statement.

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

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

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

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

(p) Intangible assets

Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. It is tested for impairment annually or when there is evidence of possible impairment.

Acquired in-force business

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

Amortisation

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

(q) Investment property

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

(r) Property, plant and equipment

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

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

(s) Financial assets

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

Loans and deposits are stated in the balance sheet at amortised cost less impairment losses. Impairment losses are recognised when there is evidence that the recoverable amount of a loan or deposit is less than its carrying amount.

Equities, fixed income securities and collective investment schemes are designated as at fair value through the income statement and accordingly are stated in the balance sheet at fair value which is consistent with the Group's stated risk management policies which are to manage financial assets and evaluate their performance on a fair value basis so as to maximise returns to equity holders. Resultant gains and losses are recognised in the income statement. The fair value of these assets is their quoted bid price at the balance sheet date.

Derivative financial instruments are held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value which is consistent with the Group's stated risk management policies. Exchange-traded derivatives are valued at the published bid price or, if this is not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on remeasurement to fair value is recognised in the income statement.

(t) Cash and cash equivalents

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

(u) Assets held for sale

Assets held for sale are included in the balance sheet at the lower of their carrying amount and the fair value less costs to sell.

(v) Provisions

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

Restructuring

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

Onerous contracts

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

(w) Perpetual reset capital securities

The perpetual reset capital securities meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and coupons on the securities are recognised on the date of payment and charged directly to the statement of changes in equity, net of tax relief.

(x) Earnings per ordinary share

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

(y) Dividends

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

Consolidated income statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 (restated) £m
Gross premiums written		**2,104**	1,633
Less: premiums ceded to reinsurers		**(330)**	(151)
Net premiums written		**1,774**	1,482
Fees and commissions	5	**150**	104
Net investment income	6	**2,365**	3,244
Total revenue, net of reinsurance payable		**4,289**	4,830
Other operating income	7	**9**	313
Net income		**4,298**	5,143
Policyholder claims		**5,692**	4,709
Less: reinsurance recoveries		**(326)**	(369)
Change in insurance contract liabilities		**(2,703)**	(1,384)
Transfer from unallocated surplus	23	**(2)**	(379)
Net policyholder claims and benefits incurred		**2,661**	2,577
Change in investment contract liabilities		**387**	409
Acquisition costs	8	**112**	89
Amortisation of acquired in-force business	35	**228**	265
Impairment of acquired in-force business and deferred acquisition costs	35	**–**	522
Administrative expenses		**594**	488
Net income attributable to unit holders		**99**	217
Other operating expenses	11	**89**	-
Total operating expenses		**4,170**	4,567
Operating profit before financing costs and income taxes		**128**	576
Financing costs	12	**(125)**	(94)
Profit for the year before income taxes		**3**	482
Income taxes	13	**132**	49
Profit for the year attributable to equity holders		**135**	531
Attributable to:			
Equity holders of the parent			
Ordinary shareholders		**115**	494
Perpetual reset capital securities		**33**	33
		148	527
Minority interests		**(13)**	4
		135	531
Earnings per ordinary share			
Basic earnings per ordinary share	14	**16.8p**	97.8p
Diluted earnings per ordinary share	14	**16.7p**	97.3p
Dividends on ordinary shares paid in the year			
Final 2006 at 13.28p (Second Interim 2005 at 11.55p) per share		**91**	48
Interim 2007 at 9.17p (2006 at 6.64p) per share		**63**	45
Dividend on ordinary shares proposed after the end of the year			
None (Proposed final 2006 at 13.28p per share)		**–**	91
Dividends paid to minority interests in the year		**10**	5

Analysis of equity holders' attributable profit

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Operating profit before financing costs and income taxes		**128**	576
Financing costs attributable to policyholders	12	**(80)**	(62)
Policyholders' share of income taxes	13	**146**	75
Operating profit attributable to equity holders, based on a longer term rate of investment return, before amortisation of acquired in-force business, asset management internalisation costs and fair value of distribution agreements and protection broker consultant business, non-recurring items and short term investment fluctuations		**587**	533
Amortisation of acquired in-force business		**(199)**	(230)
Amortisation of asset management internalisation costs		**(9)**	(7)
Amortisation of fair value of distribution agreements and protection broker consultant business		**(22)**	(8)
Non-recurring items (net)	3	**(162)**	297
Short term investment fluctuations		**(1)**	4
Operating profit attributable to equity holders		**194**	589
Financing costs attributable to equity holders	12	**(45)**	(32)
Profit before income taxes attributable to equity holders		**149**	557
Equity holders' share of income taxes	13	**(14)**	(26)
Profit for the year attributable to equity holders		**135**	531

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Actuarial gains/(losses) of defined benefit pension scheme	33	**1**	(4)
Contribution in respect of actuarial losses of defined benefit pension scheme by the with-profit funds	33	**44**	–
Exchange differences on translating foreign operations		**9**	–
		54	(4)
Income taxes	13	**(2)**	4
Net income recognised directly in equity		**52**	–
Profit for the year attributable to equity holders		**135**	531
Total recognised income and expense for the year attributable to equity holders		**187**	531
Attributable to:			
Equity holders of the parent			
Ordinary shareholders		**167**	494
Perpetual reset capital securities		**33**	33
		200	527
Minority interests		**(13)**	4
		187	531

Consolidated balance sheet
as at 31 December 2007

	Notes	2007 £m	2006 (restated) £m
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	**34**	34
Share premium		**1,537**	1,534
Perpetual reset capital securities	18	**497**	497
Reserves	19	**1,056**	1,048
Retained earnings	20	**1,283**	1,268
Total equity attributable to equity holders of the parent		**4,407**	4,381
Minority interests	21	**192**	154
Total equity	15	**4,599**	4,535
Liabilities			
Insurance contracts			
Liabilities under insurance contracts	22	**43,168**	45,807
Unallocated surplus	23	**703**	702
		43,871	46,509
Provisions	24	**69**	65
Financial liabilities			
Investment contracts	25	**8,672**	9,265
Borrowings	29	**456**	1,278
Deposits received from reinsurers	30	**467**	482
Derivatives	41	**303**	2
Net asset value attributable to unit holders		**577**	911
		10,475	11,938
Deferred tax	42	**857**	982
Reinsurance payables		**67**	60
Payables related to direct insurance contracts		**431**	228
Deferred income			
Investment contracts		**53**	62
Other		**15**	28
	31	**68**	90
Current tax	42	**130**	169
Accruals		**145**	103
Trade and other payables	32	**501**	655
Total liabilities		**56,614**	60,799
Total equity and liabilities		**61,213**	65,334

	Notes	2007 £m	2006 (restated) £m
ASSETS			
Pension scheme surplus	33	**79**	80
Property, plant and equipment	34	**39**	55
Intangible assets			
Goodwill		**209**	209
Acquired in-force business		**1,817**	2,045
Deferred acquisition costs		**79**	72
Other		**110**	113
	35	**2,215**	2,439
Investment property	37	**2,410**	2,705
Financial assets			
Loans and deposits	40	**804**	732
Derivatives	41	**297**	208
Equities		**10,275**	10,425
Fixed and variable rate income securities		**25,975**	26,406
Collective investment schemes		**9,607**	14,135
	38	**46,958**	51,906
Insurance assets			
Reinsurers' share of insurance contract liabilities	22	**3,212**	3,198
Reinsurance receivables		**124**	112
Insurance contract receivables		**34**	31
		3,370	3,341
Current tax	42	**157**	59
Prepayments		**524**	308
Trade and other receivables		**444**	547
Cash and cash equivalents	43	**5,005**	3,894
Asset held for sale	44	**12**	–
Total assets		**61,213**	65,334

Signed on behalf of the board by

Jim Newman
Group Finance Director

28 April 2008

Consolidated cash flow statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Net decrease/(increase) in operating assets and liabilities	45	**2,383**	(771)
Finance costs		**(111)**	(89)
Taxation paid		**(137)**	(145)
Net cash flows from operating activities		**2,135**	(1,005)
Cash flows from investing activities			
Purchase of businesses/subsidiaries	46	**(30)**	888
Purchase of property, plant and equipment		**(4)**	(1)
Purchase of intangible assets		**–**	(29)
Proceeds from sale of property, plant and equipment		**5**	5
Net cash flows from investing activities		**(29)**	863
Cash flows from financing activities			
Proceeds from issue of share capital		**3**	1,550
Cost of issuing shares		**–**	(42)
Proceeds of issuing shares to minority shareholders in UK Commercial Property Trust Limited		**73**	152
Proceeds of new borrowings		**–**	2,603
Ordinary share dividends paid		**(154)**	(93)
Coupon on perpetual reset capital securities paid		**(33)**	(14)
Dividends paid to minority interests		**(10)**	(13)
Purchase of own shares to settle share options		**(5)**	–
Repurchase of shares from minority shareholders		**(10)**	–
Purchase of minority interest preference shares		**–**	(87)
Repayment of deposits from reinsurers		**(39)**	–
Repayment of borrowings		**(820)**	(1,765)
Net cash flows from financing activities		**(995)**	2,291
Net increase in cash and cash equivalents		**1,111**	2,149
Cash and cash equivalents at the beginning of the year		**3,894**	1,745
Cash and cash equivalents at the end of the year	43	**5,005**	3,894

1. Financial information

The consolidated financial statements for the year ended 31 December 2007, set out on pages 53 to 136, were authorised by the board of directors on 28 April 2008 for issue. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union (EU).

In preparing the consolidated financial statements the Group has adopted IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Amendments – Capital Disclosures*. IFRS 7 has amended the disclosures relating to financial assets and liabilities and the amendments to IAS 1 bring the Group's capital disclosures into line with IFRS 7.

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

- *IAS 1 Presentation of Financial Statements (Revised)* (2009). This revises and enhances the presentation of information in the financial statements.
- IAS 23 *Borrowing Costs (Revised)* (2009). This removes the existing option to recognise as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* (2009). Amendments relating to the recognition of puttable financial instruments and obligations arising on liquidation.
- IFRS 2 *Share-based Payment* (2009). This clarifies the definition of vesting conditions and the accounting treatment of cancellations.
- IFRS 8 *Operating Segments* (2009). This converges international and US reporting requirements relating to segmental information.
- IFRS 3 *Business Combinations (Revised)* (2010). This converges International and US reporting requirements relating to business combinations.
- IAS 27 *Consolidated and Separate Financial Statements (Revised)* (2010). This revises the accounting for non-controlling interests (currently minority interests) and the loss of control of subsidiaries.
- IFRIC 11 IFRS 2 *Group and Treasury share Transactions* (2008). This addresses whether certain transactions involving shares should be treated as equity-settled or cash-settled for accounting purposes, and accounting for share based payments within a group.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (2008). This addresses when refunds or reductions in future contributions should be regarded as available in accordance with IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability.

In addition, IFRIC 12 *Service Concession Arrangements* (2008) and IFRIC 13 *Customer Loyalty Programmes* (2009) have been issued but are not relevant to the Group.

2. Prior year adjustments

The consolidated balance sheet at 31 December 2006 has been adjusted by reclassifying £41 million between acquired in-force business, deferred tax, insurance contracts liabilities and unallocated surplus. This relates to the transfer on 31 December 2006 of the non-profit business within the with-profit fund of Century Life plc, a Group company, from the with-profit fund to the equity holders' funds. As a consequence, £9 million has been reclassified within the consolidated income statement for 2006 between net investment income and the change in insurance contract liabilities.

3. Segment analysis

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

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

Year ended 31 December 2007

	Life	Asset management	Management services	Eliminations	Total
	£m	£m	£m	£m	£m
Segment revenue					
Gross premiums written	2,104	–	–	–	2,104
Premiums ceded to reinsurers	(330)	–	–	–	(330)
Net premiums written	1,774	–	–	–	1,774
Fees and commissions – external	78	72	–	–	150
– internal	16	20	314	(350)	–
	94	92	314	(350)	150
Segment result before non-recurring items	145	38	23		206
Non-recurring items	(37)	–	(39)		(76)
Segment result	108	38	(16)		130
Corporate expenses					(28)
Corporate interest income					32
Corporate interest expense					(45)
Corporate non-recurring items					(86)
Income taxes – policyholders					146
– equity holders					(14)
Profit after tax attributable to equity holders					135

	Life £m	Asset management £m	Management services £m	Unallocated/ Corporate £m	Total £m
Other segment information					
Segment assets employed	59,688	165	216	157	60,226
Goodwill	65	134	10	–	209
Unallocated corporate assets	–	–	–	778	778
Consolidated total assets	59,753	299	226	935	61,213
Segment liabilities	55,121	107	163	987	56,378
Unallocated corporate liabilities	–	–	–	236	236
Consolidated total liabilities	55,121	107	163	1,223	56,614
Intangible assets acquired	–	–	30	–	30
Other capital expenditure	–	–	4	–	4
Amortisation of acquired in-force business	(228)	–	–	–	(228)
Other amortisation and depreciation	(37)	(10)	(1)	–	(48)
Non-cash movements in pension scheme surplus	–	–	–	(1)	(1)
Non-recurring items					
Break fee paid to Friends Provident plc	–	–	–	(49)	(49)
Other corporate transaction costs	–	–	–	(28)	(28)
Deferred consideration on transfer of Alba Life	(12)	–	–	–	(12)
Governance projects	(7)	–	–	(9)	(16)
Enhanced controllership costs	(18)	–	–	–	(18)
Capita outsourcing transition costs	–	–	(12)	–	(12)
Former Abbey life businesses integration costs	–	–	(18)	–	(18)
Britannic/RLG merger reorganisation costs	–	–	(9)	–	(9)

The non-recurring items shown above total £162 million as reported in the analysis of equity holders’ attributable profit.

3. Segment analysis (continued)

Year ended 31 December 2006

	Life £m	Asset management £m	Management services £m	Eliminations £m	Total £m
Segment revenue					
Gross premiums written	1,633	–	–	–	1,633
Premiums ceded to reinsurers	(151)	–	–	–	(151)
Net premiums written	1,482	–	–	–	1,482
Fees and commissions – external	63	29	12	–	104
– internal	–	50	424	(474)	–
	63	79	436	(474)	104
Segment result before non-recurring items	170	26	15		211
Non-recurring items	62	(2)	(20)		40
Segment result	232	24	(5)		251
Corporate expenses					(21)
Corporate interest income					27
Corporate interest expense					(32)
Corporate non-recurring item					257
Income taxes – policyholders					75
– equity holders					(26)
Profit after tax attributable to equity holders					531

	Life (restated) £m	Asset management £m	Management services £m	Unallocated/ Corporate (restated) £m	Total (restated) £m
Other segment information					
Segment assets employed	64,216	114	141	59	64,530
Goodwill	65	134	10	–	209
Unallocated corporate assets	–	–	–	595	595
Consolidated total assets	64,281	248	151	654	65,334
Segment liabilities	58,390	47	279	1,151	59,867
Unallocated corporate liabilities	–	–	–	932	932
Consolidated total liabilities	58,390	47	279	2,083	60,799
Acquisition of in-force business	1,695	–	–	–	1,695
In-force business on transfer from with-profit funds	62	–	–	–	62
Other intangible assets acquired	112	27	2	–	141
Other capital expenditure	–	–	1	–	1
Amortisation of acquired in-force business	(265)	–	–	–	(265)
Other amortisation and depreciation	(28)	(7)	(5)	–	(40)
Non-cash movements in pension scheme surplus	–	–	–	(9)	(9)

	Life (restated) £m	Asset management £m	Management services £m	Unallocated/ Corporate £m	Total (restated) £m
Other segment information (continued)					
Non-recurring items					
Profit on acquisition	–	–	–	257	257
Gain on transfers from the with-profit funds	47	–	–	–	47
Profit arising from the change in assumptions used for determining insurance contracts liabilities	535	–	–	–	535
Impairment of acquired in-force business and deferred acquisition costs - equity holders	(511)	–	–	–	(511)
Impairment of acquired in-force business and deferred acquisition costs - policyholders	(11)	–	–	–	(11)
Enhanced controllership costs	(7)	–	–	–	(7)
Former Abbey Life business integration costs	–	–	(3)	–	(3)
Fund merger costs (net)	(2)	–	–	–	(2)
Britannic/RLG merger reorganisation costs	–	(2)	(17)	–	(19)

The non-recurring items shown above, excluding the impairment of acquired in-force business and deferred acquisition costs attributable to policyholders of £11 million, total £297 million as reported in the analysis of equity holders' attributable profit.

4. New business (gross of reinsurance)

New business is shown for life assurance business which comprises insurance and investment contracts. The definition of new business includes new policies written through the retail and intermediary distribution channels and retained vesting retirement annuities written in non-profit funds. New regular premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new regular premiums.

	Retail 2007 £m	**Intermediary 2007 £m**	**Total 2007 £m**	Total 2006 £m
Single				
Pension	107	133	240	79
Life and investments	226	148	374	348
	333	281	614	427
Regular				
Pension	6	-	6	3
Life and investments	10	38	48	25
	16	38	54	28
Total new business	349	319	668	455
Annual premium equivalent	49	66	115	71

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

The comparatives for the year ended 31 December 2006 exclude internal vesting annuities of £42 million written in Britannic Assurance.

5. Fees and commissions

	2007 £m	2006 £m
Fund management based fees	**82**	29
Other fees	**59**	68
Commissions	**9**	7
	150	104

6. Net investment income

	2007 £m	2006 (restated) £m
Investment income		
Interest income on loans and deposits	**254**	147
Interest income on financial assets designated at fair value through profit and loss on initial recognition	**1,805**	1,527
Dividends	**404**	482
Rental income	**145**	110
	2,608	2,266
Fair value gains/(losses)		
Financial assets at fair value through profit and loss		
Held for trading – derivatives	**(179)**	(22)
Designated upon initial recognition	**232**	784
Investment property	**(296)**	216
	(243)	978
	2,365	3,244

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

The longer term rate of return has been determined with regard to historical rates of return and future economic and investment return expectations. The principal assumptions underlying the calculation of the longer term investment return are 7.8% (2006: 6.6%) gross return on equity investments and 5.8% (2006: 4.1%) gross return on fixed interest investments.

7. Other operating income

	2007 £m	2006 £m
Excess of the Group's interest in the fair value of the net assets of Abbey's life businesses over cost	**–**	257
Gains arising on the transfer of Alba Life Holdings Limited and its subsidiaries and on the non-profit business of Century Life from the with-profit funds to the equity holders' funds	**–**	48
Other income	**9**	8
	9	313

8. Acquisition costs

	2007 £m	2006 £m
Acquisition costs paid	**97**	69
Amortisation of deferred acquisition costs	**15**	20
	112	89

9. Employee costs

	2007 £m	2006 £m
Wages and salaries including termination benefits	**161**	91
Social security contributions	**13**	9
Other pension costs	**7**	15
	181	115

	2007	2006
Average number of persons employed during the year		
Sales and distribution	**113**	103
Customer servicing	**1,429**	1,228
Investment, finance and administrative	**1,257**	1,276
	2,799	2,607

10. Auditors' remuneration

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

	2007 £m	2006 £m
Audit of the consolidated and Company financial statements	**0.5**	0.4
The auditing of accounts of associates of the Company pursuant to legislation	**3.9**	2.6
Other services supplied pursuant to such legislation:		
Audit related	**1.4**	1.2
Services as reporting accountants	**1.0**	1.2
Taxation	**–**	0.4
Corporate finance transactions	**1.7**	2.4
Other services:		
Audit of EEV supplementary information	**0.5**	0.7
Other	**0.7**	0.5
	9.7	9.4

The total remuneration of the auditors of the Company for audit and audit related services provided to the Company and its subsidiaries amounted to £6.3 million (2006: £4.9 million). The remuneration in respect of corporate finance transactions in 2007 mainly comprised work undertaken on the proposed merger between the Company and Friends Provident plc and the offers for the Company from Standard Life plc and the Pearl Group.

