

# **Phoenix Life Assurance Ltd**

**(Formerly known as Abbey National Life plc)**

**Annual FSA Insurance Returns for the year ended**

**31 December 2006**

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

# Phoenix Life Assurance Ltd

FSA Insurance Returns for the Financial Year ended 31<sup>st</sup> December 2006

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**Statement of solvency - long-term insurance business**Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
<b>R2</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				<b>As at end of this financial year</b>		<b>As at end of the previous year</b>
				<b>1</b>		<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	125724	128607
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	123958	207126
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	249682	335733

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	26306	27050
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	223377	308683

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	78919	81150
Resilience capital requirement	<b>32</b>	7593	5183
Base capital resources requirement	<b>33</b>	2139	2030
Individual minimum capital requirement	<b>34</b>	86512	86333
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	86512	86333
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	206427	292567
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	184799	270983

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	86512	86333

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	86512	86333
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	163170	249400

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

..... **G Singleton** **Managing Director**

..... **K Luscombe** **Director**

..... **S McGee** **Director**

**27 March 2007**

**Components of capital resources**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R3</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		149062	149062	149062
Profit and loss account and other reserves	<b>12</b>		299348	299348	271191
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>		5700	5700	55906
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		454110	454110	476159

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		454110	454110	476159
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>		19000	19000	
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		19000	19000	
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		435110	435110	476159

Components of capital resources

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>

**Tier two capital**

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

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

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

**Components of capital resources**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		435110	435110	476159
Inadmissible assets other than intangibles and own shares	<b>73</b>		214	214	61406
Assets in excess of market risk and counterparty limits	<b>74</b>		185213	185213	73199
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				5821
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		249683	249683	335733

**Available capital resources for PRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		249683	249683	335733
Available capital resources for 50% MCR requirement	<b>82</b>		249683	249683	335733
Available capital resources for 75% MCR requirement	<b>83</b>		249683	249683	335733

**Financial engineering adjustments**

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

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

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Long term insurance business

		Company registration number	GL/UK/CM	day	month	year	Units	
		R11	155353	GL	31	12	2006	£000
				This financial year			Previous year	
				1			2	
Gross premiums written				11	32026		33230	
Premiums taxes and levies (included in line 11)				12				
Premiums written net of taxes and levies (11-12)				13	32026		33230	
Premiums for classes 11, 12 or 13 (included in line 13)				14				
Premiums for "actuarial health insurance" (included in line 13)				15	27617		28529	
<b>Sub-total A (13 + 1/2 14 - 2/3 15)</b>				16	13615		14211	
Gross premiums earned				21	30018		30920	
Premium taxes and levies (included in line 21)				22				
Premiums earned net of taxes and levies (21-22)				23	30018		30920	
Premiums for classes 11, 12 or 13 (included in line 23)				24				
Premiums for "actuarial health insurance" (included in line 23)				25	25740		26427	
<b>Sub-total H (23 + 1/2 24 - 2/3 25)</b>				26	12858		13302	
<b>Sub-total I (higher of sub-total A and sub-total H)</b>				30	13615		14211	
<b>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</b>				31				
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18			32	2451		2558	
	Excess (if any) over 53.1M EURO x 0.02			33				
<b>Sub-total J (32-33)</b>				34	2451		2558	
Claims paid in period of 3 financial years				41	45248		41069	
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis			42				
	For insurance business accounted for on an accident year basis			43	2457		2671	
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis			44				
	For insurance business accounted for on an accident year basis			45	45			
<b>Sub-total C (41+42+43-44-45)</b>				46	47660		43740	
Amounts recoverable from reinsurers in respect of claims included in Sub-total C				47	34728		27170	
<b>Sub-total D (46-47)</b>				48	12932		16570	
<b>Reinsurance Ratio (Sub-total D / sub-total C or, if more, 0.5 or, if less, 1.00)</b>				49	0.50		0.50	
<b>Premiums amount (Sub-total J x reinsurance ratio)</b>				50	1225		1279	
Provision for claims outstanding (before discounting and net of reinsurance)				51	1091			
<b>Brought forward amount (12.43.2 x 51.1 / 51.2 or, if less, 12.43.2)</b>				52	1353		1353	
Greater of lines 50 and 52				53	1353		1353	