11. Other operating expenses

	2007 £m	2006 £m
Break fee paid to Friends Provident plc	**49**	–
Other corporate transaction costs	**28**	–
Deferred consideration paid to the with-profit funds on the transfer of Alba Life to the equity holders' funds	**12**	–
	89	–

The ownership of Alba Life Holdings Limited and its subsidiaries was transferred from the with-profit funds to the equity holders' funds at the beginning of 2006. The sale and purchase agreement included a provision for deferred consideration to be paid of up to £20 million, payable on 31 March 2008, based on the extent to which certain existing provisions were not required. A provision of £10 million was made in 2006 in respect of the latter amount, representing the best estimate at that time of the amount of deferred consideration that would become payable. This has now been determined at the maximum amount of £20 million and, accordingly, a provision has been made in the financial statements for 2007 for the additional amount payable of £10 million plus interest.

12. Financing costs

	2007 £m	2006 £m
Interest expense	**123**	89
Other financing costs	**2**	5
	125	94
Attributable to – policyholders	**80**	62
– equity holders	**45**	32
	125	94

Coupons paid on the perpetual reset capital securities are charged to the statement of changes in equity.

13. Income taxes

(a) Current year tax charge

	2007 £m	2006 £m
Current tax:		
UK Corporation tax	**16**	97
Overseas tax	**3**	10
	19	107
Adjustment in respect of prior years	**(19)**	(2)
	–	105
Deferred tax:		
Reversal/(origination) of temporary differences		
On non-profit surpluses	**(15)**	(36)
On amortisation of acquired in-force business	**(61)**	(85)
On profit arising from the changes in assumptions used for determining insurance liabilities in accordance with PS 06/14	**(57)**	91
On impairment of acquired in-force business and deferred acquisition costs	**–**	(83)
On provisions for future expenditure	**7**	–
Utilisation of tax losses	**53**	–
Other	**28**	(11)
Adjustment relating to change of rate from 30% to 28%	**(27)**	–
Fund merger benefits	**–**	(29)
Recognition of previously unrecognised tax loss	**(33)**	(1)
Write down of deferred tax assets	**22**	–
Tax losses arising in the current year carried forward	**(49)**	–
	(132)	(154)
Total income tax credit	**(132)**	(49)
Attributable to – policyholders	**(146)**	(75)
– equity holders	**14**	26
	(132)	(49)

Unrecognised tax losses of previous years have been used to reduce current tax expense by £nil (2006: £nil) and deferred tax by £33 million (2006: £1 million). The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life insurance policyholder earnings is included in income tax expense. The tax benefit attributable to policyholder earnings was £146 million (2006: £75 million). The adjustment relating to the change in the rate of tax from 30% to 28% relates to deferred tax on temporary differences which will now reverse at a lower effective rate than originally provided due to the reduction in the mainstream corporation tax rate with effect from 1 April 2008.

13. Income taxes (continued)

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

	2007 £m	2006 £m
Current tax	**(3)**	(2)
Deferred tax	**5**	(2)
	2	(4)

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

(c) Reconciliation of tax credit

	2007 £m	2006 £m
Profit before tax	**3**	482
Policyholder tax	**146**	75
Profit after policyholder tax	**149**	557
Tax at standard UK rate (30%)	**45**	167
Profit on acquisition of Abbey's life businesses not subject to tax	**–**	(77)
Gain on transfers from with-profit funds not subject to tax	**–**	(14)
Untaxed income	**(3)**	(15)
Disallowable expenses	**35**	6
Adjustment to tax charge in respect of prior years	**(19)**	(2)
Recognition of losses/tax assets not previously valued	**(31)**	(85)
(Decrease)/Increase in deferred tax on movement in non-profit surplus	**(44)**	20
Impact of tax on acquired in-force amortisation at less than 30%	**12**	13
Write down of deferred tax assets	**22**	–
Adjustment relating to the change of rate from 30% to 28%	**(27)**	–
Other	**24**	13
Equity holders' tax	**14**	26
Policyholder tax	**(146)**	(75)
Total tax credit for the year	**(132)**	(49)

14. Earnings per share

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

	2007 £m	2006 £m
Profit for the year attributable to equity holders	**135**	531
Dividends paid on minority interest preference shares	**–**	(5)
Losses/(profits) attributable to other minority interests	**13**	(2)
Coupon paid on perpetual reset capital securities	**(33)**	(14)
	115	510

The basic earnings per share of 16.8p (2006: 97.8p) has been based on the profit of £115 million (2006: £510 million) and a weighted average number of ordinary shares outstanding during the year of 685,811,605 (2006: 521,720,524), calculated as follows:

	2007 No.	2006 No.
Issued ordinary shares at beginning of the year	**685,161,830**	361,088,494
Effect of ordinary shares issued	**649,775**	127,507,657
Effect of bonus element of rights issue	**–**	33,124,373
Weighted average number of ordinary shares	**685,811,605**	521,720,524

The diluted earnings per share of 16.7p (2006: 97.3p) has been based on the profit of £115 million (2006: £510 million) and a diluted weighted average number of ordinary shares outstanding during the year of 688,809,922 (2006: 524,085,976) calculated as follows:

	2007 No.	2006 No.
Weighted average number of ordinary shares	**685,811,605**	521,720,524
Effect of ordinary share options in issue	**2,998,317**	2,365,452
Weighted average number of ordinary shares (diluted)	**688,809,922**	524,085,976

The bonus element in 2006 is calculated by reference to the closing share price immediately prior to the date that the ordinary shares became ex-rights of 654.5p per ordinary share and the additional 322.4 million new ordinary shares issued at 480.0p per ordinary share.

15. Statement of changes in equity

	Share capital (note 16) £m	Share premium £m	Perpetual reset capital securities (note 18) £m	Reserves (note 19) £m	Retained earnings (note 20) £m	Minority interests (note 21) £m	Total £m
At 1 January 2007	34	1,534	497	1,048	1,268	154	4,535
Total recognised income and expense for the year attributable to equity holders	–	–	–	6	194	(13)	187
Dividends on ordinary shares	–	–	–	–	(154)	–	(154)
Coupon paid on perpetual reset capital securities, net of tax relief	–	–	–	–	(23)	–	(23)
Dividends paid to minority interests	–	–	–	–	–	(10)	(10)
	34	1,534	497	1,054	1,285	131	4,535
Issue of ordinary share capital – share option schemes	–	3	–	(3)	3	–	3
Issue of ordinary shares to minority shareholders in UK Commercial Property Trust Limited	–	–	–	–	–	73	73
Equity share options issued	–	–	–	5	–	–	5
Purchase of own shares to settle share options	–	–	–	–	(5)	–	(5)
Repurchase of shares from minority shareholders in UK Commercial Property Trust Limited	–	–	–	–	–	(10)	(10)
Adjustment to interest in net assets of UK Commercial Property Trust Limited	–	–	–	–	–	(2)	(2)
At 31 December 2007	34	1,537	497	1,056	1,283	192	4,599

15. Statement of changes in equity (continued)

	Share capital (note 16) £m	Share premium £m	Perpetual reset capital securities (note 18) £m	Reserves (note 19) £m	Retained earnings (note 20) £m	Minority interests (note 21) £m	Total £m
At 1 January 2006	18	43	497	1,045	834	108	2,545
Total recognised income and expense for the year attributable to equity holders	–	–	–	1	528	2	531
Dividends on ordinary shares	–	–	–	–	(93)	–	(93)
Coupon paid on perpetual reset capital securities, net of tax relief	–	–	–	–	(10)	–	(10)
Dividends on preference shares	–	–	–	–	(5)	(8)	(13)
	18	43	497	1,046	1,254	102	2,960
Issue of ordinary share capital – rights issue	16	1,531	–	–	–	–	1,547
Issue of ordinary share capital – share option schemes	–	2	–	(1)	1	–	2
Issue of ordinary shares to minority shareholders in UK Commercial Property Trust Limited	–	–	–	–	–	152	152
Issue costs	–	(42)	–	–	–	–	(42)
Equity share options issued	–	–	–	3	–	–	3
Purchase of minority interest preference shares	–	–	–	–	–	(87)	(87)
Gain on purchase of minority interest preference shares	–	–	–	–	13	(13)	–
At 31 December 2006	34	1,534	497	1,048	1,268	154	4,535

16. Share capital

	2007 £m	2006 £m
Authorised: 1,000 million (2006: 1,000 million) ordinary shares of 5p each	**50**	50
Issued and fully paid: 686 million (2006: 685 million) ordinary shares of 5p each	**34**	34

	2007 million	2006 million
Shares in issue at 1 January	**685**	361
Shares issued through rights issue	**–**	322
Shares issued under share option schemes	**1**	2
Shares in issue at 31 December	**686**	685

Ordinary shareholders of the Company are entitled:

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

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

17. Share options

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

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

The weighted average share price of the Company in 2007 amounted to 659.5p (2006: 635.6p).

The total expense for the year arising from share-based payment transactions was £5 million (2006: £3 million), all of which relates to equity-settled share-based payments.

The share option equity reserve at 31 December 2007 was £6 million (2006: £5 million).

(a) Save As You Earn scheme (SAYE)

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

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

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

17. Share options (continued)

As at 31 December, the following options were outstanding:

Grant date	Maturity date: (exercise period ordinarily lasts six months from this date)	Exercise price (pence)	Number of 5p ordinary shares 2007	2006
April 2001	June 2006	662.90	**–**	608
April 2002	June 2007	477.50	**–**	22,352
April 2003	June 2008	107.57	**427,791**	773,013
April 2004	June 2007	246.62	**–**	259,612
April 2004	June 2009	246.62	**64,033**	135,376
April 2005	June 2008	342.82	**102,169**	181,811
April 2005	June 2010	342.82	**62,616**	87,303
May 2006	June 2009	454.76	**269,625**	435,548
May 2006	June 2011	454.76	**90,738**	142,177
May 2007	June 2010	515.00	**392,565**	–
May 2007	June 2012	515.00	**266,521**	–
			1,676,058	2,037,800

For options outstanding as at 31 December 2007 the charge to the income statement has been recognised in accordance with IFRS 2 as all options were granted after 7 November 2002. For 2006, options over 22,960 shares were not recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002.

The options outstanding at 31 December 2007 have a weighted average remaining contractual life of 2.46 years (2006: 2.36 years).

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

	2007 No	**2007 WAEP (pence)**	2006 No	2006 WAEP (pence)
Outstanding as at 1 January	**2,037,800**	**268.25**	2,720,692	178.75
Effect of rights issue during the year	**–**	**–**	271,366	268.08
Granted during the year	**1,175,539**	**515.00**	525,916	454.76
Forfeited during the year	**(705,069)**	**446.63**	(127,431)	251.36
Exercised during the year	**(725,347)**	**220.96**	(1,333,500)	109.85
Expired during the year	**(106,865)**	**413.52**	(19,243)	628.20
Outstanding at 31 December	**1,676,058**	**370.88**	2,037,800	268.25
Exercisable at 31 December	**94,693**	**450.00**	32,280	259.92

For share options granted under the SAYE scheme, the fair value estimated as at the grant date ranged from £0.27 to £1.87 per option (2006 – £0.27 to £1.75). The weighted average fair value of options granted during the year was £1.84 (2006 – £1.73).

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

The following information was used in the binomial option pricing model in respect of options granted in the years ended 31 December 2007 and 31 December 2006.

	2007	2006
Dividend yield (%)	**4.5**	4.5
Expected share price volatility (%)	**25.0**	25.0
Historical volatility (%)	**22.8**	25.3
Risk-free interest rate (%)	**5.4**	4.8
Expected life of option (years)	**3.3 – 5.3**	3.3 - 5.3
Exercise price (pence)	**515.0**	454.8
Forfeiture per annum range (%)	**8.7 – 13.3**	0.4 - 7.6

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

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2007 amounted to £0.6 million (2006: £0.4 million) for SAYE schemes.

(b) Executive Share Option Scheme (ESOS)

From 1999 to 2005, share options were granted to senior management with a vesting period of three years from the date of grant and with an exercise period of seven years from the earliest date of vesting. The exercise price of options under the Resolution 1998 Approved Share Option Scheme was determined as the average of the mid-market price on the three days prior to the date of grant. In the case of the Resolution 1998 Unapproved Share Option Scheme, the exercise price was determined by considering the mid-market price on the date of grant. If the mid-market price was lower than that determined in the preceding three days for the Approved options, the same exercise price was set for the Unapproved options as was set for the Approved ones; but if the mid-market price on the date of grant was higher than that set for the Approved options, the exercise price set for the Unapproved options was that higher mid-market price. No grant has ever been made under the scheme at less than market value.

Options granted in 1999 and 2000 have performance conditions based on a fixed three year performance period. Both performance conditions must be met in order for the options to vest. The first performance condition requires Embedded Value Added by New Business to match or exceed the Retail Price Index by 3% per annum over a three year period; this performance condition for the 3 years ended 31 December 2007 has been met. The second performance condition requires the TSR to match or exceed the median of the FTSE 250, excluding investment trusts, over any 3 year period; this performance condition was met for the 3 years ended 31 December 2006.

Options granted in 2003, 2004 and 2005 met a performance condition by achieving an increase in operating earnings per share (EPS), before exceptional items and excluding any longer term return from the shareholders' retained capital (SRC), that matched or exceeded RPI + 6% over the 3 years ended 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Since 2005 the Company has decided not to make any further grants under the ESOS scheme.

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

17. Share options (continued)

Options outstanding under the ESOS schemes as at 31 December 2007:

Grant date	Exercise period ordinarily within seven years from	Exercise price (pence) (adjusted)	Number of 5p ordinary shares 2007	2006
March 1999	March 2002	903	**16,005**	16,005
March 2000	March 2003	655	**14,861**	26,048
September 2002	September 2005	319	**6,230**	17,435
March 2003	March 2006	135	**9,204**	38,132
April 2003	April 2006	134	**–**	22,420
April 2003	April 2006	138	**–**	185,723
September 2003	September 2006	267	**10,346**	44,645
December 2003	December 2006	250	**–**	12,036
December 2003	December 2006	252	**–**	29,777
March 2004	March 2007	308	**22,401**	189,450
September 2004	September 2007	335	**12,576**	64,537
September 2004	September 2007	340	**21,323**	70,812
April 2005	April 2008	416	**118,190**	126,664
October 2005	October 2008	527	**117,458**	126,361
			348,594	970,045

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

	2007 No	**2007 WAEP (pence)**	2006 No	2006 WAEP (pence)
Outstanding as at 1 January	**970,045**	**325.82**	1,299,839	322.95
Effect of rights issue during the year	**–**	**–**	143,069	325.88
Forfeited during the year	**–**	**–**	(77,764)	(341.64)
Exercised during the year	**(586,371)**	**(231.15)**	(382,207)	(191.53)
Expired during the year	**(35,080)**	**(283.43)**	(12,892)	(718.45)
Outstanding at 31 December	**348,594**	**382.04**	970,045	325.82
Exercisable at 31 December	**82,080**	**155.35**	350,168	175.81

Included in the above are options over 37,096 (2006 - 59,488) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. Except for the effect of the rights issue that occurred in 2006 described above these options have not been subsequently modified; therefore, they do not need to be accounted for in accordance with IFRS 2.

For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 6.67 years (2006: 7.13 years).

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2007 is £0.1 million (2006: £0.2 million) under executive share options.

(c) Long Term Incentive Plan (LTIP)

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

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

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

Options granted in 2003, 2004 and April 2005 are exercisable from the third anniversary subject to how the Company's share price growth over a fixed three year period ending on 30 March 2006, 30 March 2007 and 30 March 2008, respectively was ranked in a table of companies in the FTSE 250.

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

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

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

Options granted in 2006 and 2007 have 50% of the awards based on TSR and 50% based on adjusted embedded value (EV). The TSR measure is based on TSR growth compared to companies ranked 51-150 in the FTSE All-Share Index over three years from date of grant. 25% of shares subject to this part of the award will vest for median ranking, all if in top quintile and a pro-rating on a straight line basis for values in between. The EV target is measured over three financial years commencing from 31 December 2005 for the options granted in 2006 and 31 December 2006 for those granted in 2007. For the 2006 grant 25% of shares subject to the award will vest for average growth in Adjusted EV per share in excess of the risk free rate of 2.5% increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 6%. For the 2007 grant 25% of shares subject to the award will vest for average growth in Adjusted EV per share in excess of the risk free rate of 3.5% increasing on a straight line basis to 100% vesting for average growth in Adjusted EV per share of 7%

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

17. Share options (continued)

Options outstanding under the LTIP schemes as at 31 December:

Exercise period ordinarily within 1 year from	Option price (pence)	Number of 5p ordinary shares 2007	2006
April 2006	nil	**–**	212,998
December 2006	nil	**–**	42,127
April 2007	nil	**–**	350,609
April 2008	nil	**90,273**	318,967
September 2008	nil	**374,905**	537,286
October 2008	nil	**74,981**	74,981
April 2009	nil	**711,611**	912,900
April 2009	nil	**9,055**	9,055
October 2009	nil	**12,096**	12,096
April 2010	nil	**1,219,449**	–
Total		**2,492,370**	2,471,019

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

	2007 No	2006 No
Outstanding as at 1 January	**2,471,019**	1,537,286
Effect of rights issue during the year	**–**	192,843
Granted during the year	**1,300,457**	934,051
Forfeited during the year	**–**	(138,941)
Exercised during the year	**(745,310)**	(54,220)
Expired during the year	**(533,796)**	–
Outstanding at 31 December	**2,492,370**	2,471,019
Exercisable at 31 December	**–**	255,125

For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 2.15 years (2006: 1.95 years).

For options granted from 2005 to 2007, the fair value of equity-settled share options granted has been estimated as at the date of grant using a binomial pricing option and a Monte Carlo pricing model, taking into account the terms and conditions upon which the options were granted.

The estimated fair value of each share option granted in the LTIP schemes ranges from £0.72 to £6.50 (2006 - adjusted: £1.26 to £4.77). The following table lists the inputs to the model used in respect of options granted in the years ended 31 December 2007 and 31 December 2006. In addition, the share price of other members of the comparator group is a key input.

	2007	2006
Dividend yield (%)	**n/a**	n/a
Expected share price volatility (%)	**25.0**	25.0
Historical volatility (%)	**22.8**	25.3
Risk-free interest rate (%)	**5.4**	4.5 - 5.0
Expected life of option (years)	**3.0**	3.0
Forfeiture per annum range (%)	**0.0 – 1.0**	0 - 7.6

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome. No other features were incorporated into the measurement of fair value. The weighted average fair value of options granted during the year was £4.97 (2006: £4.21).

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2007 amounted to £4.4 million (2006: £1.9 million) under LTIPs.

d) Share matching plan (SMP)

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

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

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

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2007 amounted to £0.1 million (2006: less than £0.1 million) under the share matching plan.

18. Perpetual reset capital securities

	2007 £m	2006 £m
At 1 January and 31 December	**497**	497

The Company has in issue £500 million of Perpetual Reset Capital Securities (‘the Notes’) which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. The proceeds of the issue amounted to £497 million.

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

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

18. Perpetual reset capital securities (continued)

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

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

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

19. Reserves

	Share options reserve £m	**Foreign currency translation reserve £m**	**Merger reserve £m**	**Total £m**
At 1 January 2007	**5**	**–**	**1,043**	**1,048**
Allocation from total recognised income and expense for the year attributable to equity holders	**(1)**	**7**	**–**	**6**
Issue of ordinary share capital	**(3)**	**–**	**–**	**(3)**
Equity share options issued	**5**	**–**	**–**	**5**
At 31 December 2007	**6**	**7**	**1,043**	**1,056**

	Share options reserve £m	Foreign currency translation reserve £m	Merger reserve £m	Total £m
At 1 January 2006	2	–	1,043	1,045
Allocation from total recognised income and expense for the year attributable to equity holders	1	–	–	1
Issue of ordinary share capital	(1)	–	–	(1)
Equity share options issued	3	–	–	3
At 31 December 2006	5	–	1,043	1,048

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

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

20. Retained earnings

	Held within the long term business £m	Other retained earnings £m	Total £m
At 1 January 2007	**525**	**743**	**1,268**
Allocation from total recognised income and expense for the year attributable to equity holders	**(63)**	**257**	**194**
Transfers	**(34)**	**34**	**–**
	428	**1,034**	**1,462**
Dividends on ordinary shares	**–**	**(154)**	**(154)**
Coupon paid on perpetual reset capital securities, net of tax relief	**–**	**(23)**	**(23)**
	428	**857**	**1,285**
Issue of ordinary share capital – share option schemes	**–**	**3**	**3**
Purchase of own shares to settle share options	**–**	**(5)**	**(5)**
At 31 December 2007	**428**	**855**	**1,283**

Dividends on ordinary shares comprise the final dividend for 2006 of £91 million and the interim dividend for 2007 of £63 million.

	Held within the long term business £m	Other retained earnings (restated) £m	Total (restated) £m
At 1 January 2006	471	363	834
Allocation from total recognised income and expense for the year attributable to equity holders	456	72	528
Transfers	(402)	402	–
	525	837	1,362
Dividends on ordinary shares	–	(93)	(93)
Coupon paid on perpetual reset capital securities, net of tax relief	–	(10)	(10)
Dividends on preference shares	–	(5)	(5)
	525	729	1,254
Issue of ordinary share capital – share option schemes	–	1	1
Gain on purchase of minority interest preference shares	–	13	13
At 31 December 2006	525	743	1,268

Dividends on ordinary shares comprise the second interim dividend for 2005 of £48 million and the interim dividend for 2006 of £45 million.

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

21. Minority interests

UK Commercial Property Trust Limited

	2007 £m	2006 £m
At 1 January	**154**	–
Change in equity attributable to minority interests		
(Loss)/profit after tax for the year	**(13)**	2
Dividends paid	**(10)**	–
Shares subscribed for by minority interests	**73**	152
Repurchase of shares from minority interests	**(10)**	–
Adjustment to interest in net assets	**(2)**	–
At 31 December	**192**	154

UK Commercial Property Trust Limited (UKCPT) is a property investment subsidiary which is domiciled in Guernsey and listed on the London Stock Exchange.

On 28 February 2007 the company issued 350 million shares at £1.03 pence per share. 97 million shares were allocated to the minority shareholders in the company, of which 70 million were subscribed for with the remainder being taken up by Group companies.

In the period from 2 October to 27 November 2007 UKCPT repurchased 12,873,713 shares at an average price of 79.6p,for a total consideration of £10 million. All of these were purchased from the minority shareholders, resulting in the minority shareholders' interest in the company decreasing from 25.2% to 24.1%. The repurchased shares are held in treasury and may be reissued by UKCPT.

22. Insurance contracts liabilities

	Gross liabilities 2007 £m	Reinsurers' share 2007 £m
Life assurance business:		
Insurance contracts	34,310	2,968
Investment contracts with DPF	8,614	–
	42,924	2,968
General insurance business:		
Outstanding claims provision	244	244
	43,168	3,212
Amount due for settlement/recovery after 12 months	38,699	2,634

	Gross liabilities 2006 (restated) £m	Reinsurers' share 2006 £m
Life assurance business:		
Insurance contracts	34,951	3,058
Investment contracts with DPF	10,716	–
	45,667	3,058
General insurance business:		
Outstanding claims provision	140	140
	45,807	3,198
Amount due for settlement/recovery after 12 months	41,939	2,861

	Gross liabilities 2007 £m	**Reinsurers' share 2007 £m**
At 1 January 2007	**45,807**	**3,198**
Premiums	**2,104**	**330**
Claims	**(5,692)**	**(326)**
Other changes in liabilities	**901**	**10**
Foreign exchange adjustments	**89**	**–**
Transfer to statement of recognised income and expense in respect of actuarial losses of defined benefit pension scheme	**(41)**	**–**
As at 31 December 2007	**43,168**	**3,212**

	Gross liabilities 2006 (restated) £m	Reinsurers' share 2006 £m
At 1 January 2006	30,371	3,703
Acquisitions through business combinations	18,582	1,225
Premiums	1,633	151
Claims	(4,709)	(369)
Other changes in liabilities	(39)	(1,513)
Foreign exchange adjustments	(31)	1
As at 31 December 2006	45,807	3,198

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

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

22. Insurance contracts liabilities (continued)

The movement in the provision is as follows:

	2007 £m	2006 £m
At 1 January	**76**	177
Adjustments to provisions made in the year	**(36)**	(67)
Compensation paid	**(13)**	(34)
At 31 December	**27**	76

£15 million of the provision at 31 December 2007 (2006: £45 million) is held in the with-profit funds.

23. Unallocated surplus

	2007 £m	2006 £m
At 1 January	**702**	847
Acquisitions through business combinations	**–**	233
Foreign exchange adjustment	**6**	1
Transfer to income statement	**(2)**	(379)
Transfer to statement of recognised income and expense in respect of actuarial losses of defined benefit pension scheme	**(3)**	–
At 31 December	**703**	702

24. Provisions

	Restructuring £m	Redundancy £m	Long term incentive plan £m	Pension mis-selling £m	Other £m	Total £m
At 1 January 2007	**17**	**-**	**5**	**13**	**30**	**65**
Additions in the year	**2**	**11**	**3**	**-**	**17**	**33**
Utilised during the year	**(1)**	**-**	**(1)**	**-**	**(8)**	**(10)**
Released during the year	**-**	**-**	**-**	**(12)**	**(7)**	**(19)**
At 31 December 2007	**18**	**11**	**7**	**1**	**32**	**69**

The amount due for settlement after 12 months is £29 million (2006: £30 million).

The provision for redundancy costs relates to staff that have been transferred under the outsourcing contract with Capita Group plc.

The long term incentive plan provision represents the estimated benefits accruing to members of the plan as per an independent valuation at the end of June 2007. The scheme membership is made up of senior employees of the asset management business. There are two plans. The seven year plan provides entitlements to payments on the third anniversary of entry to the scheme with further entitlement due, in certain cases, in each of the subsequent four years. The three year plan matures after three years, with members being entitled to cash payments. Both plans provide for the ability to retain benefits beyond the seven and three year periods respectively.

The other provisions of £32 million include litigation, closed property and onerous contract provisions.

25. Investment contracts liabilities

	2007 Gross liabilities £m	2007 Reinsurers' share £m
Amount due for settlement/recovery after 12 months	**8,099**	**–**

	2006 Gross liabilities £m	2006 Reinsurers' share £m
Amount due for settlement/recovery after 12 months	8,833	–

26. Insurance and investment contracts liabilities – assumptions and sensitivities

(i) Assumptions

Process used to determine assumptions

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

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

During 2007 a number of changes were made to assumptions to reflect changes in expected experience or to harmonise the approach across the enlarged Group. The impact of material changes during the year was as follows:

	Increase/(decrease) in insurance liabilities £m
Strengthening of annuity mortality assumptions	**139**
Change to expense assumptions	**21**
Weakening of morbidity assumptions	**(47)**
Weakening of mortality assumptions	**(12)**
Changes to assumed future persistency	**(9)**

Valuation interest rate

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

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

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

26. Insurance and investment contracts liabilities – assumptions and sensitivities

(continued)

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

Life policies	0.9% to 4.2%
Pension policies	1.0% to 5.2%

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

Expense inflation

For all companies other than Scottish Provident International, expenses are assumed to increase at the rate of increase in the RPI plus a fixed margin in accordance with the management service agreements (MSAs) that the companies have in place with outsourced service providers. For Scottish Provident International, expenses are assumed to increase at the rate of increase in the RPI plus 1%.

For realistic basis companies the rate of RPI inflation is determined within each stochastic scenario. For other companies it is based on the difference between the yields on long dated fixed interest gilts and long dated inflation linked gilts (2007: 3.5%). For MSAs with contractual increases set by reference to National Average Earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations is then added to the rate of expense inflation.

Mortality and longevity rates

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

Lapse and surrender rates (persistency)

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

Discretionary participating bonus rates

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

(ii) Sensitivities

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

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

	Change in assumption	Impact on profit before equity holders' tax	Impact on equity holders' funds
	%	£m	£m
Fixed interest yield assumptions	-1%	40	29
Fixed interest yield assumptions	+1%	(40)	(29)
Equity and property values	-10%	(18)	(13)
Mortality assumptions for annuities	-5%	7	5
Mortality assumptions for assurances	-5%	(38)	(28)

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

27. Group capital management

The Group's policy is to maintain a strong and flexible capital base so as to retain a strong credit rating and satisfy regulators whilst still creating shareholder and policyholder value. The Group's capital management policies include a number of key performance indicators, details of which are set out on page 13.

The Individual Capital Assessment (ICA) process, as explained in note 51 1(c), estimates the level of capital the Group should retain to ensure that there is only an extremely small risk the Group will be unable to meet its liabilities. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group should have available. Group capital adequacy requirements are set out in the Insurance Group's Directive and are a further measure of the Group's overall capital position. The total Group capital resources per the Insurance Groups Directive is £6.3 billion (2006: £6.7 billion). At 31 December 2007 the surplus of Group capital resources over the Group capital resource requirement was £1.2.billion (2006: £1.4 billion).

The Group capital position is monitored by the Group Capital Management committee. The committee monitors the Group capital composition and position against the Group targets which are regularly reviewed to ensure that they remain appropriate to maximise value for policyholders and shareholders. The level of required capital of the Group is the greater of:

- the amount of capital required to meet regulatory capital adequacy requirements;
- the capital required under the Group's capital management policy (ICA); and
- the commitments made to credit rating agencies.

There have been no material changes in the Group's management of capital during the year.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The capital position and requirements of the UK life assurance businesses are set out in more detail in note 28.

28. Capital statement

Set out below is a statement of the Group's capital resources related to life assurance business at 31 December 2007. This information is presented for each of the Group's major UK with-profit funds (WPF), namely Scottish Mutual Assurance Limited (SMA), Scottish Provident Limited (SPL), Phoenix & London Assurance Limited (PALAL) and Phoenix Life Limited (PLL).

(a) Capital statement

31 December 2007

	SMA WPF £m	SPL WPF £m	PALAL WPF £m	PLL Phoenix WPF £m	PLL Britannic WPF £m	Other WPFs £m	Shareholder and non-profit funds £m	Total £m
Equity holders' funds								
Outside long term fund	–	–	22	–	–	–	3,381	3,403
Inside long term fund	–	–	–	–	–	–	1,654	1,654
Other qualifying capital								
Subordinated debt	–	–	200	–	–	–	200	400
Unallocated surplus	15	97	42	154	311	84	–	703
Regulatory adjustments								
Assets	–	–	(5)	(2)	(1)	–	(3,250)	(3,258)
Liabilities	542	1,178	132	944	608	367	199	3,970
Total available capital resources	557	1,275	391	1,096	918	451	2,184	6,872
Capital requirement								
UK realistic basis	550	1,218	391	1,002	728	432	–	4,321
Other regulatory bases	–	–	–	–	–	–	746	746
Overall surplus capital over regulatory requirements at 31 December 2007	7	57	–	94	190	19	1,438	1,805

Analysis of policyholders' net liabilities at 31 December 2007

	SMA WPF £m	SPL WPF £m	PALAL WPF £m	PLL Phoenix WPF £m	PLL Britannic WPF £m	Other WPFs £m	Shareholder and non-profit funds £m	Total £m
Insurance contracts	2,833	3,330	5,520	6,545	1,040	2,934	8,658	30,860
Investment contracts with DPF	2,537	668	–	–	3,674	407	1,354	8,640
Investment contracts	–	–	–	–	45	–	7,945	7,990
Total technical liabilities	5,370	3,998	5,520	6,545	4,759	3,341	17,957	47,490

The total technical liabilities at 31 December 2007 exclude the liabilities of Scottish Provident International Life Assurance Limited, a company incorporated in the Isle of Man.

31 December 2006

	SMA WPF £m	SPL WPF £m	PALAL WPF (restated) £m	PLL Phoenix WPF £m	PLL Britannic WPF £m	Other WPFs £m	Shareholder and non-profit funds (restated) £m	Total £m
Equity holders' funds								
Outside long term fund	80	–	(11)	–	–	82	3,971	4,122
Inside long term fund	–	–	–	–	–	109	1,317	1,426
Other qualifying capital								
Subordinated debt	–	–	200	–	–	–	200	400
Unallocated surplus	4	89	14	181	307	107	–	702
Regulatory adjustments								
Assets	–	(1)	(1)	(3)	(10)	(5)	(2,557)	(2,577)
Liabilities	479	1,143	175	1,180	695	385	23	4,080
Total available capital resources	563	1,231	377	1,358	992	678	2,954	8,153
Capital requirement								
UK realistic basis	563	1,170	377	1,245	803	530	300	4,988
Other regulatory bases	–	–	–	–	–	53	250	303
Overall surplus capital over regulatory requirements at 31 December 2006	–	61	–	113	189	95	2,404	2,862

Analysis of policyholders' net liabilities at 31 December 2006

	SMA WPF £m	SPL WPF £m	PALAL WPF £m	PLL Phoenix WPF £m	PLL Britannic WPF (restated) £m	Other WPFs £m	Shareholder and non-profit funds £m	Total (restated) £m
Insurance contracts	3,399	3,757	5,976	7,196	950	2,706	8,490	32,474
Investment contracts with DPF	2,886	506	-	-	3,572	369	2,393	9,726
Investment contracts	–	–	3	5	46	556	7,826	8,436
Total technical liabilities	6,285	4,263	5,979	7,201	4,568	3,631	18,709	50,636

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

28. Capital statement (continued)

Reconciliation of equity holders' funds

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

	2007 £m	2006 £m
Equity holders' funds of life businesses	**5,057**	5,548
Value of acquired in-force business	**850**	616
Goodwill	**209**	209
Intangible asset – distribution agreements	**72**	92
Asset management business	**71**	64
Management services business	**90**	57
Minority interest in the net worth of UK Commercial Property Trust	**192**	154
Other non-UK life companies, non-life companies and holding companies	**(1,942)**	(2,205)
Group equity holders' funds	**4,599**	4,535

The regulatory liabilities for all of the UK's with-profit funds including SMA, SPL, PALAL, the Phoenix with-profit fund, the Britannic with-profit fund and the other PLL with-profit funds have been determined taking account of the requirement in the Board of Actuarial Standards' Guidance Note, GN45, to show zero working capital for a realistic basis with-profit fund that is closed to new business. If these requirements were disregarded, the surplus capital over regulatory requirements would increase by £147 million, £312 million, £nil, £167 million, £184 million and £250 million respectively.

(b) Change in available capital

The change in available capital for the full year is set out in the table below.

	SMA WPF £m	SPL WPF £m	PALAL WPF £m	PLL Phoenix WPF £m	PLL Britannic WPF £m	Other WPFs £m	Shareholder and non-profit funds £m	Total £m
Available capital at 1 January 2007, before reclassification	**563**	**1,231**	**377**	**1,358**	**992**	**678**	**2,954**	**8,153**
Reclassification of capital resources	**–**	**–**	**–**	**–**	**–**	**(164)**	**164**	**–**
Available capital at 1 January 2007, as reclassified	**563**	**1,231**	**377**	**1,358**	**992**	**514**	**3,118**	**8,153**
Changes in assumptions used to measure life insurance liabilities	**–**	**–**	**(31)**	**(81)**	**10**	**45**	**72**	**15**
Inadmissible loans to Group companies	**–**	**–**	**–**	**–**	**–**	**–**	**(619)**	**(619)**
New business and other factors	**(6)**	**44**	**45**	**(181)**	**(84)**	**(108)**	**(387)**	**(677)**
Available capital at 31 December 2007	**557**	**1,275**	**391**	**1,096**	**918**	**451**	**2,184**	**6,872**

	SMA WPF £m	SPL WPF £m	PALAL WPF (restated) £m	PLL Phoenix WPF £m	PLL Britannic WPF £m	Other WPFs £m	Shareholder and non-profit funds (restated) £m	Total £m
Available capital at 1 January 2006, before reclassification	–	–	356	1,365	758	455	1,520	4,454
Reclassification of capital resources	–	–	–	(62)	(128)	82	108	–
Available capital at 1 January 2006, as reclassified	–	–	356	1,303	630	537	1,628	4,454
Available capital of Abbey's life businesses at acquisition	393	1,109	–	–	–	173	2,450	4,125
Changes in assumptions used to measure life insurance liabilities	–	–	275	144	(5)	48	217	679
Changes in regulatory requirements	–	–	–	–	–	5	441	446
Inadmissible loans to Group companies	–	–	–	–	–	–	(1,660)	(1,660)
New business and other factors	170	122	(254)	(89)	366	(85)	(121)	109
Available capital at 31 December 2006	563	1,231	377	1,358	991	678	2,955	8,153

Changes in assumptions used to measure life insurance liabilities

The decrease in available capital resources for the Phoenix with-profit fund of £81 million arises from a decrease in the valuation interest rate.

Inadmissible loans to Group companies

The movement in inadmissible loans of £619 million relates to the loans made by the former Abbey life businesses to the Group and are made out of the available capital in excess of that required to meet the Group's capital management policies.

New business and other factors

The decrease of £84 million in the Britannic with-profit fund's available capital resources is mainly due to a change in unappropriated surplus to fund reversionary and terminal bonuses, partially offset by favourable changes in valuation interest rates and economic and experience variances. The decrease of £181 million in the Phoenix with-profit fund is mainly due to negative experience, economic and investment variances and a change in unappropriated surplus to fund reversionary and terminal bonuses.