**Calculation of general insurance capital requirement - claims amount and result**Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	155353	GL	31	12	2006	£000
				This financial year 1			Previous year 2	
Reference period (No. of months) See PRU 7.2.63R				11	36			36
Claims paid in reference period				21	45248			41069
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis			22				
	For insurance business accounted for on an accident year basis			23	2457			2671
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis			24				
	For insurance business accounted for on an accident year basis			25	45			
Claims incurred in reference period (21+22+23-24-25)				26	47660			43740
Claims incurred for classes 11, 12 or 13 (included in 26)				27				
Claims incurred for "actuarial health insurance" (included in 26)				28	43602			39137
<b>Sub-total E (26 +1/2 27 - 2/3 28)</b>				29	18591			17649
<b>Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)</b>				31	6197			5883
Division of sub-total F (gross adjusted claims amount)	x 0.26			32	1611			1530
	Excess (if any) over 37.2M EURO x 0.03			33				
<b>Sub-total G (32-33)</b>				39	1611			1530
<b>Claims amount Sub-total G x reinsurance ratio (11.49)</b>				41	806			765
Higher of premiums amount and brought forward amount (11.53)				42	1353			1353
<b>General insurance capital requirement (higher of lines 41 and 42)</b>				43	1353			1353

**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	155353	GL	31	12	2006	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		81644
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43		111415
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	
	Other	46	76588
Variable interest securities	Approved	47	
	Other	48	7500
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		10216
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	
	More than one month withdrawal	55	
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>		453
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	1987	40127
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	400	814
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	124018	207126
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**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	124018	207126
Assets in excess of market and counterparty limits	<b>92</b>	101758	
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		5821
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		(35658)
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>	(60)	(20453)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	225716	156836
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>	591395	88232
Rights under derivative contracts	<b>44</b>	(11820)	291
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	224503
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>	10601	
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	
	More than one month withdrawal	<b>55</b>	
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	81338
	Property linked	<b>59</b>	1903540
			1859976

**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	6463	3706
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>	8220	5713
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	21496	18084
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		19788
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	2440	1362
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	2613674	2221655
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**Analysis of admissible assets**

Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	2613674	2221655
Assets in excess of market and counterparty limits	<b>92</b>	83455	73199
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		121
Deferred acquisition costs excluded from line 89	<b>98</b>	19000	60468
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	1042373	1305240
Other asset adjustments (may be negative)	<b>100</b>	(74777)	14513
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	3683726	3675196
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

**Long term insurance business liabilities and margins**Name of insurer **Phoenix Life Assurance Ltd**

Global business

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

As at end of this financial year 1	As at end of the previous year 2
---------------------------------------------	-------------------------------------------

Mathematical reserves, after distribution of surplus	<b>11</b>	2271500	2035040	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	20373	23255	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	2291874	2058295	
Claims outstanding	Gross	<b>15</b>	23569	19051
	Reinsurers' share	<b>16</b>	9903	8651
	Net (15-16)	<b>17</b>	13666	10400
Provisions	Taxation	<b>21</b>	48784	21000
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	2920	5572
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	2864	2354
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	81338		
Creditors	Taxation	<b>37</b>		1800
	Other	<b>38</b>	61419	11424
Accruals and deferred income	<b>39</b>	5458	5458	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	216448	58008	
Excess of the value of net admissible assets	<b>51</b>	105352	105352	
Total liabilities and margins	<b>59</b>	2613674	2221655	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	597	2533
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	1891496	1853556

Total liabilities (11+12+49)	<b>71</b>	2487949	2093048
Increase to liabilities - DAC related	<b>72</b>	5700	18140
Reinsurers' share of technical provisions	<b>73</b>	1042373	1305240
Other adjustments to liabilities (may be negative)	<b>74</b>	(74990)	(4195)
Capital and reserves and fund for future appropriations	<b>75</b>	222694	262963
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	3683726	3675196



**Liabilities (other than long term insurance business)**Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

R15	Company registration number	GL/UK/CM	day month year			Units
	155353	GL	31	12	2006	£000
			As at end of this financial year 1			As at end of the previous year 2

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers		31	
Creditors	Direct insurance business	41	
	Reinsurance accepted	42	
	Reinsurance ceded	43	
Debenture loans	Secured	44	
	Unsecured	45	
Amounts owed to credit institutions		46	
Creditors	Taxation	47	60
	Declared dividend	48	
	Other	49	
Accruals and deferred income		51	
Total (19 to 51)		59	60
Provision for "reasonably foreseeable adverse variations"		61	
Cumulative preference share capital		62	
Subordinated loan capital		63	
Total (59 to 63)		69	60