(c) Internal group financing and other arrangements

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

PALAL subordinated loan agreement

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

The loan is repayable at PALAL's discretion, subject to providing at least 6 months notice to RLL and to the FSA, but only if the Capital Test is met and only then with the consent of the FSA. The amount available under the subordinated loan agreement is limited to £200 million. At the end of 2007, the company had drawn down £200 million under the facility.

28. Capital statement (continued)

PALAL internal capital support memorandum

PALAL has agreed with RLL and with the FSA that it will establish memoranda accounts within the shareholders' and long-term fund to provide financial support to the long-term fund. The amount credited to the shareholders' memorandum account at the end of 2007 was £200 million, being the amount received under the subordinated loan agreement. Assets are transferred from the shareholders' memorandum account to the long-term funds memorandum account when the value of assets of the long term fund have fallen (or are likely to fall) below the "threshold amount". The threshold amount is £25 million in excess of the requirements under both the statutory and realistic solvency regulations.

The amount transferred from the shareholders' memorandum account to the long-term fund memorandum account at the end of 2007 was £207 million, including accrued interest. In relation to these transfers, £91 million was required to achieve a realistic basis surplus of zero.

PLL capital support

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

At the end of 2007, £12 million was repaid to the non-profit fund by the Alba with-profit fund under a contingent loan arrangement, although £30 million was subsequently drawn down. No support was required by any of the other with-profit funds.

PPL capital support

During 2007 the non-profit fund of PLL made a contingent loan of £200 million to the non-profit fund of PPL to support the solvency of PPL. At the end of 2007 the loan amount outstanding was £200 million.

Life Division loans to RLL

As a result of dividend restrictions surplus funds totalling £2.47 billion have been loaned by SMA, SPL, PLAL and SMIH to RLL. The loans are interest bearing, repayable on demand by the lender and RLL may repay the loans at any time.

Loans made by PLL to RLL at 31 December 2007 totalled £325 million. The loans are interest bearing, repayable on demand by the lender and RLL may repay the loans at any time.

Internal reassurance

The following internal reassurance agreements were in place as at 31 December 2007:

- A significant portion of the SMI with-profit business is reassured into the SMA with-profit fund;
- All of the with-profits business of PLAL is reassured into the SMA with-profit fund;
- A significant portion of the immediate annuity business of the PLL, SMA, SPL and PLAL non-profit funds is reassured into the PPL non-profit fund; and
- A significant portion of the deferred annuity business of the PLL non-profit fund is reassured into the PPL non-profit fund.

Investment management agreements

As at the end of 2007, the majority of the Group's life companies had entered into contractual arrangements with Resolution Asset Management, a fellow subsidiary, for the management of their assets.

Management services agreements

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

Following a review of policy administration, Resolution reached agreement with Capita Group plc to contribute customer service and IT functions of Resolution Management Services to a jointly designed servicing model, effectively outsourcing these functions to Capita Group plc.

(d) Regulatory capital requirements

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

With the exception of the with-profit businesses the regulatory capital requirement is a combination of amounts held in respect of investment, expense and insurance risks (the long-term insurance capital requirement) and additional amounts, if required, covering the more onerous of two specified stress tests. The regulatory capital requirement is deducted from the available capital resources to give 'regulatory basis excess capital'.

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

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

(e) Basis of determining regulatory capital

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

Available capital resources

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

Regulatory basis

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

Liabilities are calculated using a projection of future cash flows after making assumptions, inter alia, on future investment returns, expenses, mortality, and, in some instances persistency, all of which include margins for adverse deviation. Discount rates used to value the liabilities are set with reference to the risk adjusted yields on the underlying assets and to yields obtainable on future investments and reinvestments. Other assumptions are based on recent actual

28. Capital statement (continued)

experience, supplemented by industry information where appropriate. In most cases, the assessment of liabilities does not include future bonuses for with-profit policies that are at the discretion of the company, but does include a value for policyholder options likely to be exercised.

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

Realistic basis

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

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

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

Shareholders' funds

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

With-profit funds

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

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

Other long-term funds

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

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

(g) Capital management policies and objectives

The capital position is monitored by a management committee appointed to oversee the business. This committee monitors the regulatory position using the Group's own assessment of capital resources and requirements against targets which themselves are subject to regular review to ensure that they remain appropriate to maximise value for policyholders and shareholders.

In determining the capital policies the Group takes into account the previously described realistic and regulatory requirements, alternatively described as "Pillar 1" requirements. It also takes into account the Individual Capital Assessment (ICA) methodology, described in note 51 1(c), which is an assessment of all risks borne by each regulated entity and which is commonly referred to as "Pillar 2".

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

PLL

The with-profit funds held within PLL include the Phoenix with-profit fund, the Alba with-profit fund, the 90% fund, the 100% fund, the Britannic with-profit fund and the Britannic IB fund.

PLL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
The sum of:

- In respect of each with-profit fund, the proportion of the Capital Resources Requirement (CRR) attributable to that fund, plus an amount equal to the greater of any positive free assets and 200% of the proportion of the Long Term Insurance Capital Requirement (LTICR) attributable to that fund less its WPICC, and
- In respect of the non-profit fund, 125% of its Capital Resources Requirement (CRR) less the sum of any positive free assets for each with-profit fund plus 25% of the capital requirements of PPL plus £51 million. A negative net result is permitted.

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

- In respect of each with-profit fund, 140% of its ICA, subject to a minimum of the ICA plus 1% of the WPBR, and
- In respect of the non-profit fund, 140% of its ICA plus £51 million.

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

- In respect of each with-profit fund, 110% of its ICA plus 110% of any additional capital which the FSA indicates via ICG should be held, and
- In respect of the non-profit fund, 110% of ICA plus 110% of ICG plus £51 million.

When calculating whether the total capital available in PLL satisfies each basis, any excess capital in a with-profit fund over the required capital for that fund will not be taken into account.

28. Capital statement (continued)

PPL

PPL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
110% of CRR

Test 2: Pillar 2 (ICA)
110% of ICA

Test 3: (ICA+ICG)
110% of ICA plus 110% of ICG

PALAL

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

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

SMA

SMA intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
The sum of:

- In respect of the with-profit fund, 100% of Pillar 1 CRR plus 50% of the LTICR, and
- In respect of the non-profit fund, 135% of its CRR.

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

- In respect of the with-profit fund, 140% of its ICA, and
- In respect of the non-profit fund, 150% of its ICA.

Test 3: (ICA+ICG)
110% of the ICA plus 110% of ICG for both the with-profit fund and non-profit fund.

SPL

SPL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
The sum of:

- In respect of the with-profit fund, 100% of Pillar 1 CRR plus 50% of LTICR, and
- In respect of the non-profit fund, 125% of its CRR.

Test 2: Pillar 2 (ICA)
140% of the ICA for both the with-profit fund and non-profit fund.

Test 3: (ICA+ICG)
110% of the ICA plus 110% of ICG for both the with-profit fund and non-profit fund.

Phoenix Life Assurance Limited (PLAL)

PLAL intends to hold amounts of capital in excess of liabilities on each of the following three bases:

Test 1: Pillar 1
135% of the non-profit fund CRR.

Test 2: Pillar 2 (ICA)
150% of the non-profit fund ICA.

Test 3: (ICA+ICG)
110% of the non-profit fund ICA plus 110% of ICG.

Scottish Mutual International (SMI)

SMI intends to hold 150% of the Irish regulatory minimum required capital.

Scottish Provident International (SPILA)

SPILA intends to hold 150% of the maximum of the Hong Kong and Isle of Man regulatory solvency capital.

(h) Assumption setting

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

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

(i) Policyholder options and guarantees

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

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

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

Some pensions' contracts include guaranteed annuity options which expose the Group to interest rate and longevity risk. The total liabilities included in the with-profit funds in respect of these guarantees are £1,169 million. The total liabilities included in the non-profit funds in respect of these guarantees are £28 million.

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

There is a block of immediate and deferred annuities within the non-profit business where benefits are linked to changes in the Retail Price Index (RPI) but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if the RPI falls. The liabilities in respect of such annuities in payment at 31 December 2007 were £516 million.

29. Borrowings

Non-current liabilities

	2007 £m	2006 £m
Bank loan	**120**	435
Subordinated loans	**210**	222
	330	657

Current liabilities

	2007 £m	2006 £m
Bank loan	**115**	496
Subordinated loans	**11**	125
	126	621
Total borrowings	**456**	1,278

The £235 million bank loan is repayable in instalments of £115 million in April 2008 and £120 million in April 2009. The loan carries an annual interest rate of between 30 and 70 basis points above LIBOR and is currently charged at a rate of 30 basis points above LIBOR.

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

On 13 May 2007 the Group repaid the SPI Finance plc £125 million 8.75% undated subordinated guaranteed bonds, being the earliest repayment date of the bonds.

The fair value of the unsecured subordinated loan notes issued by Scottish Mutual Assurance Limited as at 31 December 2007 amounted to £197 million. With this exception, the carrying amounts of the borrowings approximate to their fair value.

The most recent drawing under the £200 million revolving credit facility with a termination date of April 2009 was repaid on 5 June 2007. The facility is available to be redrawn and has the same interest rate as the £235 million bank term loan described above, currently 30 basis points above LIBOR.

30. Deposits received from reinsurers

	2007 £m	2006 £m
Amount due for recovery after 12 months	**441**	458

31. Deferred income

	2007 £m	2006 £m
Amount due for recovery after 12 months	**46**	72

32. Trade and other payables

	2007 £m	2006 (restated) £m
Trade and other creditors	**476**	506
Collateral creditors	**25**	149
	501	655
Amount due for recovery after 12 months	**20**	165

Information on the collateral creditors is given in note 41.

33. Pension schemes

(a) Defined contribution schemes

The Group participates in the Resolution Group Pension Scheme defined contribution section.

Former staff of the Abbey life businesses, acquired in 2006, who were either in the Abbey matching stakeholder scheme or were not in a pension scheme, became eligible to join the Resolution stakeholder scheme, a matching scheme. Former staff of Abbey's life businesses who were in a defined benefits pension scheme were offered an enhanced defined contribution pension scheme which commenced on 1 March 2007. Prior to this date these staff were eligible to join the Resolution Stakeholder (non-matching) scheme.

Contributions to defined contribution schemes amounted to £6 million (2006: £9 million).

(b) Defined benefit schemes

Introduction

Certain Group companies participate in the Resolution Group Pension Scheme defined benefit section (the "scheme"), the scheme being a final salary arrangement which is generally closed to new entrants.

The assets of the scheme are held in a separate trust fund to meet the long-term pension liabilities for past and present members.

As at 31 December 2007 the membership of the scheme totalled 11,603 (2006: 11,737), comprising 4,086 pensioners (2006: 3,981), 7,147 deferred pensioners (2006: 7,062) and 370 (2006: 694) active members. The reduction in the number of active members has mainly arisen from the transfer of certain employees to Capita Group plc under an outsourcing contract; this has given rise to a curtailment gain.

The Trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of Trustees to the fund is determined by the scheme's trust documentation and statutory requirements. The scheme's Board of Trustees currently comprises six individual Trustee positions half of which are nominated by the Group and half of which are nominated by the members ("Member Nominated Trustees").

Under the scheme rules, the contributions payable to the scheme by the participating employers are determined by the Scheme Actuary, who is appointed by the Trustees. However, under the terms of the Pensions Act 2004 the Trustees are now required to agree the contributions with the Group subject to the Scheme Actuary certifying that the resulting contributions are no lower than he would have set had he retained the sole power to determine the contributions. The participating employers are consulted whenever the principles under which the scheme is funded and invested are reviewed.

33. Pension schemes (continued)

If an employer ceased to participate in the scheme, a final contribution would be payable on cessation, as determined by the Scheme Actuary but subject to any statutory requirements and the requirements of the scheme rules.

Principal assumptions

The main financial assumptions used to calculate the liabilities of the scheme at 31 December 2007 for inclusion in these financial statements are set out below, together with equivalent assumptions at the end of 2006.

The discount rate is derived from the yields available on AA rated corporate bonds at the measurement date. The inflation assumption is derived from the yields available in the gilt market at the measurement date and the other assumptions are derived to be consistent with the inflation assumption.

	2007	2006
	%	%
Rate of general long-term increase in salaries	**4.4**	4.1
Rate of increase in pensions	**3.4**	3.1
Discount rate	**5.8**	5.2
Inflation	**3.4**	3.1
Expected rate of return on scheme assets	**5.2**	5.0

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are taken from the triennial valuation as at 30 June 2006.

Using these assumptions, the table below shows the average life expectancy for members of different ages, retiring at age 57.

Sex	Current age	Life expectancy (years)
Male	**40**	**33.5**
Female	**40**	**34.8**
Male	**50**	**32.1**
Female	**50**	**34.0**

It has been assumed that post retirement mortality is in line with standard tables PXA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum level of improvement of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy for a member currently age 40 retiring at 57 is 33.5 years and 34.8 years for male and female members respectively.

Sensitivity to principal assumptions

The table below provides an approximate indication of how the assessment of the scheme's financial position for the Group's accounting disclosures may change in response to changes in key assumptions.

This shows that the greatest risk to which the scheme's funding position is exposed is uncertainty over future longevity of its members, despite the liabilities also being significantly affected by changing investment market conditions. This is a reflection of the scheme's investment strategy and is explained further below.

Assumption	Change in assumption	Impact on scheme liabilities	Impact on IAS 19 funding ratio
Discount rate	Decrease by 1%	Increase by 21%	Decrease by 18%
Inflation	Increase by 1%	Increase by 17%	Decrease by 2%
Rate of mortality	Increase life expectancies by one year	Increase by 2%	Decrease by 3%
Rate of mortality	Increase life expectancies by five years	Increase by 9%	Decrease by 9%

The IAS 19 funding ratio is the total assets of the scheme divided by the total liabilities of the scheme. The sensitivities shown above of the life expectancies are based on an average member of the scheme.

Risks arising from financial instruments

Most of the liabilities of the scheme relate to members who have already ceased pensionable service and whose future benefit levels are now essentially fixed in absolute terms or relative to price inflation. This allows an investment strategy to be adopted that attempts overall to provide matching investments to the future expected benefit payments due, despite the uncertainty over future life expectancy and other demographic factors such as future choices of retirement dates.

The majority of the scheme's investment holdings have been specifically selected to try to protect the scheme against changes in bond yields and inflation. Therefore the assets and liabilities of the scheme should move broadly in line in response to changes in investment market conditions although the correlation will reduce when there are more extreme market movements. The assets held consist mainly of a mixture of fixed interest and index-linked bonds, swap instruments and more liquid investments. The scheme holds derivative instruments to increase the duration of the income available from the bond portfolio and to provide income related to price inflation as a closer match to the expected benefit increases.

This investment approach has been adopted since November 2004. The effect of this approach, whilst restricting the possibility of investment gains, has been to reduce significantly the possibility of losses from investment performance. Some mismatching risks are taken within this portfolio, for example to benefit from investment opportunities in the corporate bond market.

The remainder of the scheme's assets (around 15%) are mainly invested in commercial properties and the expected excess long-term returns from this asset class above the yields available on corporate bonds provide some protection against the longevity exposure. However, this exposure does introduce more potential volatility than would otherwise have been the case.

The experience of this investment strategy to date has been reasonably positive, with a more stable funding position prevailing despite investment market volatility.

Measurement of liabilities

The level of retirement benefit under the scheme is principally based on basic salary earned in the last 12 months of employment.

The liabilities of the scheme are measured for financial reporting purposes by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. Under the projected unit method the value placed on benefits earned to date reflects only the pensionable service completed to the measurement date, but does allow for the effect of all future projected salary increases in valuing the benefits that have been earned. The cost of benefits accrued in the next year (the service cost) is determined based on pensionable service in that year with allowance for future increases in pensionable salary.

The triennial funding valuation used to determine future contributions is carried out in a similar manner but with some assumptions derived differently as the funding valuation is required to include a margin for prudence.

The other key measure of the liabilities is the cost of securing benefits earned to date on a guaranteed basis with an insurance company, which is the liability measure that must be funded if the scheme were to be wound up in future. Hence this represents the amount that would be required to settle the scheme's liabilities if the Group were to cease funding the scheme on an ongoing basis. As at 30 June 2006 the Scheme Actuary estimated the amount required to settle the scheme's liabilities was £1,321 million, compared with assets available at that date of £1,084 million. It is possible that the increased competition among insurance companies for bulk pension contracts has subsequently improved this position significantly.

33. Pension schemes (continued)

Future funding obligations

The financial statements include a cost of changes in longevity assumptions amounting to £38 million, based on the results of the triennial valuation as at 30 June 2006. This is in addition to a cost of £49 million provided in the financial statements for the year ended 31 December 2006, based on the draft triennial valuation at that time. This cost is included in actuarial gains and losses within the consolidated statement of recognised income and expense.

In accordance with an agreement dated November 2005, certain of the Group's with-profit funds have indemnified the Group's equity holders in respect of contribution calls equal to their share of the costs of changes in the longevity assumptions. Completion of the triennial valuation has resulted in contribution calls totalling £75 million being made for the five year period to June 2012. Of this, £58 million has been attributed to the with-profit funds and accordingly a contribution in respect of actuarial losses has been made by the with-profit funds of this amount, less tax, which has been recognised in the consolidated statement of recognised income and expense.

Financial information

The reported pension costs and supporting information are set out below and have been calculated in compliance with IAS 19 *Employee Benefits*. The calculations are derived from the triennial valuation of the scheme as at 30 June 2006, adjusted to allow for investment experience and anticipated cashflows to 31 December 2007. They have been carried out by independent qualified actuaries.

The present values of the defined benefit obligation and the related current service cost were measured using the projected unit credit method.

The amounts recognised in the income statement are as follows:

	2007 £m	2006 £m
Current service cost	**(6)**	(6)
Interest cost	**(53)**	(48)
Expected return on scheme assets	**55**	49
Gain on curtailments	**2**	-
	(2)	(5)

The amounts recognised in the statement of recognised income and expense are as follows:

	2007 £m	2006 £m
Actuarial gains and losses	**1**	(4)

The net actuarial gains and losses recognised during the year comprise the following:

	2007 £m	2006 £m
Actual return less expected return on scheme assets	**(10)**	(17)
Experience gains and losses arising on scheme liabilities	**(8)**	6
Changes in assumptions underlying scheme liabilities	**19**	7
	1	(4)

The cumulative net actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 amount to £15 million.

The amounts recognised in the balance sheet are as follows:

	2007 £m	2006 £m
Fair value of scheme assets	**1,118**	1,117
Present value of defined benefit obligation	**(1,039)**	(1,037)
Net surplus	**79**	80

The actual return on the scheme assets comprises the following:

	2007 £m	2006 £m
Expected return on scheme assets	**55**	49
Actuarial losses on scheme assets	**(10)**	(17)
	45	32

The change in the present value of the defined benefit obligation is as follows:

	2007 £m	2006 £m
At 1 January	**1,037**	1,034
Current service cost	**6**	6
Interest cost	**53**	48
Gain on curtailments	**(2)**	–
Actuarial gains	**(11)**	(13)
Benefits paid	**(44)**	(38)
At 31 December	**1,039**	1,037

The defined benefit obligation arises from plans that are wholly funded.