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Reinsurers' share of DAC	81		
Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(60)	(453)
Capital and reserves	84	225716	157289
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	85	225716	156836

**Profit and loss account (non-technical account)**Name of insurer **Phoenix Life Assurance Ltd**

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			65000	20000	
Investment income	Income		<b>14</b>			37000	15222	
	Value re-adjustments on investments		<b>15</b>				14250	
	Gains on the realisation of investments		<b>16</b>					
Investment charges	Investment management charges, including interest		<b>17</b>					
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			102000	49472	
Tax on profit or loss on ordinary activities			<b>31</b>			1767	1567	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			100234	47905	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			100234	47905	
Dividends (paid or declared)			<b>51</b>			51807	50000	
Profit or loss retained for the financial year (49-51)			<b>59</b>			48426	(2095)	

**Analysis of derivative contracts**Name of insurer **Phoenix Life Assurance Ltd**

Global business

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

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>							

## Analysis of derivative contracts

Name of insurer **Phoenix Life Assurance Ltd**

Global business

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

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>155353</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>	264613				117453		
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							2
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>	(276433)				(117162)		
Total (11 to 41)		<b>49</b>	(11820)				291		2

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

Name of insurer **Phoenix Life Assurance Ltd**  
 With-profits fund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
------------------------------------------	----------------------------------------

**Regulatory excess capital**

Regulatory value of assets	Long-term admissible assets of the fund	<b>11</b>		
	Implicit items allocated to the fund	<b>12</b>		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	<b>13</b>		
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	<b>14</b>		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	<b>15</b>		
	Total (11+12-(13+14+15))	<b>19</b>		
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	<b>21</b>		
	Regulatory current liabilities of the fund	<b>22</b>		
	Total (21+22)	<b>29</b>		
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		<b>31</b>		
Resilience capital requirement in respect of the fund's with-profits insurance contracts		<b>32</b>		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		<b>39</b>		
Regulatory excess capital (19-39)		<b>49</b>		

**Realistic excess capital**

Realistic excess capital	<b>51</b>		
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**Excess assets allocated to with-profits insurance business**

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

**Realistic balance sheet**

Name of insurer **Phoenix Life Assurance Ltd**  
 With-profits fund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
------------------------------------------	----------------------------------------

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

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

**Realistic value of liabilities of fund**

With-profits benefit reserve	31		
Future policy related liabilities	Part miscellaneous surplus attributed to with-profits benefits reserve	32	
	Part miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	
	Future costs of smoothing (possibly negative)	44	
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49		
Realistic current liabilities of the fund	51		
Realistic value of liabilities of fund (31+49+51)	59		

**Realistic balance sheet**

Name of insurer **Phoenix Life Assurance Ltd**  
 With-profits fund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

As at end of this financial year	As at end of the previous year
1	2

**Realistic excess capital and additional capital available**

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

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

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

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	517806	378177
Investment income receivable before deduction of tax	12	99442	57444
Increase (decrease) in the value of non-linked assets brought into the account	13	(26346)	(51762)
Increase (decrease) in the value of linked assets	14	106201	240452
Other income	15	5	296401
<b>Total income</b>	<b>19</b>	<b>697108</b>	<b>920712</b>

**Expenditure**

Claims incurred	21	283631	555777
Expenses payable	22	80145	38893
Interest payable before the deduction of tax	23	10577	1834
Taxation	24	24176	13615
Other expenditure	25		
Transfer to (from) non technical account	26	65000	20000
<b>Total expenditure</b>	<b>29</b>	<b>463529</b>	<b>630119</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	233579	290593
Fund brought forward	49	2058295	1767702
Fund carried forward (39+49)	59	2291874	2058295



## Long-term insurance business : Analysis of premiums

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	153145	65090		218235	237212
Single premiums	12	298766	31122		329888	161704

**Reinsurance - external**

Regular premiums	13	30295	22		30317	20739
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	122850	65068		187918	216473
Single premiums	18	298766	31122		329888	161704

**Total**

Gross	19	451911	96212		548123	398916
Reinsurance	20	30295	22		30317	20739
Net	21	421616	96190		517806	378177

## Long-term insurance business : Analysis of claims

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	57940	1400		59340	54582
Disability periodic payments	12					15
Surrender or partial surrender	13	463238	21055		484293	481311
Annuity payments	14		4238		4238	3518
Lump sums on maturity	15	22472	14590		37061	34333
<b>Total</b>	<b>16</b>	<b>543650</b>	<b>41284</b>		<b>584933</b>	<b>573759</b>

**Reinsurance - external**

Death or disability lump sums	21	21940	(36)		21904	17821
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25	163			163	161
<b>Total</b>	<b>26</b>	<b>22103</b>	<b>(36)</b>		<b>22067</b>	<b>17982</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33	275103	4132		279235	
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>	<b>275103</b>	<b>4132</b>		<b>279235</b>	

**Net of reinsurance**

Death or disability lump sums	41	36000	1437		37436	36761
Disability periodic payments	42					15
Surrender or partial surrender	43	188135	16923		205058	481311
Annuity payments	44		4238		4238	3518
Lump sums on maturity	45	22309	14590		36898	34172
<b>Total</b>	<b>46</b>	<b>246443</b>	<b>37188</b>		<b>283631</b>	<b>555777</b>

## Long-term insurance business : Analysis of expenses

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11	19046	774		19820	15748
Commission - other	12	3070	322		3391	1631
Management - acquisition	13	15178	1206		16384	5691
Management - maintenance	14	27967	12372		40339	15152
Management - other	15	163	71		234	698
<b>Total</b>	<b>16</b>	<b>65423</b>	<b>14745</b>		<b>80168</b>	<b>38920</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22	23			23	27
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>	<b>23</b>			<b>23</b>	<b>27</b>

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	19046	774		19820	15748
Commission - other	42	3047	322		3368	1604
Management - acquisition	43	15178	1206		16384	5691
Management - maintenance	44	27967	12372		40339	15152
Management - other	45	163	71		234	698
<b>Total</b>	<b>46</b>	<b>65401</b>	<b>14745</b>		<b>80145</b>	<b>38893</b>

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

## Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	37255	28398
Directly held assets in collective investment schemes of connected companies	12	1862063	1823041
Directly held assets in other collective investment schemes	13	2730	1688
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>1902048</b>	<b>1853127</b>
Provision for tax on unrealised capital gains	15	30982	29480
Secured and unsecured loans	16		
Other liabilities	17	6902	17250
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>1864164</b>	<b>1806397</b>

## Directly held linked assets

Value of directly held linked assets	21		
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## Total

Value of directly held linked assets and units held (18+21)	31	1864164	1806397
Surplus units	32	12044	6421
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>1852120</b>	<b>1799976</b>

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year 1	Previous year 2
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**Income**

Value of total creation of units	11	283184	1274107
Investment income attributable to the funds before deduction of tax	12	63220	45152
Increase (decrease) in the value of investments in the financial year	13	110371	279881
Other income	14		
<b>Total income</b>	<b>19</b>	<b>456775</b>	<b>1599140</b>

**Expenditure**

Value of total cancellation of units	21	371172	1374293
Charges for management	22	17956	21015
Charges in respect of tax on investment income	23	5709	4344
Taxation on realised capital gains	24	2669	14410
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	1501	25019
Other expenditure	26		
<b>Total expenditure</b>	<b>29</b>	<b>399007</b>	<b>1439081</b>

Increase (decrease) in funds in financial year (19-29)	39	57768	160059
Internal linked fund brought forward	49	1806397	1646338
Internal linked funds carried forward (39+49)	59	1864165	1806397

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11	33841	4800		38641	40040
Single premium business	12	8961	1904		10865	5252
<b>Total</b>	<b>13</b>	<b>42802</b>	<b>6704</b>		<b>49506</b>	<b>45292</b>

**Amount of new regular  
premiums**

Direct insurance business	21	14987	8272		23259	23326
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>	<b>14987</b>	<b>8272</b>		<b>23259</b>	<b>23326</b>

**Amount of new single  
premiums**

Direct insurance business	25	298766	31122		329888	161704
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>	<b>298766</b>	<b>31122</b>		<b>329888</b>	<b>161704</b>

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

Name of insurer

Phoenix Life Assurance Ltd

Total business

Financial year ended

31 December 2006

Units

£000

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
305	Single Premium non profit WL/EA OB			3601	171996
325	Level term assurance	3786	1572		
330	Decreasing term assurance	13773	4600		
340	Accelerated Critical Illness (guaranteed premiums)	16206	8805		
500	Life UWP single premium				49
516	Life UWP endowment regular premium (ISA)				4
700	Life property linked single premium			1028	34363
710	Life property linked whole life regular premium	76	8		
715	Life property linked endowment regular premium - savings		1		
900	Life index linked single premium			4332	92353