The change in the fair value of the scheme assets is as follows:

	2007 £m	2006 £m
At 1 January	**1,117**	1,123
Expected return on scheme assets	**55**	49
Actuarial losses on scheme assets	**(10)**	(17)
Contributions by the employer	**–**	–
Benefits paid	**(44)**	(38)
At 31 December	**1,118**	1,117

The distribution of the scheme assets at the end of the year was as follows:

	2007 £m	2006 £m
Annuities	**–**	1
Bonds	**938**	881
Equities	**–**	12
Properties	**162**	189
Cash	**18**	34
	1,118	1,117

33. Pension schemes (continued)

Table of historical information

	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**1,118**	1,117	1,122	980
Defined benefit obligation	**(1,039)**	(1,037)	(1,034)	(878)
Net surplus in scheme	**79**	80	88	102
Experience gains/(losses) on scheme assets	**(10)**	(17)	90	16
Experience gains/(losses) on scheme liabilities	**(8)**	6	(2)	(1)

In addition, the Group participates in the SP Institution Staff Pension Scheme for Employees in the Republic of Ireland.

34. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2007	**47**	**55**	**102**
Additions	**–**	**4**	**4**
Transfer to asset held for sale (note 44)	**(12)**	**–**	**(12)**
Disposals	**–**	**(21)**	**(21)**
At 31 December 2007	**35**	**38**	**73**
Depreciation			
At 1 January 2007	**–**	**47**	**47**
Charge for the year	**–**	**2**	**2**
On disposals	**–**	**(15)**	**(15)**
At 31 December 2007	**–**	**34**	**34**
Carrying amount			
At 31 December 2007	**35**	**4**	**39**

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2006	48	51	99
Acquisitions through business combinations	–	10	10
Additions	–	1	1
Disposals	(1)	(7)	(8)
At 31 December 2006	47	55	102
Depreciation			
At 1 January 2006	–	43	43
Charge for the year	–	4	4
At 31 December 2006	–	47	47
Carrying amount			
At 31 December 2006	47	8	55

The useful lives of plant and equipment have been taken as follows: motor vehicles 3-4 years, computer equipment 3-4 years, furniture and office equipment 5-10 years.

The valuation of land and buildings is carried out at least every three years as at 31 December by external surveyors in accordance with the Royal Institution of Chartered Surveyors' requirements. The most recent valuation was carried out in December 2005 at open market value and on the basis of the lease agreements.

If the land and buildings were carried at historical cost less accumulated depreciation, the carrying amount would have been £66 million (2006: £80 million).

35. Intangible assets

	Goodwill £m	Acquired in-force business £m	Deferred acquisition costs (note 36) £m	Other £m	Total £m
Cost					
At 1 January 2007	**337**	**2,872**	**126**	**129**	**3,464**
Acquisitions through business combinations	**–**	**–**	**–**	**30**	**30**
Other additions	**–**	**–**	**22**	**–**	**22**
Disposals	**–**	**–**	**–**	**(4)**	**(4)**
At 31 December 2007	**337**	**2,872**	**148**	**155**	**3,512**
Amortisation and impairment losses					
At 1 January 2007	**128**	**827**	**54**	**16**	**1,025**
Amortisation charge for the year	**–**	**228**	**15**	**31**	**274**
On disposals	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2007	**128**	**1,055**	**69**	**45**	**1,297**
Carrying amount					
At 31 December 2007	**209**	**1,817**	**79**	**110**	**2,215**
Amount recoverable after 12 months	**209**	**1,616**	**62**	**78**	**1,965**

	Goodwill £m	Acquired in-force business (restated) £m	Deferred acquisition costs (note 36) £m	Other £m	Total (restated) £m
Cost					
At 1 January 2006	337	1,235	114	–	1,686
Acquisitions through business combinations	–	1,694	–	100	1,794
Addition on transfer from the with-profit funds	–	64	–	–	64
Other additions	–	–	12	29	41
Disposal on transfer from the with-profit funds	–	(121)	–	–	(121)
At 31 December 2006	337	2,872	126	129	3,464
Amortisation and impairment losses					
At 1 January 2006	128	140	30	–	298
Amortisation charge for the year	–	265	20	16	301
Impairment losses	–	518	4	–	522
On disposal on transfer from the with-profit funds	–	(96)	–	–	(96)
At 31 December 2006	128	827	54	16	1,025
Carrying amount					
At 31 December 2006	209	2,045	72	113	2,439
Amount recoverable after 12 months	209	1,724	57	84	2,074

Goodwill is not amortised. Other intangible assets have finite lives. Acquired in-force business and deferred acquisition costs are amortised over periods of up to 50 years on a basis which reflects the anticipated emergence of profits from the underlying business written.

Additions to other intangible assets include £30 million in respect of the acquisition of the protection broker consultant business of Abbey National plc (note 46). This is being amortised over 4 years on a straight line basis.

The amortisation charge for the year is included in administrative expenses within the income statement with the exception of the amortisation of acquired in-force business which is shown as a separate line item within the income statement. The recoverable amount of acquired in-force business is its value in use.

Information relating to the recoverable goodwill of the Group's cash generating units is given below.

Life division

The carrying amount of goodwill allocated to the life division is £65 million. The recoverable amount has been determined on the value in use basis, by comparison with the value of the in-force business of the life division, calculated in accordance with European Embedded Value (EEV) methodology, after deducting the carrying value of the acquired in force business, less deferred tax.

Asset management

The carrying amount of goodwill allocated to the asset management business is £134 million. The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cashflows are movements in funds under management, fee income, inflation and discount rate. The funds under management relating to the policyholder assets of the Group are assumed to decrease in line with the expected run-off of the related policies. Other funds under management are assumed to increase in line with inflation. Fee income and expense inflation have been set with reference to past experience and are consistent with external rates.

The cashflows have been projected for 25 years, reflecting the continuing nature of the underlying funds under management, including those of the policyholder assets of the Group. The cashflows have been discounted at 7%.

Management services

The carrying amount of goodwill allocated to the management services business is £10 million. The recoverable amount has been determined on the value in use basis, by evaluating the expected cash flows arising from the business in the future. The key assumptions used in estimating these cashflows are fee income, inflation and the discount rate. Fee income is assumed to decline gradually in line with the run off of policyholder liabilities under the existing management services agreement structure with the life division. The cashflows have been projected for 10 years and have been discounted at 7%.

36. Deferred acquisition costs

	Insurance contracts £m	Investment contracts £m	Total £m
At 1 January 2007	**27**	**45**	**72**
Additions	**22**	**–**	**22**
Amortisation charge	**(7)**	**(8)**	**(15)**
At 31 December 2007	**42**	**37**	**79**

36. Deferred acquisition costs (continued)

	Insurance contracts £m	Investment contracts £m	Total £m
At 1 January 2006	37	47	84
Additions	–	12	12
Amortisation charge	(6)	(14)	(20)
Impairment losses	(4)	–	(4)
At 31 December 2006	27	45	72

37. Investment property

	2007 £m	2006 £m
At 1 January	**2,705**	2,356
Additions	**49**	253
Improvements	**1**	10
Disposals	**(49)**	(141)
Unrealised (losses)/gains	**(296)**	227
At 31 December	**2,410**	2,705

Investment property is stated at fair value and is independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of the open market value of such properties.

The rental income arising from investment properties during the year amounted to £145 million (2006: £110 million), which is included in net investment income. Direct operating expenses (included within other administrative expenses) in respect of such properties amounted to £8 million (2006: £1 milllion).

38. Financial assets

	2007 £m	2006 £m
Loans and deposits at amortised cost	**804**	732
Financial assets at fair value through profit or loss		
Held for trading – derivatives	**297**	208
Designated upon initial recognition	**45,857**	50,966
	46,958	51,906
Amount recoverable after 12 months	**34,354**	27,380

39. Stocklending

The Group lends listed financial assets held in its investment portfolio to other institutions. The Group conducts its stocklending programme only with well-established, reputable institutions in accordance with established market conventions.

The financial assets do not qualify for derecognition as the Group retains all the risks and rewards of the transferred assets except for the voting rights. The carrying amounts of listed financial assets lent out at the reporting date that have not been derecognised are £7,607 million (2006: £5,268 million).

It is the Group's practice to obtain collateral in stocklending transactions, usually in the form of cash or marketable securities. This collateral is held on behalf of the Group and is not recognised in the balance sheet. The fair value of financial assets accepted as collateral amounts to £8,152 million (2006: £5,645 million). The Group is not permitted to sell or re-pledge the collateral held in the absence of default.

40. Loans and deposits

	2007 £m	2006 £m
At 1 January	**732**	359
Acquisitions through business combinations	**–**	377
Additions	**726**	247
Repayments	**(654)**	(251)
At 31 December	**804**	732
Amount due for recovery after 12 months	**55**	193

Substantially all of the loans and deposits are at variable interest rates. The carrying amounts approximate to fair value at the balance sheet date.

41. Derivatives

The Group purchases derivative financial instruments in connection with the management of its insurance contracts and investment contracts liabilities, based on the principles of reduction of risk and efficient portfolio management.

Where the Group has entered into collateral arrangements to provide security against the maturity proceeds of derivative financial instruments, which include a legal right of set off and it is intended that settlement will be made on a net basis, the value of the derivatives and the related collateral are presented on a net basis within trade and other payables (note 32) and trade and other receivables as appropriate. For all such arrangements, interest is payable on the amounts owed based on the Sterling Overnight Index Average.

Where collateral has been pledged by the Group and the right of set off is only enforceable on the occurrence of a particular future event then the pledged asset continues to be recognised by the Group. On the same basis the Group does not recognise collateral pledged by counterparties.

The amount of collateral pledged by and to the Group was £162 million (2006: £85 million) and £180 million (2006: £273 million) respectively.

41. Derivatives (continued)

The fair values of derivative financial instruments at the end of 2007, for which the value of collateral arrangements have not been recognised, are as follows:

	2007 Assets £m	**2007 Liabilities £m**	2006 Assets £m	2006 Liabilities £m
Options on interest rate swaps	**74**	**–**	179	–
OTC options	**–**	**–**	20	–
Equity futures	**–**	**–**	6	–
Stock index futures	**2**	**2**	3	–
Swaps	**221**	**300**	–	2
Forward currency instruments	**–**	**1**	–	–
	297	**303**	208	2

The amount recoverable after one year is £274 million (2006: £179 million). The amount payable after one year is £300 million (2006: £nil).

Hedges against movements in the cost of policy guarantees

The long term business funds have an economic exposure to costs of guarantees attributable to equity returns, interest rate movements and foreign exchange rate movements.

The following types of guarantees exist on contracts written by the Group's life companies:

- Maturity guarantees on conventional with-profit (CWP) policies and Market Value Adjustment (MVA) free guarantees on unitised with-profit (UWP) policies;
- CWP pensions maturity guarantees with guaranteed annuity options;
- CWP deferred annuity contracts with guaranteed commutation options; and
- Guaranteed benefits on non-participating business.

During 2007, the Group closed out the bespoke derivative contracts previously held with Abbey National Treasury Services plc and purchased a series of Over The Counter (OTC) options.

The various equity options, interest rate swaps, interest rate swap options and exchange traded equity futures were chosen so as to hedge against movements in the cost of policy guarantees attributable to a change in economic conditions.

Equity options

Equity options are used to hedge against movements in the cost of policyholder guarantees associated with certain with-profit contracts as a result of equity market movements.

Forward currency contracts

A small number of forward currency contracts are held for efficient portfolio management purposes.

Swaps

Fixed interest assets are generally matched to the liabilities they are backing, in order to protect against the impact of interest rate movements on the cost of maturity guarantees and guaranteed annuity options. A bond portfolio benchmark is used to give a reasonable overall duration match with interest rate swaps being used in some funds to hedge residual interest rate risk at key duration points.

Inflation swaps are held to protect against the impact of changes in the rate of inflation on the cost of certain index-linked annuities in payment and maintenance expenses.

Cross-currency swaps are held to protect against currency risk where non-sterling fixed-interest assets are held.

Interest rate swap options

Interest rate options are used to hedge against movements in the cost of policyholder guarantees associated with certain with-profit contracts which have a guaranteed annuity rate applying.

Stock index futures

A small number of stock index futures are held, mainly for efficient portfolio management purposes, though strategic positions may be held in order to reduce the impact of equity movements on the costs of guarantees on CWP business.

Equity futures

These are held to hedge against movements in the cost of policyholder guarantees associated with certain with-profit contracts as a result of equity market movements.

Maturity of derivatives

The derivative types and range of maturity dates are set out below:

Derivative Type	Maturity Date Range
OTC Options	June 2008 – June 2027
Swaps	June 2008 – June 2047
Options on interest rate swaps	March 2008 – December 2047
Equity futures	Rolled forward every 3 months
Stock index futures	Rolled forward every 3 months
Forward currency contracts	Rolled forward every 3 months

The various derivatives are not individually allocated against policy guarantees, rather the aggregate of all derivatives held are designed to hedge against movements in the aggregate cost of policy guarantees.

The effectiveness of the hedge against movements in the cost of policyholder guarantees is assessed at least twice a year.

Collateral arrangements

Where there is a legal right of set off against the relevant derivative, and because it is intended that settlement will be on a net basis, all collateral creditors are presented on a net basis within trade and other payables (note 32) and collateral debtors forming part of trade and other receivables.

41. Derivatives (continued)

The fair values of derivative financial instruments (the market value on a bid basis) at the end of 2007 (and 2006) are as follows:

As at 31 December 2007

	Notional amount	Assets £m	Liabilities £m	Collateral £m	Net collateral debtors £m	Net collateral creditors £m
OTC vanilla contracts						
Equity options	**1,700**	**276**	**–**	**291**	**–**	**(15)**
Interest rate swaps	**5,084**	**4**	**(27)**	**(24)**	**4**	**(3)**
Interest rate swaptions	**1,750**	**80**	**–**	**86**	**–**	**(6)**
Equity forward contracts	**755**	**603**	**–**	**603**	**1**	**(1)**
Total	**9,289**	**963**	**(27)**	**956**	**5**	**(25)**

As at 31 December 2006

	Notional amount	Assets £m	Liabilities £m	Collateral £m	Net collateral debtors £m	Net collateral creditors £m
OTC bespoke options						
Type 1	4,160	165	-	207	-	(42)
Type 2	639	233	-	286	-	(53)
Type 3	578	179	-	221	-	(42)
Equity forward contracts	558	346	-	358	-	(12)
Total	5,935	923	-	1,072	-	(149)

Where transactions are with the same counterparty and the conditions for offset are met, the net asset or liability position is shown in the table above.

The market value has been calculated using certain observable market data (the yield curve as at the valuation date). Where market data is not directly observable (for example, the volatility of future interest rates and equity returns) these are derived from observed market prices of similar instruments.

42. Tax assets and liabilities

	2007 £m	2006 (restated) £m
Current tax receivables	**157**	59
Total tax assets	**157**	59
Current tax payables	**(130)**	(169)
Net deferred tax liabilities	**(857)**	(982)
Total tax liabilities	**(987)**	(1,151)

Deferred tax assets comprise:

	2007 £m	2006 £m
Losses, expenses and deferred acquisition costs carried forward	**237**	106
Provisions and other timing differences	**17**	20
Other	**22**	4
Total deferred tax assets	**276**	130

Deferred tax liabilities comprise:

	2007 £m	2006 (restated) £m
Acquired in-force business	**(666)**	(727)
Unrealised gains on investments	**(112)**	(152)
Surplus within the non-profit funds	**(163)**	(131)
On profit arising from the changes in assumptions used for determining insurance contracts liabilities in accordance with PS 06/14	**(107)**	(91)
Other	**(85)**	(11)
Total deferred tax liabilities	**(1,133)**	(1,112)
Net deferred tax liabilities	**(857)**	(982)

Movements in deferred tax liabilities comprise:

	2007 £m	2006 (restated) £m
At 1 January, as previously reported		(789)
Prior year adjustment (note 2)		31
At 1 January, as restated	**(982)**	(758)
Acquisitions through business combinations		(397)
Amounts charged to the income statement	**132**	154
Amounts (charged)/credited to the statement of recognised income and expense	**(5)**	2
Other adjustments	**(2)**	17
At 31 December	**(857)**	(982)

Deferred tax has been provided on the surpluses within the non-profit funds on the assumption that all such surpluses will eventually be distributed to equity holders.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

Deferred income tax assets have not been recognised in respect of tax loss carry forwards of £578 million (2006: £686 million) and excess expenses and deferred acquisition costs carried forward of £867 million (2006: £401 million) as there is insufficient certainty as to the availability of future profits. In addition the Group has unrecognised capital tax losses of £102 million (2006: £60 million) which can only be offset against capital gains. These have no expiry date.

43. Cash and cash equivalents

	2007 £m	2006 £m
Bank and cash balances	**2,845**	2,074
Short term deposits (including demand and time deposits)	**2,160**	1,820
	5,005	3,894

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the balance sheet date.

44. Asset held for sale

The asset classified as held for sale comprises the Group's property at Albert Dock, Liverpool. The Group announced the closure of its Liverpool office in June 2006 and the property has largely been vacated and is currently being marketed. It is anticipated that disposal will be completed during 2008. The property is included within the life division for segment reporting purposes.

45. Cash flows

(a) Cash flows from operating activities

	2007 £m	2006 £m
Profit before tax for the year	**3**	482
Non-cash movements in profit before tax for the year		
Realised losses/(gains) on the sale of:		
Investment property	**–**	11
Financial assets	**(292)**	(2,269)
Unrealised losses/(gains) on:		
Investment property	**296**	(227)
Financial assets	**239**	1,507
Depreciation of property, plant and equipment	**2**	4
Amortisation of intangible assets	**274**	301
Impairment of intangible assets	**–**	522
Net decrease/(increase) in working capital	**1,861**	(1,102)
Net decrease/(increase) in operating assets and liabilities	**2,383**	(771)

(b) Cash flows on acquisition of business/subsidiaries

	2007 £m	2006 £m
Consideration settled in cash	**30**	3,600
Acquisition costs	**–**	34
	30	3,634
Cash and cash equivalents of acquiree	**–**	(4,522)
	30	(888)

46. Acquisition

On 28 September 2007 the Group completed the acquisition of the business and assets of the protection broker consultant business of Abbey National plc. The business and assets acquired comprised approximately 65 brokerages including the marketing, sales and technical information of the business and property, plant and equipment. The acquisition was effected by Resolution Management Services Limited, a Group company, for a consideration of £30 million, paid in cash. The consideration was funded from the Group's existing resources. The acquisition costs were not material.

The acquiree's net assets at the date of acquisition were as follows:

	Carrying amounts £m	Fair value adjustments £m	Fair values £m
Intangible assets	–	30	30
Net identifiable assets and liabilities	**–**	**30**	**30**

	Fair values £m
Fair value of consideration	
Consideration settled in cash	30
Acquisition costs incurred	–
	30

The profit of the business for the period from the date of acquisition to 31 December 2007 was not material. If the acquisition had taken place with effect from 1 January 2007 the estimated gross premiums written and profit after income taxes would not have been materially different from the amounts reported in the financial statements.

In 2006 the Group acquired 100% of the life businesses of Abbey National plc. Information relating to this acquisition is given in the Group's consolidated financial statements for 2006.