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

Name of insurer

**Phoenix Life Assurance Ltd**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA)			1486	15321
530	Individual pensions UWP - increments		332		
725	Individual pensions property linked	2598	4642	413	10218
730	Individual pensions property linked - increments		393		1362
735	Group money purchase pensions property linked	2202	2905	5	250
740	Group money purchase pensions property linked - increments				3971



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

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

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

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

Land and buildings	11					
Approved fixed interest securities	12		88510	4393	4.71	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	628796	540286	19537	3.62	
<b>Total</b>	<b>19</b>	<b>628796</b>	<b>628796</b>	<b>23930</b>	<b>3.77</b>	

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

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

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

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

Name of insurer **Phoenix Life Assurance Ltd**Total business / subfund **10 Long Term Fund**Financial year ended **31 December 2006**

Units

**£000**

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

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	204859	76373	281232	228240
Form 52	13	844247	188892	1033139	1281618
Form 53 - linked	14	1300521	551599	1852120	1799976
Form 53 - non-linked	15	7680	23244	30924	21794
Form 54 - linked	16	81338		81338	
Form 54 - non-linked	17	3610		3610	
<b>Total</b>	<b>18</b>	<b>2442255</b>	<b>840108</b>	<b>3282363</b>	<b>3331628</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22	(24225)	2619	(21606)	16321
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>	<b>(24225)</b>	<b>2619</b>	<b>(21606)</b>	<b>16321</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33	843576	188892	1032468	1280267
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>	<b>843576</b>	<b>188892</b>	<b>1032468</b>	<b>1280267</b>

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	229083	73754	302837	211919
Form 52	43	671		671	1351
Form 53 - linked	44	1300521	551599	1852120	1799976
Form 53 - non-linked	45	7680	23244	30924	21794
Form 54 - linked	46	81338		81338	
Form 54 - non-linked	47	3610		3610	
<b>Total</b>	<b>48</b>	<b>1622903</b>	<b>648597</b>	<b>2271500</b>	<b>2035040</b>

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
305	Single premium non-profit WL/EA OB	6326	281289					287177
325	Level term assurance	49971	2711417	11062				(4475)
330	Decreasing term assurance	76979	4268474	18014				(16311)
340	Accelerated critical illness (guaranteed premiums)	108560	6506009	46162				(65331)
350	Stand-alone critical illness (guaranteed premiums)	1452	71837	477				(614)
440	Additional reserves non-profit OB							4413

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		1301190	5024				664
330	Decreasing term assurance		2314108	9009				(5196)
340	Accelerated critical illness (guaranteed premiums)		4945811	20832				(19573)
350	Stand-alone critical illness (guaranteed premiums)		37827	111				(119)

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
325	Level term assurance	7507	235457	1182				(1420)
400	Annuity non-profit (CPA)	7718	4759					76804
440	Additional reserves non-profit OB							989

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		1802	11				43
400	Annuity non-profit (CPA)		182					2576

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
500	Life UWP single premium	23972	543775		538391	529593	9	529602
505	Life UWP whole life regular premium		3122	759	3122	3122		3122
510	Life UWP endowment regular premium - savings		264280	29319	264280	264360		264360
516	Life UWP endowment regular premium (ISA)	27944	46170	11299	46170	45933	662	46595
575	Miscellaneous UWP		568	190	568	568		568

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

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

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium		538391		538391	529593		529593
505	Life UWP whole life regular premium		3122	759	3122	3122		3122
510	Life UWP endowment regular premium - savings		264280	29319	264280	264360		264360
516	Life UWP endowment regular premium (ISA)		46170	11299	46170	45933		45933
575	Miscellaneous UWP		568	190	568	568		568



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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP		188856	7883	188856	188869		188869
535	Group money purchase pensions UWP		23	4	23	23		23

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
525	Individual pensions UWP		188856	7883	188856	188869		188869
535	Group money purchase pensions UWP		23	4	23	23		23

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
700	Life property linked single premium	52964	915357		906346	906346	285	906632
710	Life property linked whole life regular premium	8807	229999	1266	5862	5862	162	6023
715	Life property linked endowment regular premium - savings	98135	2061024	35015	388313	388313	5054	393367
800	Additional reserves property linked			1454			2179	2179

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
710	Life property linked whole life regular premium		100881	226				
715	Life property linked endowment regular premium - savings		721734	1989				

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked	133303	334156	40338	500036	500036	16350	516386
735	Group money purchase pensions property linked	16858	44467	15180	51563	51563	6070	57633
800	Additional reserves property linked			552			824	824

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked		67					

Long-term insurance business : Valuation summary of index linked contracts

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
900	Life index linked single premium	4313	81330		81338	81338	3610	84948

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## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Phoenix Life Assurance Ltd**  
Total business  
Financial year ended **31 December 2006**  
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Phoenix Net Deposit Fund	04 - life - other managed fund	1572		0.85	1.6109	1.6688	3.60
Phoenix Net International Fund	06 - life - overseas equity	4845		1.00	1.9110	2.0097	5.16
Phoenix Net Managed Fund	02 - life - balanced managed fund	1162449		1.00	2.1607	2.3316	7.91
Phoenix Net UK Equity Fund	05 - life - UK equity	47554		1.00	2.3925	2.7583	15.29
Phoenix Inscape Cautious Growth	03 - life - defensive managed fund	53504		0.40	1.1969	1.2202	1.94
Phoenix Inscape Higher Growth	01 - life - stock market managed fund	12432		0.40	1.2230	1.3429	9.81
Phoenix Inscape Steady Growth	02 - life - balanced managed fund	21949		0.40	1.2267	1.3106	6.84
Phoenix Annuity Protector Pension Fund	14 - individual pension - other managed fund			1.00	1.1552		(100.00)
Phoenix Gross Deposit Fund	14 - individual pension - other managed fund	6998		0.85	1.8698	1.9398	3.74
Phoenix Deposit Pension2	14 - individual pension - other managed fund	(36)		1.00	1.1343		(100.00)
Phoenix UK Equity Tracker Pension Fund	15 - individual pension - UK equity			0.96	1.0894		(100.00)
Phoenix Ethical Pension Fund	15 - individual pension - UK equity			1.00		1945.7501	
Phoenix Gross International Fund	16 - individual pension - overseas equity	3215		1.00	1.8366	2.0484	11.53
Phoenix Gross Managed Fund	12 - individual pension - balanced managed fund	299211		1.00	2.5500	2.7684	8.56
Phoenix Stakeholder Annuity Protector Fund	14 - individual pension - other managed fund	110		1.00		114.3752	
Phoenix Stakeholder Deposit Fund	14 - individual pension - other managed fund	9314		0.85		117.9200	
Phoenix Stakeholder UK Equity Tracker Fund	15 - individual pension - UK equity	3102		0.96		125.9731	



**Long-term insurance business : Unit prices for internal linked funds**

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Phoenix Stakeholder International Fund	16 - individual pension - overseas equity	18649		1.00		2.0696	
Phoenix Stakeholder Managed Fund	12 - individual pension - balanced managed fund	159964		1.00		2.7672	
Phoenix Stakeholder UK Equity Fund	15 - individual pension - UK equity	40466		1.00		3.3004	
Phoenix Gross UK Equity Fund	15 - individual pension - UK equity	16134		1.00	2.8331	3.2678	15.34
Phoenix Merrill Lynch Managed Fund	12 - individual pension - balanced managed fund	1260		0.57	1.2722	1.3918	9.41
Phoenix Newton Managed Fund	11 - individual pension - stock market managed fund	1472		0.51	1.2895	1.3721	6.41

Long-term insurance business : Index linked business

Name of insurer **Phoenix Life Assurance Ltd**

Total business

Financial year ended **31 December 2006**

Units **£000**

Type of assets and liabilities	Name of index link 1	Value of assets or liabilities 2	Gross derivative value 3
FTSE 100 Derivatives	FTSE 100	81338	81338
<b>Total assets</b>		81338	
<b>Total liabilities</b>			
<b>Net total assets</b>		81338	

## Long-term insurance business: analysis of valuation interest rate

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Pens NP Form 51 (annuity)	74228	4.45	4.45	4.71
UK Pens NP Form 51 assurances (other)	(1457)	3.95	3.95	4.71
UK Life NP Form 51 assurances	(62507)	3.95	3.95	4.71
UK Life NP Form 51 (income bond)	264722	6.30	6.30	6.46
UK Life NP Forms 52-54 Sterling Reserves	9782	4.10	4.10	4.71
UK Pens NP Forms 52-53 Sterling Reserves	22420	4.10	4.10	4.71
Additional Reserves	30855			4.98
<b>Total</b>	338043			