47. Operating leases

Operating lease rentals charged within administrative expenses amounted to £6 million (2006: £5 million).

As at 31 December 2007, the Group had commitments under non-cancellable operating leases as set out below:

	2007 £m	2006 £m
Not later than one year	6	5
Later than one year and no later than five years	6	4
Later than five years	4	4

The principal operating lease commitments include:

- A lease relating to Britannic Court, Glasgow currently occupied by the asset management division. The lease expires in December 2014, but is subject to a break clause at the end of 2012. At either of these times the asset management division can vacate the building without penalty. There is no purchase option within the lease. The rent is based on current market value and is reviewed on a five yearly basis. The current rental figure was set in November 2004.
- A lease relating to St. Vincent Street, Glasgow currently occupied by the life division. The lease expires in December 2020. There are no exit clauses in the lease. It is based on current market value and is reviewed twice yearly in each year of the term. The current rental figure was set in August 2006.

48. Related party transactions

The Group has related party relationships with its pension schemes, the Resolution Foundation, Citibank International plc, RBS Trustee and Depositary Services, directors and other members of the Group Executive Committee.

Information on transactions with the pension schemes is included in note 33.

(a) Transactions with key management personnel

Major Group decisions are made by the Board and the Group Executive Committee. Transactions with directors are given in the remuneration report and transactions with other Group Executive Committee members are as follows:

	2007 £000	2006 £000
Remuneration including salaries, bonuses and other benefits	**2,768**	1,962

Pension benefits

	Accrued benefit at 31 December 2007 £000	Accrued benefit at 31 December 2006 £000
Defined benefit scheme	**28**	19

	Contributions made in the year 31 December 2007 £000	Contributions made in the year 31 December 2006 £000
Defined contribution scheme	**257**	139

Directors and Group Executive Committee members are also eligible to participate in the share option schemes described in note 17. Details of the director's interests in share options are given in the Remuneration report; the other Group Executive Committee members have the following interests in share options:

	Share save options at		Executive share options		LTIP share options	
	31 December 2007 No.	31 December 2006 No.	**31 December 2007 No.**	31 December 2006 No.	**31 December 2007 No.**	31 December 2006 No.
Interests in share options	**23,821**	22,629	**–**	41,813	**694,452**	466,024

Directors and Group Executive Committee members hold long term insurance and/or investment contracts with subsidiary companies of the Group. These policies are on the same or similar terms that are available to other employees of the Group. The Board has considered the financial effect of such insurance policies and other transactions with Group companies and has concluded that they are not material to the Group or the individuals concerned and, if disclosed, would not influence decisions made by users of these financial statements.

(b) Transactions with the Resolution Foundation

The Resolution Foundation was set up by the Chairman of Resolution plc, Clive Cowdery, as a separate entity. It uses some Resolution plc services and facilities and shares office accommodation at the Group's head office in London. These services are charged on an arm's length basis which in 2007 amounted to £24,000 (2006: £24,000). Clive Cowdery waived any fee to which he would otherwise have been entitled in the year as chairman of the Company; instead the Company donated £400,000 (2006: £400,000) to the Resolution Foundation.

(c) Transactions with Citibank International plc

A Group investment management subsidiary, Resolution Fund Managers Limited, derives its income as a manager of Resolution Unit Trusts and OEICs.

The aggregate total transactions with Citibank International plc, the trustee for certain unit trusts, were £4,246 million (2006: £4,179 million) for unit creations and £2,736 million (2006: £1,852 million) for unit liquidations. The amount due to Citibank International plc at 31 December 2007 was £39 million (2006: £21 million).

(d) Transactions with RBS Trustee and Depositary Services

Two of the Group's investment management subsidiaries, Resolution Fund Managers Limited and Scottish Mutual Investment Managers Limited, derive their income as managers of Resolution Unit Trusts and OEICs.

The aggregate total transactions between Resolution Fund Managers Limited and RBS Trustee and Depositary Services, a trustee for certain OEICs, were £625 million (2006: £nil) for unit creations and £2,385 million (2006: £nil) for unit liquidations. The amount due from RBS Trustee and Depositary Services at 31 December 2007 was £nil (2006: £nil).

The aggregate total transactions between Scottish Mutual Investment Managers Limited and RBS Trustee and Depositary Services, a trustee for certain unit trusts, were £47 million (2006: £nil) for unit creations and £560 million (2006: £nil) for unit liquidations. The amount due from RBS Trustee and Depositary Services at 31 December 2007 was £nil (2006: £nil).

49. Contingent liabilities

(a) Acquisition of the Royal & Sun Alliance companies

Following the acquisition of the Royal & Sun Alliance life companies the shares in Phoenix Life Limited (formerly Royal & Sun Alliance Linked Insurances Limited) and certain loans were transferred from the non-profit fund to the shareholder fund of PA (GI) Limited (formerly Phoenix Assurance Limited) at their admissible regulatory value. HM Revenue & Customs (HMRC) has challenged the tax treatment of these transfers in the year ended 31 December 2004 and litigation may follow. The directors consider it not probable that an additional tax liability will arise as a result of HMRC's enquiry. However, were HMRC's challenge to be successful, Resolution expects that the liability (before interest and penalties) would not exceed £70 million.

(b) Acquisition of the Allianz Cornhill long-term business

HMRC has also raised a specific enquiry in connection with the tax treatment of the acquisition of life business and assets from Allianz Cornhill Insurance plc in December 2005, in connection with which HMRC has requested certain information and documentation. The full amount of tax (before interest and penalties) which HMRC may seek to impose is estimated by Resolution to be up to £30 million. However,the directors consider it is not probable that any such tax is likely to be payable as a result of HMRC's enquiry.

(c) Proposed acquisition by Pearl Group

At 31 December 2007 the Group had a contingent liability totalling £28 million in respect of fees that will become payable to the Group's professional advisers upon completion of the acquisition of the Group by Impala Holdings Limited, a subsidiary of the Pearl Group.

50. Events after the balance sheet date

(a) Acquisition by Impala Holdings Limited

On 16 November 2007, the Boards of directors of the Company and Pearl Group Limited (Pearl) announced that they had agreed the terms of a recommended acquisition by Impala Holdings Limited, a subsidiary of Pearl, of the entire issued and to be issued share capital of the Company (the Acquisition). At Court and General Meetings of the Company held on 9 January 2008, shareholders approved the implementation of the acquisition by scheme of arrangement under section 425 of the Companies Act 1985.

Approval of the change of control of the Company was given by the Financial Services Authority on 16 April 2008 and the scheme of arrangement was sanctioned by the Court on 28 April 2008. The effective date of the scheme of arrangement is expected to be 1 May 2008.

(b) Share options

The proposed acquisition of the Group by Impala Holdings Limited will trigger changes to the Group's share schemes. The changes have been announced to management and staff and certain changes to the share schemes have been made by the Group's remuneration committee in anticipation of the acquisition. Information on the effect of this together with the related costs is set out below.

Executive share option scheme

Existing employees who are executive share option holders as at the date of acquisition will become eligible to exercise their share options early. The normal performance conditions will be waived in accordance with their terms, resulting in the options vesting in full. The shares issued on exercise by the option holder will either be transferred immediately following their issue to Impala Holdings Limited or cancelled for a cash consideration of £7.20 per share. For financial reporting purposes the grant will be equity settled and the charge to the income statement will therefore be calculated using the grant date fair value of each share option grant. Former employees who are executive share option holders as at the date of acquisition will be offered similar terms to those offered to existing employees, except that the options will not be exercisable prior to the third anniversary of the date of grant and performance conditions will be required to be measured for unvested options.

Save As You Earn scheme (SAYE)

Existing employees who were SAYE option holders as at the date of acquisition will be able to exercise their share options under the scheme early. The share option entitlement will be pro-rated for the proportion of the vesting period that has elapsed and the amount of saving contributions that have accrued at that date. The remaining proportion of the share options will lapse. The grant was equity settled and the shares issued on exercise by the option holder will be transferred immediately to Impala Holdings Limited for a cash consideration of £7.20 per share except where option holders opt to receive loan notes issued by Impala Holdings Limited.

Long Term Incentive Plans (LTIP)

Participants in the LTIP will be awarded a cash payment in lieu of the shares that they would have become entitled to under the plan, subject to the performance period being shortened to the date of acquisition and no pro-rating taking place for the proportion of the vesting period that has elapsed. The full award will be subject to the relevant performance conditions being met and to the discretion of the Remuneration Committee.

Share matching plan (SMP)

Participants in the SMP will be awarded a cash payment in lieu of the shares that they would have become entitled to under the plan, with the vesting period shortened to the date of acquisition and no pro-rating taking place for the proportion of the vesting period that has elapsed.

Financial impact

The total charge in respect of the share schemes has been estimated at £17 million. Taking into account the amount held in the share options reserve of £6 million will result in a net impact on equity holders' funds of £11 million, before tax relief.

In addition, the Group has undertaken to compensate SAYE option holders in cash for the loss of benefit in respect of lapsed share options and to bear the cost of income tax and national insurance that would otherwise fall on option holders from the early vesting of the share option schemes. The estimated cost of this to the Group is £3 million before tax relief.

(c) Asset Management long term incentive plan

Since the end of the financial year changes to the long term incentive plan of the asset management division have been made as a result of the proposed acquisition of the Group by Impala Holdings Limited.

Entitlements vesting under the plan in 2008 and entitlements that had previously vested under the plan but had not been paid were redeemed on 27 March 2008 on the basis of an independent valuation of the plan with an effective date of 30 June 2007. The entitlement to vested units was not conditional on the proposed acquisition of the Group. Members of the plan were able to elect to defer payment until 30 September 2008 in which event their entitlements will be enhanced for six months' interest at base rate.

Subject to the successful acquisition of the Group by Impala Holdings Limited, entitlements under the plan that had not vested on 27 March 2008 will crystallise in full on the date of acquisition, based on an independent valuation of the plan with an effective date of 30 June 2007. These entitlements will be enhanced for six months' interest at base rate and the resulting amounts paid on 30 September 2008, except in certain circumstances including where a member of the plan resigns or is dismissed prior to the date of payment.

The estimated cost of the total entitlements under the plan amounts to £9 million. The provision for benefits accruing under the plan amounted to £7 million as at 31 December 2007 and the additional cost of £2 million will be recognised in 2008.

51. Risk management policies

The Group is exposed to a number of risks in its business including those arising from underlying assets and liabilities and its capital position. This section summarises these risks and the risk management approaches and methodologies the Group applies.

1. Risk management overview

(a) Risk governance framework

The primary objective of the Group's governance framework is to protect it from events that hinder the sustainable achievement of the Group's performance objectives, including the failure to exploit opportunities. The directors recognise the critical importance of having efficient and effective risk management systems in place.

The Group has an established risk management function along with clear terms of reference for the Board, its committees and the associated executive management committees. A clear organisation structure with documented, delegated authorities and responsibilities from the Board to executive management committees and senior managers is in place. A Group policy framework is also in place, which sets out the risk appetite of the Group, together with risk management, internal control and business conduct standards for the Group's operating units. Each policy is the responsibility of a member of senior management who is charged with overseeing compliance with the policy throughout the Group.

51. Risk management policies (continued)

The Board has approved the Group risk management policies and meets regularly to approve any commercial, regulatory and internal organisational requirements arising from the policies. The policies define:

- the Group's identification of risk and its interpretation;
- required structures to ensure the appropriate quality and diversification of assets in the context of the liabilities;
- alignment of the reinsurance strategy to the corporate goals;
- the Group's approach to ensuring that its customers are treated fairly; and
- reporting requirements.

(b) Regulatory framework

A significant element of the Group's life insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed, keeping in view their investment objectives and constraints.

The Group's business is subject to regulation by the Financial Services Authority (FSA). The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. The FSA is responsible for ensuring that Group companies treat customers fairly, including the investigation of past marketing and sales practices.

The FSA is also responsible for ensuring that the Group and its individual regulated companies maintain an appropriate level of capital to enable them to meet liabilities arising from reasonably foreseeable extreme events.

The Directors believe each of the regulated businesses within the Group dedicates sufficient resources to its compliance programme; responds to regulatory enquiries in an appropriate way; and takes corrective action when warranted.

(c) Capital management framework

The Group has developed a capital management framework using Individual Capital Assessment (ICA) principles for identifying the risks to which each of its business units and the Group as a whole are exposed and quantifying their impact on capital. The ICA process estimates the level of capital the Group should retain to ensure that there is only an extremely small risk that the Group will be unable to meet its liabilities. The capital required is calculated based on extreme but foreseeable risk events over a 1-year timeframe. Although the ICA is an internal process, the FSA may use ICA information in discussing the target capital levels it believes the Group and all of its insurance businesses should have available.

Internal capital support arrangements

The Group has in place capital support arrangements with certain of its subsidiary companies. Details of these arrangements are given in note 28.

(d) Asset liability management (ALM) framework

The Group's life division has entered into contracts that transfer insurance or investment risk or both from policyholders to the Group. Investment risks undertaken by the Group are managed by selecting appropriate asset matching strategies. These strategies seek to eliminate or reduce the risks the Group is exposed to but some residual exposures may remain. In some instances the Group may decide to deviate from close asset matching strategies but will ensure that the risks and rewards of taking such action are appropriate.

The Group has substantial exposure to fixed interest securities, equity and property through its constituent life insurance companies. While the investment risk is often borne by or shared with, policyholders, fluctuations in the fixed income equity and property markets will directly or indirectly affect the Group's financial results, the value of the life operations and the capital requirements of the life business.

Within the asset management business, income is primarily derived from an ad valorem charge on the assets under management. If the value of assets is adversely affected by movements in markets or by performance within the funds this may lead to reduced operating profit within the business of the Group.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to ensure long term investment returns meet obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

2. Financial and insurance risk management

(a) Financial risk

Transactions in financial instruments may result in the Group assuming financial risks. These include credit risk, market risk and liquidity risk. Each of these is described below, together with a summary of how the Group manages them.

i. Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion. These financial obligations can relate to both on and off balance sheet assets and liabilities.

The Group is exposed to the following main types of credit risk:

- Credit risk resulting from investment activities, including investments in fixed interest securities, equities, derivatives, collective investment vehicles, hedge funds and the placing of cash deposits;
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the purchase of derivatives;
- Credit risk resulting from investment activities associated with the Group's free resources; and
- Credit risk resulting from contingent liabilities arising as a result of new acquisitions.

The Group manages the level of credit risk it accepts through comprehensive divisional credit risk tolerances. A Group credit risk policy sets out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and significant exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Reinsurance is placed with counterparties that have appropriate credit ratings and concentration of risk is avoided, where possible, by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of the creditworthiness of reinsurers in order to update the reinsurance purchasing strategy and to ascertain suitable allowances for impairment.

The Group sets the maximum amounts that may be advanced to corporate counterparties by reference to their long term credit ratings.

The credit risk borne by the shareholder on with-profit policies is minimal. The bonuses to with-profit policyholders are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. With-profit policies are managed such that bonuses distributed to the policyholder are smoothed by building and dissolving returns over the years. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some with-profit funds and nil for others. In certain circumstances support to the with-profit fund may be provided by the non-profit or shareholder funds. The process for exercising discretion in the management of the with-profit funds is set out in the principles and practices of financial management ("PPFM") for each with-profit fund and is overseen by with-profit committees.

51. Risk management policies (continued)

The table below provides information regarding the credit risk exposure of the Group at 31 December 2007 by classifying financial and reinsurance assets according to Standard and Poors and Moodys credit ratings of the counterparties.

As at 31 December 2007

	AAA	AA	A	BBB	BB and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	**169**	**59**	**409**	**–**	**–**	**63**	**700**
Derivative assets	**–**	**255**	**20**	**–**	**–**	**23**	**298**
Fixed income securities	**16,641**	**1,726**	**4,117**	**1,327**	**50**	**153**	**24,014**
Reinsurance assets							
i. Reinsurers' share of insurance and investment contract liabilities	**–**	**1,246**	**1,699**	**147**	**5**	**122**	**3,219**
ii. Reinsurance receivables	**–**	**95**	**13**	**–**	**1**	**8**	**117**
Cash and cash equivalents	**2,320**	**81**	**3,212**	**–**	**–**	**472**	**6,085**

As at 31 December 2006

	AAA	AA	A	BBB	BB and below	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	122	37	323	–	–	55	537
Derivative assets	–	181	–	–	–	24	205
Fixed income securities	17,309	1,865	4,389	1,198	36	307	25,104
Reinsurance assets							
i. Reinsurers' share of insurance and investment contract liabilities	–	1,261	1,679	146	2	108	3,196
ii. Reinsurance receivables	–	64	7	–	–	22	93
Cash and cash equivalents	1,719	353	2,713	–	–	650	5,435

(source of credit ratings – Standard & Poors/Moodys.)

Assets backing unit-linked business have been excluded from these tables as the credit risk on such financial assets is borne by the policyholders. Shareholder credit exposure on unit-linked assets is limited to the level of asset manager fee which is dependent on the underlying assets. In certain circumstances the shareholder funds may be used to re-establish unit-linked assets in line with regulatory and policyholder expectations.

Credit ratings have not been disclosed in the above table for equities. Whilst the Group is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings.

Non-equity based derivatives are included in the credit risk table above and are subject to appropriate collateral arrangements.

Credit risk in relation to fixed income securities and cash and cash equivalents has been assessed on a look through basis where the exposure to the securities is via collective investments vehicles.

It is also the Group's policy to maintain accurate and consistent internal risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories of assets and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Concentration of credit risks

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life and pension business and this is monitored by the counterparty limits contained within the company's investment guidelines and investment management agreements, overlaid by regulatory requirements.

The long term business the Group writes is not generally exposed to significant concentrations of credit risk due to the restrictions imposed by regulatory requirements and limits set for investments in individual assets and asset classes.

The Group is also exposed to concentration risk with individual reinsurers and service outsourcers. This is due to the nature of the service market and the restricted nature of insurers that have acceptable credit ratings. The Group operates a policy to manage reinsurance and service outsourcer counterparty exposures and the impact from default is reviewed regularly by executive committees and measured through the ICA stress and scenario testing.

The majority of the Group's investment securities are listed and can be easily priced in line with publicly available valuations. The Group has limited exposure to unlisted securities. Where unlisted securities are held their valuation is determined from specialised brokers. Moreover, derivative contracts are priced by a recognised counterparty in that field. The value of any unlisted security held is tracked on management reports and any material variances are reported to the Life Division Asset Liability Committee.

The impact of non-government fixed interest securities and, *inter-alia* the widening of market credit spreads during 2007 are fully reflected in the values shown in these financial statements. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap spreads. The Group does not have any holdings of credit derivatives, such as Collateralised Debt Obligations, or any other assets for which a valuation cannot be established.

Some of the Group's commercial property investments are held through a unit trust managed by Resolution Asset Management. This unit trust has the power to restrict and or suspend withdrawals, which would, in turn, affect liquidity. To date, the unit trust has continued to process both investments and realisations in a normal manner and has not imposed any restrictions or delays.

Resolution's Life Division throughout the year had exposure to significant amounts of short-term money market instruments. As a direct result of the credit crisis in the second half of 2007, two of these assets defaulted on maturity. The profit for the year before income taxes reflects an estimated £10 million write-down in the value of those investments as a result of the defaults. The Company has no other material assets which have been impaired or are past due in 2007 or 2006.