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

Name of insurer **Phoenix Life Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	2291874	2058295
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	65000	20000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	2356874	2078295
Mathematical reserves	21	2271500	2035040
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	85373	43255

**Composition of surplus**

Balance brought forward	31	23255	16732
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	62118	26523
Total	39	85373	43255

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	65000	20000
Total distributed surplus (46+47)	48	65000	20000
Surplus carried forward	49	20373	23255
Total (48+49)	59	85373	43255

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

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

Name of insurer **Phoenix Life Assurance Ltd**  
Original insurer **42 Abbey National Life plc**  
Date of maturity value / open market option **01 March 2007**

Category of with-profits policy 1	Original term (years) 2	Maturity value / open market option 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	10	6339.11	358.82		UWP	N	11250
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	25	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	27632	2282	N/a	UWP	N	ROF
Regular premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	16052	1971	N/a	UWP	N	ROF
Single premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a

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

Name of insurer **Phoenix Life Assurance Ltd**  
Original insurer **42 Abbey National Life plc**  
Date of surrender value **01 March 2007**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	2529.02	290.95		UWP	Y	11250
Endowment assurance	10	5857.68	331.57		UWP	Y	11250
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	10839.97	1247.08		UWP	Y	9688.82
With-profits bond	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	16052	1971		UWP	Y	ROF

**Long-term insurance capital requirement**Name of insurer **Phoenix Life Assurance Ltd**

Global business

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

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

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%					
Classes I (other), II and IX	13	0.15%			0.50		
Classes I (other), II and IX	14	0.3%	13823068	5218640		20735	20302
Classes III, VII and VIII	15	0.3%	1900358	1100314	0.58	3301	3482
<b>Total</b>	<b>16</b>		15723426	6318954		24036	23784

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

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					1353	1353
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	1314984	304003	0.85	11177	12834
Classes III, VII and VIII (investment risk)	33	1%	115872	115872	1.00	1159	218
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	230954	230954	1.00	2310	1680
Classes III, VII and VIII (other)	35	25%				1877	2125
Class IV (other)	36	1%	(614)	(495)	0.85		
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					16522	16857

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	1314984	304003	0.85	33532	38501
Classes III, VII and VIII (investment risk)	43	3%	115872	115872	1.00	3476	654
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	230954	230954			
Classes III, VII and VIII (other)	45	0%	1621166	1621166			
Class IV (other)	46	3%	(614)	(495)	0.85		
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		3282363	2271500		37008	39155

<b>Long term insurance capital requirement</b>	<b>51</b>					78919	81149
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**ABSTRACT OF VALUATION REPORT ON PHOENIX LIFE ASSURANCE LTD  
PREPARED BY THE ACTUARY APPOINTED TO THE ACTUARIAL FUNCTION**

**1 Introduction**

- 1.1 The date to which the investigation relates is 31 December 2006.
- 1.2 The date to which the previous investigation relates is 31 December 2005.
- 1.3 There were no interim valuations (for the purposes of rule 9.4) carried out since 31 December 2005.

**2 Product Range**

One new structured income bond was launched during 2006. It is a single premium index-linked Life endowment assurance product and is called the Guaranteed Growth Bond.

Each policy has a fixed term of five and a half years, after which it pays a maturity amount – dependent on the performance of the FTSE 100 index. The minimum payment at maturity is 118% of the single premium plus Bonus Amount, and the maximum payment at maturity is 133% of the single premium plus Bonus Amount, where the bonus amount is a small percentage of premium dependent on the date of investment. The payment on death during the fixed term is equal to the underpinning asset value at the date of notification. The product was sold over a series of 3 tranches.

With respect to the Guaranteed Income Bond launched during 2005 a further 12 tranches were written. Premiums have been collected for a further 2 tranches as at 31 December 2006.

There were no other material changes to the Phoenix Life Assurance product range.

**3 Discretionary Benefits and Charges**

- 3.1 Market Value Reductions (MVRs) may be applied to the various series of with profits units. During 2006 no MVRs applied to any regular premium plans or to any ISAs.

The following table applies for other Single Premium business, both with-profits bonds and pensions plans.