The amount disclosed in the balance sheet in respect of financial assets, excluding those that back unit-linked liabilities, represents the Group's maximum exposure to credit risk.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

Further detail on collateral is given in notes 39 and 41.

51. Risk management policies (continued)

ii. Liquidity risk

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and the requirements of its divisions. The Group's divisions have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash-flow requirements.

The Group Board has defined a number of governance objectives and principles and the liquidity risk frameworks of each division are designed to ensure that:

- Liquidity risk is managed in a manner consistent with the subsidiary Board's strategic objectives, risk appetite and principles and practices of financial management (PPFM);
- The quality of profits are appropriately managed and the reputation of the Group is safeguarded; and
- Appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times and, where appropriate, to have access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to appropriately respond to changes in circumstances.

The table below summarises the maturity profile of the financial liabilities and insurance contract liabilities of the Group. The basis of preparation is such that investment contracts and insurance contracts are on a discounted basis consistent with the balance sheet. All remaining financial liabilities are shown on an undiscounted cash basis. Repayments which are subject to notice are treated as if notice were to be given immediately.

The maturity profile of the insurance liabilities is based on the estimated timing of the amounts recognised in the balance sheet.

As at 31 December 2007

	Up to 1 year	1-5 years	Greater than 5 years	Total
	£m	£m	£m	£m
Insurance liabilities	**4,552**	**13,423**	**16,579**	**34,554**
Investment contracts with DPF [1]	**8,614**	**–**	**–**	**8,614**
Investment contracts without DPF [1]	**8,672**	**–**	**–**	**8,672**
Borrowings	**127**	**120**	**209**	**456**
Deposits received from reinsurers	**26**	**83**	**358**	**467**
Derivative financial liabilities	**3**	**15**	**285**	**303**
Net asset value attributable to unit holders	**577**	**–**	**–**	**577**
Payables [2]	**1,109**	**–**	**20**	**1,129**

As at 31 December 2006

	Up to 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
Insurance liabilities	3,963	11,700	19,428	35,091
Investment contracts with DPF [1]	10,716	–	–	10,716
Investment contracts without DPF [1]	9,265	–	–	9,265
Borrowings	562	496	220	1,278
Deposits received from reinsurers	24	106	352	482
Derivative financial liabilities	1	–	1	2
Net asset value attributable to unit holders	911	–	–	911
Payables [2]	924	93	95	1,112

1 Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, the Group does not expect all these amounts to be paid out within one year of the reporting date.

2 Payables include reinsurance payables, payables related to direct insurance contracts, current tax and trade and other payables.

iii. Market risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group has exposure to market risk as a result of:

- The mismatch between liability profiles and the related asset investment portfolios;
- The investment of 'free resources' including shareholder reserves yet to be distributed, free resources within the with-profit funds and assets held to meet regulatory capital and solvency requirements;
- The asset management and investment activities undertaken by the asset management business under the authorisation of Investment Management Agreements (IMAs) it has received;
- The investment activities undertaken in respect of the asset management business' own products, such as its unitised funds, which are defined in the relevant fund particulars.

The Group structures levels of market risk it accepts through a Group market risk policy that determines: the constituents of market risk for the Group; the basis used to fair value financial assets and liabilities; the asset allocation and portfolio limit structure; diversification from benchmarks by type of instrument and geographical area; the net exposure limits by each counterparty or group of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and activities; monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment. All operations comply with regulatory requirements relating to the taking of market risk.

Currency risk

The Group's principal transactions are carried out in pounds sterling and therefore its exchange risk is limited principally to foreign operations.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

51. Risk management policies (continued)

Within the life operations with-profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed within the financial policy approved by the Asset Liability Management Committee and the Board.

The Group's foreign operations (taken to be those denominated in non-sterling) generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated. Consequently, the foreign currency risk from the foreign operations mainly arises when the assets and liabilities denominated in a foreign currency are translated into sterling.

Interest rate risk

Interest rate risk is the risk that the value / future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's approach to interest rate risk is to manage it by maintaining an appropriate mix of fixed and variable rate instruments including derivatives. The policy also requires it to manage the maturity profile of these assets consistent with the liabilities to policyholders.

The following table summarises the expected pre-tax income from the assets assuming assets are held to redemption and deductions in respect of policyholder and other net liabilities of the non-profit funds of the life divisions as at 31 December 2007 (excluding contractual liabilities met from the unit-linked funds).

Summary by period 31 December 2007	**0-5 years £m**	**5-10 years £m**	**10-15 years £m**	**15-20 years £m**	**20-25 years £m**	**25-40 years £m**
Assets	**1,979**	**2,326**	**1,541**	**1,407**	**1,026**	**2,104**
Liabilities	**(1,127)**	**(1,393)**	**(1,425)**	**(1,268)**	**(1,007)**	**(1,860)**
Assets less liabilities	**852**	**933**	**116**	**139**	**19**	**244**

Summary by period 31 December 2006	0-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	20-25 years £m	25-40 years £m
Assets	2,080	2,059	1,700	1,238	1,209	2,594
Liabilities	(1,031)	(1,296)	(1,258)	(1,150)	(977)	(1,622)
Assets less liabilities	1,049	763	442	88	232	972

The above tabular disclosure relates only to non-profit and non-linked funds. With-profit business and non-profit business within with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest stocks and derivatives. The profit or loss arising from mismatches between such assets and liabilities is largely or completely offset by increased or reduced discretionary policyholder benefits.

Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits the exposure to any one counterparty in its investment portfolios as well as the relevant foreign markets (refer to credit and currency exposure disclosures for concentration risks impacting price risks).

The portfolio of marketable equity securities, and property investments, which is carried on the balance sheet at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long term returns by investing in a diverse portfolio of high quality equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in a number of dimensions. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited.

Equity and property price risk is primarily undertaken in respect of assets held in with-profit or unit-linked funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. The impact on equity holders' with-profit fund bonuses is covered under the Insurance Risk section. In addition some equity investments are held in respect of equity holders' funds.

At 31 December 2007, traded equity securities of £10,275 million (2006: £10,425 million) and £2,410 million (2006: £2,705 million) of property assets were held.

There is also an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds, unit-linked funds, non-profit funds (where risks and rewards fall wholly to shareholders) and to shareholders' funds.

The Group continues to hold derivatives within the with-profit funds to hedge various guarantees attaching to certain with-profit policies. Further information can be found in note 41.

Note 26 Insurance and investment contracts liabilities – assumptions and sensitivities sets out the key sensitivities to the insurance and investment contracts.

(b) Insurance risk

Long term insurance risk

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Group's Life division contracts include the following sources of insurance risk:

- Mortality – Higher than expected number of death claims on assurance products and occurrence of one or more large claims;
- Longevity – Faster than expected improvements in life expectancy on immediate and deferred annuity products;
- Morbidity – Higher than expected number of serious illness claims or more sickness claims which last longer on income protection policies;
- Expenses – Policies cost more to administer than expected;
- Lapses – The number of policies terminating early is different to that expected in a way which increases expected claims costs or expenses or reduces future profits; and
- Options – Unanticipated changes in policyholder option exercise rates giving rise to increased claims costs.

Risk management objectives and policies for mitigating insurance risk

The Group manages insurance risk within underwriting and pricing limits and by the monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long term insurance businesses within the Group depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

51. Risk management policies (continued)

New business written in the open long term insurance businesses within the Group is predominantly protection but also encompasses some unit-linked investment business. The success of new protection business depends on setting the premiums to be paid by the policyholder at a level to meet future benefits payable and expenses incurred while generating a profit in return for risk borne and capital provided by the shareholder. For unit-linked investment business the charges taken must be sufficient to meet expenses and profit. The premiums and charges are assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the board of directors of the life division to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination. While the boards of directors of the companies which hold the life business seek to ensure that such decisions are consistent with their regulatory obligations to treat customers fairly, there is a risk that policyholders, regulators or consumer groups may argue that policyholders' interests or reasonable expectations have been adversely affected by such decisions.

Assumptions

The Group monitors the actual claims, persistency and expense experience against the assumptions used and refines the assumptions for the future assessment of liabilities. Experience may vary from estimates, the more so the further into the future it is projected. The life insurance companies evaluate their liabilities at least annually.

Changes in assumptions may also lead to changes in the level of capital required. To the extent that actual experience is less favourable than the underlying assumptions, or it is necessary to increase provisions due to more onerous assumptions, the amount of additional capital required (and therefore the amount of capital which can be released from the businesses) and the ability of the Group to manage its businesses in an efficient manner may be materially adversely affected.

New business premiums are set using assumptions regarding future experience which are generated with reference to the Group's own experience as well as that of the industry as a whole. Writing new business can be capital intensive and volumes are monitored in conjunction with capital available including that released from existing business.

Underwriting and claims management strategy

Closed long term insurance businesses within the Group accept new business where they are contractually obliged to do so and consequently underwriting has been considered in the initial contract development and in subsequent monitoring.

Open long term insurance businesses within the Group actively sell new business, the majority of which is protection products with features set out in the product section below. Underwriting of lives accepted takes place in line with set criteria and a large proportion of the insurance risk is mitigated through the use of reinsurance.

The Group maintains clear policies and procedures in relation to the management and payment of claims including the presentation of suitable reports and certificates to support claims, appropriate payment authorisation limits and regular monitoring of the level of claims received and paid across major product groups.

Reinsurance and other risk reduction strategies

Reinsurance is a mechanism by which the Group transfers away excess risk, especially the risk of very large single death or sickness claims. The Group's strategy is to maintain in force all material reinsurance contracts. New contracts are considered where the risk reduction is justified by the terms.

Guarantees and options

Most life insurance policies contain an element of guarantee and many contain options. These guarantees vary considerably in both quantum and likelihood of being applied. The guarantees and options for material product lines are set out under the different product sections below.

(c) Managing product risk

The following sections give an assessment of the risks associated with the Group's main life insurance products and the ways in which the Group manages those risks.

(i) Protection products

Product features

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

Profits and/or losses mainly arise from claims experience differing from that expected.

The table below indicates the split of protection liabilities at 31 December 2007 between those written in with-profit funds and those directly influencing shareholders' results in non-profit funds and also indicates the liabilities and corresponding reinsurance assets:

31 December 2007	**Liability £m**	**Reinsurance asset £m**
With-profit funds	**129**	**115**
Non-profit funds	**257**	**305**

31 December 2006	Liability £m	Reinsurance asset £m
With-profit funds	241	94
Non-profit funds	1,281	397

Management of product risks

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy, the use of reinsurance and a clear process for administering claims.

(ii) Immediate annuities

Product features

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

Profits and/or losses arise mainly when longevity and investment experience vary from that expected.

New annuity contracts are underwritten but only in conjunction with deferred annuity policies which reach the point of retirement.

The table below indicates the split of immediate annuity liabilities at 31 December 2006 between those written in with-profit funds and those directly influencing shareholders' results in non-profit funds and also indicates the liabilities and corresponding reinsurance assets:

51. Risk management policies (continued)

31 December 2007	Liability £m	Reinsurance asset £m
With-profit funds	**2,124**	**714**
Non-profit funds	**5,938**	**2,400**

31 December 2006	Liability £m	Reinsurance asset £m
With-profit funds	2,112	730
Non-profit funds	4,564	1,432

Management of product risks

The main risks associated with this product are longevity and investment risks. Longevity risk arises as the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa).

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed by the Asset/Liability Management Committee. Asset Liability modelling is used to monitor this position on a regular basis. Details of default risk have been covered under the credit risk section.

(iii) Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies would contain an element of guarantee expressed in the form that the contract is written in i.e. cash or annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as Guaranteed Annuity Rate (GAR) policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option (GCO) policies.

The table below indicates the split of liabilities into these policy types and whether the policy is held within the with-profit or non-profit funds:

31 December 2007	Policies with cash benefits		Policies with annuity benefits	
	Non-GAR £m	GAR £m	Non-GCO £m	GCO £m
With-profit funds				
Basic policy liability	**3,537**	**3,452**	**1,551**	**1,416**
Option provisions	**–**	**1,169**	**–**	**84**
Non-profit funds				
Basic policy liability	**4,366**	**78**	**557**	**37**
Option provisions	**–**	**28**	**–**	**3**

31 December 2006	Policies with cash benefits		Policies with annuity benefits	
	Non-GAR	GAR	Non-GCO	GCO
	£m	£m	£m	£m
With-profit funds				
Basic policy liability	3,347	3,691	1,557	1,586
Option provisions	–	1,436	–	102
Non-profit funds				
Basic policy liability	3,213	26	474	34
Option provisions	9	5	–	4

In relation to deferred annuities there are no material reinsurance assets other than £382 million (2006: £432 million) for the ex Alba Life fund within Phoenix Life Limited.

Management of product risks

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market for cash benefits. The guaranteed terms on GCO policies are not currently valuable.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long term funds in this respect.

(iv) Insurance contracts with discretionary participation features

Product features

The Group operate a number of with-profit funds in the UK, in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-profit business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates (GARs). The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and shares and/or property in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

Management of product risks

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in principles and practices of financial management ("PPFM") for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each company which has a with-profit fund. Compliance with the PPFM is reviewed annually and reported to the FSA and policyholders.

51. Risk management policies (continued)

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and nil for others.

3. Operational Risks

Operational risk is the risk of loss or, *inter-alia,* adverse consequences for the Group's business, arising from system failure, human error, fraud or external events.

When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but by initiating and following a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. Limits for exposure are set using both quantitative limits, eg. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

52. Group entities

The principal subsidiary undertakings of the Group whose results or financial position affected the amounts shown in the consolidated financial statements are listed below. All of these are incorporated in the UK except where otherwise stated. All subsidiary undertakings have been included in the consolidated financial statements.

Subsidiary	Principal activity	% of equity and votes held
Phoenix & London Assurance Limited	Life assurance	100
Phoenix Life Assurance Limited	Life assurance	100
Phoenix Life Limited	Life assurance	100
Phoenix Pensions Limited	Life assurance	100
Resolution Asset Management Limited*	Holding company	100
Resolution Fund Managers Limited	Unit Trust Management	100
Resolution Investment Services Limited	Asset Management	100
Resolution Life Limited*	Holding company	100
Resolution Management Services Limited*	Management services	100
RMS (Glasgow) Limited	Management services	100
RMS (Ireland) Holdings Limited (incorporated in the Republic of Ireland)	Holding company	100
Scottish Mutual Assurance Limited	Life assurance	100
Scottish Mutual International Limited (incorporated in the Republic of Ireland)	Life assurance	100
Scottish Provident International Life Assurance Limited (incorporated in the Isle of Man)	Life assurance	100
Scottish Provident Limited	Life assurance	100
UK Commercial Property Trust Limited (incorporated in Guernsey)	Property investment	76

* Directly held by Resolution plc.

There are no non-equity shares held in the principal subsidiary undertakings.

Presented under UK GAAP 2003 £m	2004 £m		Presented under IFRS 2004 £m	2005 £m	2006 £m	**2007 £m**
920	526	**Gross premiums**	526	445	1,633	**2,104**
		Profit before non-recurring items				
15	14	With-profit	11	23	75	**60**
12	21	Non-profit and unit-linked	25	107	325	**404**
40	39	Longer term return on equity holders' funds	38	44	78	**66**
1	1	Other income and charges	1	3	–	**(4)**
–	–	Minority interest in results of UK Commercial Property Trust Limited	–	–	2	**(13)**
68	75	Life	75	177	480	**513**
9	10	Asset management	10	12	32	**47**
–	–	Management services	–	3	15	**23**
(1)	–	Mortgage operations	–	–	–	**–**
(4)	(4)	Group income less charges	(1)	(12)	6	**4**
72	81		84	180	533	**587**
–	–	Amortisation of acquired in-force business	–	(28)	(230)	**(199)**
–	–	Amortisation of asset management internalisation costs	–	–	(7)	**(9)**
–	–	Amortisation of fair value of distribution agreements and protection broker consultant business	–	–	(8)	**(22)**
72	81		84	152	288	**357**
		Non-recurring items				
–	–	Break fee paid to Friends Provident plc	–	–	–	**(49)**
–	–	Other corporate transaction costs	–	–	–	**(28)**
–	–	Deferred consideration on transfer of Alba Life	–	–	–	**(12)**
–	–	Life – profit on acquisitions	–	89	257	**–**
–	–	Life – gains on transfers from with-profit funds	–	–	48	**–**
–	–	Life – profit arising from changes in assumptions used for determining insurance contracts liabilities	–	–	534	**–**
–	–	Life – impairment of acquired in-force business and deferred acquisition costs	–	–	(511)	**–**
(8)	(4)	Life – restructuring expenses	(4)	–	–	**–**
(4)	(50)	Asset management – goodwill impairment	(8)	–	–	**–**
–	–	Management services - Capita outsourcing transition costs	–	–	–	**(12)**
–	–	Management services - goodwill impairment	–	(20)	–	**–**
–	–	Release of deferred income liability	–	26	–	**–**
–	–	Governance projects	–	–	–	**(16)**
–	–	Enhanced controllership costs	–	–	(7)	**(18)**
–	–	Former Abbey life businesses integration costs	–	–	(3)	**(18)**
–	–	Funds merger benefits/(costs) (net)	–	17	(2)	**–**
–	–	Britannic/RLG merger reorganisation costs	–	(2)	(19)	**(9)**
(25)	–	Loss on disposal of mortgage operations	–	–	–	**–**
35	27		72	262	585	**195**
34	57	Short term investment fluctuations	15	23	4	**(1)**
69	84	**Operating profit attributable to equity holders**	87	285	589	**194**
(9)	(8)	Financing costs	(8)	(12)	(32)	**(45)**
60	76	**Profit before taxes attributable to equity holders**	79	273	557	**149**
(13)	(32)	Equity holders' share of income tax	4	(111)	(26)	**(14)**
47	44	**Profit for the year attributable to equity holders**	83	162	531	**135**

Five year review

profits attributable to equity holders

Presented under UK GAAP			Presented under IFRS			
2003 £m	2004 £m		2004 £m	2005 £m	2006 £m	**2007 £m**
		Attributable to:				
		Equity holders of the parent				
47	44	Ordinary shareholders	83	155	494	**115**
–	–	Perpetual reset capital securities	–	4	33	**33**
47	44		83	159	527	**148**
–	–	Minority interests	–	3	4	**(13)**
47	44		83	162	531	**135**
21.1p	19.6p	**Basic earnings per share (pence)**	37.0p	56.8p	97.8p	**16.8p**
20.9p	19.3p	**Diluted earnings per share (pence)**	36.6p	56.3p	97.3p	**16.7p**

The basic and diluted earnings per share for 2005 and prior years have been restated to reflect the bonus element effect of the rights issue which completed on 9 August 2006. The bonus element is calculated by reference to the closing share price immediately prior to the date that the ordinary shares became ex-rights of 654.5p per ordinary share and the additional 322.4 million new ordinary shares were issued at 480.0p per ordinary share.

The financial information presented under IFRS is not directly comparable with that presented under UK GAAP due to the application of different measurement bases. In addition, the financial information presented under IFRS for 2005 is not fully comparable with that presented under IFRS for 2004 as IAS 32 *Financial Instruments: Disclosure and Presentation,* IAS 39 *Financial Instruments: Recognition and Measurement,* IFRS 4 *Insurance Contracts* and FRS 27 *Life Assurance* were adopted from 1 January 2005 without restating the comparative amounts for 2004.

Statement of directors' responsibilities

in respect of the parent company financial statements

The directors are responsible for preparing the Annual Report and the parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

We have audited the parent company financial statements of Resolution plc for the year ended 31 December 2007 which comprise the accounting policies, the balance sheet and the related notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of Resolution plc for the year ended 31 December 2007.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Directors' report.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Operating and financial review, the Directors' report, the Corporate governance statement, the Corporate responsibility statement and the unaudited part of the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

28 April 2008

a) Basis of preparation

The parent company financial statements are prepared in accordance with Schedule 4 to the Companies Act 1985 and applicable UK accounting standards. The financial statements are also prepared in accordance with the historical cost convention.

b) Net investment income

Net investment income comprises interest and dividends receivable.

Interest income is recognised in the profit and loss account as it accrues. Dividend income is recognised in the profit and loss account on the date the right to receive payments is established.

c) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred.

Defined benefit plans

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

The net surplus and the movement in the surplus are currently allocated in the ratio 37:63 (2006: 36:64) between the Company and its subsidiary, Resolution Management Services Limited, the joint sponsoring employers of the pension scheme. The change in the ratio reflects the effect of the merger of the Phoenix Life Group pension scheme with the principal scheme. The surplus is shown net of the associated deferred tax liability.

Share-based payment transactions

The Company issues ordinary shares under an all-employee save as you earn (SAYE) scheme and discretionary, performance-related Executive Share Options (ESOS), share matching plan (SMP) and long term incentive plan (LTIP) schemes. FRS 20 *Share-based Payment*, has not been applied to those grants of ordinary shares, share options or other equity instruments that were granted before 7 November 2002. The fair value of options granted is recognised as an expense with a corresponding increase in equity.

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

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

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

d) Borrowings

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

e) Investments in and loans to group undertakings

Investments in and loans to group undertakings are held at cost less impairment losses. They are tested for impairment when there is evidence of possible impairment and the carrying value is adjusted appropriately.

f) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. It is recognised in the profit and loss account except to the extent that it relates to items recognised in the statement of total recognised gains and losses, in which case it is recognised in that statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of previous years. It takes account of tax relief on coupons paid on the perpetual reset capital securities.

Deferred tax comprises the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws which have been enacted or substantively enacted by the balance sheet date.

g) Perpetual reset capital securities

The perpetual reset capital securities meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and coupons on the securities are recognised on the date of payment and are charged directly to equity holders' funds.

h) Dividends

Dividends declared by ordinary shareholders are recognised as a liability on the date of declaration and dividends declared by the directors are recognised on the date of payment. Dividends are charged directly to equity holders' funds.

Parent company balance sheet

as at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed asset investments			
Investments in group undertakings	4	**1,563**	719
Loans to group undertakings	5	**897**	1,852
		2,460	2,571
Current assets			
Debtors (all falling due within one year)			
Amounts owed by group undertakings		**26**	399
Other debtors		**3**	3
		29	402
Cash at bank and in hand		**707**	305
		736	707
Creditors: amounts falling due within one year			
Bank loans	6	**(115)**	(496)
Other creditors – corporation tax		**(7)**	(3)
Accruals and deferred income		**(2)**	(1)
		(124)	(500)
Net current assets		**612**	207
Total assets less current liabilities		**3,072**	2,778
Creditors: amounts falling due in more than one year			
Bank loans	6	**(120)**	(435)
		(120)	(435)
Net assets excluding pension asset less total liabilities		**2,952**	2,343
Pension asset	7	**22**	21
Total assets less total liabilities		**2,974**	2,364
Capital and reserves			
Called up share capital	9	**34**	34
Share premium account		**1,537**	1,534
Perpetual reset capital securities	11	**497**	497
Other reserves		**5**	4
Profit and loss account	12	**901**	295
	8	**2,974**	2,364

Signed on behalf of the Board by:

Jim Newman
Group Finance Director

28 April 2008

1. Financial information

The parent company financial statements for the year ended 31 December 2007, set out on pages 142 to 153, were approved by the Board on 28 April 2008.

2. Profit and loss account

In accordance with the provisions of section 230 of the Companies Act 1985 a separate profit and loss account of the Company has not been reproduced. The profit of the Company for the financial year amounted to £795 million (2006: £292 million).

3. Auditors' remuneration

The remuneration receivable by the Company's auditors for auditing the accounts amounted to £0.1 million (2006: £0.1 million). The consolidated financial statements of the Company are required to comply with paragraph 1 of The Companies (Disclosure of Remuneration for Non-Audit work) Regulations 2005 and accordingly the remuneration of the auditors for other services provided to the Company is included in the disclosures given in those financial statements.

4. Investments in group undertakings

	2007 £m	2006 £m
Cost		
At 1 January	**769**	348
Additions	**605**	87
Capital contribution made	**942**	675
Capital contribution repaid	**–**	(341)
At 31 December	**2,316**	769
Impairment		
At 1 January	**50**	100
Write down of investment in Resolution Life Group Limited to net asset value	**753**	–
Reversal of impairment losses	**(50)**	(50)
At 31 December	**753**	50
Carrying amount		
At 31 December	**1,563**	719

During the year capital contributions were made to Resolution Life Group Limited (£252 million) and Resolution Life Limited (£690 million). The investment in Resolution Life Group Limited was subsequently written down to its net asset value of £0.1 million. Ownership of Resolution Life Limited was passed to Resolution plc from Resolution Life Group Limited by way of an in specie dividend of £585 million and a further £20 million was invested in Resolution Management Services Limited in the year.

An evaluation of the recoverable amount of the investment in Resolution Asset Management Limited at 31 December 2007 has been undertaken by reference to the expected cash flows arising from the business in the future, as a result of which previous impairment losses totalling £50 million have been reversed.

5. Loans to group undertakings

	2007 £m	2006 £m
Loan to Resolution Management Services Limited	**30**	–
Loans to Resolution Life Limited	**867**	1,852
	897	1,852

The loans to Resolution Life Limited comprise (i) an unsecured loan of £459 million (2006: £459 million) with no fixed date of repayment and carrying interest of 7% per annum; and (ii) an unsecured loan of £408 million (2006 £1,393 million) with no fixed date of repayment and carrying interest at 12 month LIBOR plus 1% per annum.

The Company has granted a revolving credit facility for £110 million to its subsidiary undertaking, Resolution Management Services Limited (RMS). Amounts can be drawn down under the facility on giving five days' notice and may be repaid on one day's notice subject to RMS obtaining the written consent of the Financial Services Authority. Amounts that are repaid can be redrawn. The Company may demand repayment of any loan made under the facility by giving one month's notice providing such notice expires at least two years after the date of drawdown. Interest is payable at LIBOR plus 2%.

Repayment of loans and payment of interest on loans is only permitted if RMS is solvent both before and after the repayment or payment takes place. In the event of the winding up or liquidation of RMS the obligations of RMS are subordinated to senior creditors but rank in priority to the holders of all classes of share capital of RMS.

As at 31 December 2007 the drawings under the facility totalled £30 million. These were made on 26 September 2007.

6. Bank loans

	2007 £m	2006 £m
Current liabilities		
Bank loans	**(115)**	(496)
Liabilities: amounts falling due in more than one year		
Bank loans	**(120)**	(435)
	(235)	(931)
Borrowings are repayable as follows		
Within one year or on demand	**(115)**	(496)
Between one and two years	**(120)**	(115)
Between two and five years	**–**	(320)
	(235)	(931)

The bank loan comprises a term loan of £235 million which is repayable in instalments of £115 million in April 2008 and £120 million in April 2009. The loan carries an annual interest rate of between 30 and 70 basis points above LIBOR and is currently charged at a rate of 30 basis points above LIBOR.

7. Pension schemes

(a) Defined contribution schemes

The Company participates in the defined contribution section of the Resolution Group Pension Scheme. There were no contributions in the year ended 31 December 2007 (2006: £0.1 million).

(b) Defined benefit schemes

The Company and its subsidiary, Resolution Management Services Limited, are joint sponsoring employers of the Resolution Group Pension Scheme. The defined benefit section of the Resolution Group Pension Scheme (the "Scheme") is a final salary arrangement which is generally closed to new entrants and, in respect of former members of the Phoenix Life Group pension scheme (which merged with the scheme on 31 July 2006) to future service accrual.

The valuation has been based on an assessment of the liabilities of the scheme as at 31 December 2007, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method. The Company's share in the pension scheme surplus before tax amounts to £30 million (2006: £30 million).

The principal financial assumptions of the Resolution Group Pension Scheme and the amounts recognised in the profit and loss account and the statement of total recognised gains and losses of the Company are set out below.

	2007	2006
Rate of general long term increase in salaries	**4.4%**	4.1%
Rate of increase in pensions	**3.4%**	3.0-3.1%
Discount rate	**5.8%**	5.2%
Inflation	**3.4%**	3.1%
Expected rate of return on scheme assets	**5.2%**	5.0%

It has been assumed that post retirement mortality is in line with standard tables PXA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum improvement of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy for a member currently age 40 retiring at age 57 is 33.5 years and 34.8 years for male and female members respectively.

The amounts recognised in the profit and loss account are as follows:

	2007 £m	2006 £m
Current service cost	**(2)**	(2)
Interest cost	**(20)**	(18)
Expected return on scheme assets	**21**	19
Gain on curtailments	**1**	–
	–	(1)

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2007 £m	2006 £m
Actuarial gains and losses	**–**	(2)

7. Pension schemes (continued)

The net actuarial gains and losses recognised during the year comprise the following:

	2007 £m	2006 £m
Actual return less expected return on scheme assets	**(4)**	(6)
Experience gains and losses arising on scheme liabilities	**(3)**	2
Changes in assumptions underlying scheme liabilities	**7**	2
	–	(2)

The cumulative net actuarial losses recognised in the statement of recognised income and expense since 1 January 2004 amount to £5 million.

The amounts recognised in the balance sheet are as follows:

	2007 £m	2006 £m
Fair value of scheme assets	**419**	387
Present value of defined benefit obligation	**(389)**	(357)
Net amount recognised in balance sheet	**30**	30
Deferred tax	**(8)**	(9)
Net pension asset	**22**	21

The actual return on the scheme assets comprises the following:

	2007 £m	2006 £m
Expected return on scheme assets	**21**	19
Actuarial losses on scheme assets	**(4)**	(18)
	17	1

The change in the present value of the defined benefit obligation is as follows:

	2007 £m	2006 £m
At 1 January	**357**	356
Effect on allocation ratio of Phoenix Life Group scheme merging with the Resolution Group Pension Scheme	**32**	–
Current service cost	**2**	2
Interest cost	**20**	18
Curtailments	**(1)**	–
Actuarial gains	**(4)**	(4)
Benefits paid	**(17)**	(15)
At 31 December	**389**	357

The defined benefit obligation arises from plans that are wholly funded.

The change in the fair value of the scheme assets is as follows:

	2007 £m	2006 £m
At 1 January	**387**	389
Effect on allocation ratio of Phoenix Life Group scheme merging with the Resolution Group Pension Scheme	**32**	–
Expected return on scheme assets	**21**	19
Actuarial losses on scheme assets	**(4)**	(6)
Benefits paid	**(17)**	(15)
At 31 December	**419**	387

The distribution of the scheme assets at the end of the year was as follows:

	2007 £m	2006 £m
Bonds	**352**	307
Properties	**61**	68
Cash	**6**	12
	419	387

Contributions totalling £3 million are expected to be paid into the scheme by the Company in 2008.

Table of historical information

	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**419**	387	390	354
Defined benefit obligation	**(389)**	(357)	(356)	(317)
Net surplus in scheme	**30**	30	34	37
Experience gains/(losses) on scheme assets	**(4)**	(6)	32	6
Experience gains/(losses) on scheme liabilities	**(3)**	2	(1)	(1)

8. Reconciliation of equity holders' funds

	Share capital (note 9) £m	Share premium £m	Perpetual reset capital securities (note 11) £m	Other reserves – share options £m	Profit and loss account (note 12) £m	Total £m
At 1 January 2007	**34**	**1,534**	**497**	**4**	**295**	**2,364**
Profit for the year	**–**	**–**	**–**	**–**	**795**	**795**
Other recognised gains and losses	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Dividends on ordinary shares	**–**	**–**	**–**	**–**	**(154)**	**(154)**
Coupon paid on perpetual reset capital securities	**–**	**–**	**–**	**–**	**(33)**	**(33)**
	34	**1,534**	**497**	**3**	**903**	**2,971**
Issue of ordinary share capital – share option schemes	**–**	**3**	**–**	**(3)**	**3**	**3**
Equity share options issued	**–**	**–**	**–**	**5**	**–**	**5**
Purchase of own shares to settle share options	**–**	**–**	**–**	**–**	**(5)**	**(5)**
At 31 December 2007	**34**	**1,537**	**497**	**5**	**901**	**2,974**

	Share capital (note 9) £m	Share premium £m	Perpetual reset capital securities (note 11) £m	Other reserves – share options £m	Profit and loss account (note 12) £m	Total £m
At 1 January 2006	18	43	497	2	111	671
Profit for the year	–	–	–	–	292	292
Other recognised gains and losses	–	–	–	–	(2)	(2)
Dividends on ordinary shares	–	–	–	–	(93)	(93)
Coupon paid on perpetual reset capital securities	–	–	–	–	(14)	(14)
	18	43	497	2	294	854
Issue of ordinary share capital – rights issue	16	1,531	–	–	–	1,547
Issue of ordinary share capital – share option schemes	–	2	–	(1)	1	2
Issue costs	–	(42)	–	–	–	(42)
Equity share options issued	–	–	–	3	–	3
At 31 December 2006	34	1,534	497	4	295	2,364

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

9. Called up share capital

	2007 £m	2006 £m
Authorised: 1,000 million (2006: 1,000 million) ordinary shares of 5p each	**50**	50

	£m	£m
Allotted, called up and fully paid 686 million (2006: 685 million) ordinary shares of 5p each	**34**	34

Ordinary shareholders of the Company are entitled:

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

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

10. Share options

Information on share options is given in note 17 to the consolidated financial statements.

11. Perpetual reset capital securities

	2007 £m	2006 £m
At 1 January and 31 December	**497**	497

The Company has in issue £500 million of Perpetual Reset Capital Securities ("the Notes") which are listed on the London Stock Exchange. The proceeds of the issue amounted to £497 million.

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

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

11. Perpetual reset capital securities (continued)

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

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

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

12. Profit and loss account

	Distributable reserves £m	**Pension reserve £m**	**Total £m**
At 1 January 2007	**274**	**21**	**295**
Profit for the year	**794**	**1**	**795**
	1,068	**22**	**1,090**
Dividends on ordinary shares	**(154)**	**–**	**(154)**
Coupon paid on perpetual reset capital securities	**(33)**	**–**	**(33)**
	881	**22**	**903**
Equity share options issued	**3**	**–**	**3**
Purchase of own shares to settle equity share options	**(5)**	**–**	**(5)**
At 31 December 2007	**879**	**22**	**901**

Dividends on ordinary shares comprise the final dividend for 2006 of £91 million and the interim dividend for 2007 of £63 million.

	Distributable reserves £m	Pension reserve £m	Total £m
At 1 January 2006	87	24	111
Profit for the year	293	(1)	292
Other recognised gains and losses	–	(2)	(2)
	380	21	401
Dividends on ordinary shares	(93)	–	(93)
Coupon paid on perpetual reset capital securities	(14)	–	(14)
Equity share options issued	1	–	1
At 31 December 2006	274	21	295

Dividends on ordinary shares comprise the second interim dividend for 2005 of £48 million and the interim dividend for 2006 of £45 million.

13. Contingent liabilities

The Company has guaranteed the due performance by its subsidiary undertaking, Resolution Management Services Limited (RMS) of a management services agreement (MSA) under which RMS has agreed to provide certain services to the Phoenix regulated companies (fellow subsidiary undertakings). The Company has agreed to extend its guarantee to such of its subsidiary companies which from time to time may enter into Participation Agreements and receive services under the MSA.

The Company has guaranteed the obligations of its subsidiary undertaking, Resolution Life Limited, in connection with the Retail Distribution and Intermediary Distribution Agreements entered into between Resolution Life Limited and Abbey National plc on 7 June 2006.

The Company has guaranteed the performance by its subsidiary undertaking, Resolution Life Limited, of a guarantee given by Resolution Life Limited to the trustees of the Resolution Group Pension Scheme ('the scheme') in respect of the obligations and liabilities of the participating employers to make payments to the scheme. As at the date of these financial statements the principal obligations that are subject to the guarantee are cash contributions totalling £75 million over the five year period to June 2012. These have resulted from completion of the triennial valuation of the scheme as at 30 June 2006.

At 31 December 2007 the Company had a contingent liability totalling £28 million in respect of fees that will become payable to the Company's professional advisers upon completion of the acquisition of the Company by Impala Holdings Limited, a subsidiary of the Pearl Group.

14. Related party disclosures

Related party transactions are disclosed in note 48 to the consolidated financial statements.

15. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 50(a) and 50(b) to the consolidated financial statements.

Analysis of shareholders as at 31 December 2007

			Holders	%	Shares held	%
Private shareholders			4,949	71.94	13,013,974	1.90
Corporate shareholders			1,930	28.06	673,459,574	98.10
			6,879	100.00	686,473,548	100.00
Size of holding						
1	-	1,000	3,102	45.09	1,455,492	0.21
1,001	-	2,000	1,309	19.03	1,968,889	0.29
2,001	-	5,000	1,158	16.83	3,781,477	0.55
5,001	-	50,000	912	13.26	12,703,769	1.85
50,001	-	100,000	72	1.05	5,073,775	0.74
100,001		and above	326	4.74	661,490,146	96.36
Total			6,879	100.00	686,473,548	100.00

Capital gains tax

As a result of the scheme of arrangement completed on 11 November 1998, adjusting for the two for one capitalisation issues made in 1988 and 1993 and the eight for nine rights issue made in 2006 the Company's shares are deemed to have a market value at 31 March 1982 of 26.82 pence per ordinary 5 pence share.

Registrar

Administrative enquiries concerning shareholdings in the Company should be addressed to the registrar who should also be kept informed of any change in the holder's address. The registrar can be contacted at:

Equiniti Limited
Reference 1513
Aspect House, Spencer Road,
Lancing, West Sussex BN99 8AH.
Telephone: 0870 600 3953.
Textphone for shareholders with hearing difficulties: 0870 600 3950.

Share price information

On 31 December 2007, the middle market price of Resolution plc ordinary 5 pence shares was £7.12 per share, having varied during the year between a low of £6.02 on 16 August 2007 and a high of £7.35 on 2 November 2007.

The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's ordinary shares is GB0004342563/0434256.

Share price information on Resolution plc is widely available in the financial press and on financial websites.

Website

The Resolution plc website, containing company profiles, financial information and current news can be found at www.resolutionplc.com.

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Resolution

Resolution plc
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