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
From 1 January to 1 February 2006	Business written in years 1998 to 2001	Business written in years 1999 to 2001
From 1 February to 26 March 2006	Business written in years 1998 to 2001	Business written in years 1999 to 2000
From 26 March to 4 December 2006	Business written in years 1998 to 2001	Business written in years 1999 to 2000
From 4 December 2006	Business written in years 1998 to 2000	Business written in years 1999 to 2000



- 3.2 Not applicable.
- 3.3 Not applicable.
- 3.4 Policy fees on PLAL unit-linked products were increased by the increase in the Retail Price Index between August 2004 and August 2005. The increase applied was 2.70%. Policy fees on N&P products were increased by the increase in Annual Average Earnings between July 2004 and July 2005. The increase applied was 4.47%. The increase in policy fees was applicable from 3 January 2006.
- 3.5 There were no changes to benefit charges on linked policies during 2006.
- 3.6 There were no changes to unit management or notional charges to accumulating with profits policies during 2006.
- 3.7

a **Method for unit pricing of internal linked funds:**

**Definition of terms used in pricing of internal linked funds.**

Asset Units	The number of units in the fund, used to determine the price when creating or cancelling units in internal funds.
Net Asset Value	The market value of assets in the fund, on the pricing basis chosen, including costs of purchase or sale, tax provisions, accrued income and accrued charges as defined by the policy conditions.
Creation Price	The Net Asset Value calculated on market offer prices including purchase costs with tax provisions calculated on a consistent basis, divided by the number of Asset Units.
Cancellation Price	The Net Asset Value calculated on market bid prices less costs of sale with tax provisions calculated on a consistent basis, divided by the number of Asset Units.
Bare Price	Creation Price or Cancellation Price, depending on which pricing basis is being used (see below for details).
Offer Price	Price quoted to policyholders which is used when allocating units from premium and other payments.
Bid Price	Price quoted to policyholders to value their unit holdings and to cancel units to pay for charges as allowed in the policy conditions.
Initial Charge	The percentage used to calculate the quoted Offer Price from the Bare Price; this has averaged 5% during the year.
Bid-Offer Spread	The difference between Bid and Offer Prices; this has averaged 5% during the year.

**Method used for creation and cancellation of units**

The Bare Price is calculated each working day at a price no more than the Creation Price and no less than the Cancellation Price. The Creation Price is normally used except in situations where the whole fund is in decline, where the Cancellation Price would be used. Short-term fluctuations in cash flow are normally ignored but see below for further detail.

The shareholder owns a supply of units and this supply is used to avoid having to create and cancel units on a frequent basis and hence to change the Bare Price from Creation Price to Cancellation Price on a similarly frequent basis.

**Method used for allocation and de-allocation of units**

The quoted Offer Price for a particular day is the Bare Price divided by (1 minus the Initial Charge) and rounded up by no more than 0.1p. The quoted Bid Price equals the quoted Offer Price adjusted for the Bid-Offer Spread and rounded to the lower 0.1p.

The prices used for transactions on a particular day are determined based on the asset position of the fund at 12pm on the previous working day (except Broker Managed Funds which are priced at close of business). All funds use Forward Pricing, the timing of the transaction relative to the time at which the policyholder requested the trade varies by product and is defined in the policy conditions.

**Exceptional circumstances**

There will be occasional circumstances where a significant transaction requires the calculation of a special price. For example, if the transaction is a large sale and the normal quoted Bid Price has been based on a Creation Price, a special (lower) price might be quoted for the transaction.

Similarly, if a significant purchase of units is involved and the normal quoted Offer Price has been based on a Cancellation Price, a special (higher) price might have to be quoted. These special prices would be within the limits implied above.

The significance of a transaction will depend on the size of the fund, the expected cash flows and the current shareholder holding of units.

- b Not applicable.
  - c The internal linked funds managed by ANAM invest predominantly in Abbey unit trusts and OEICs. These collective investment schemes are priced daily at 12pm. The cancellation price calculated for the unit trust on a particular day and single price calculated for an OEIC on a particular day is used in the valuation of the linked fund on the same day and is the price at which policyholder transactions in the linked fund on that working day are based.
- 3.8 Each individual linked fund is treated as a separate entity for the purpose of capital gains tax. The calculation of the unit price includes a charge for realised and unrealised capital gains net of indexation relief or a credit for realised or unrealised losses. At the end of each year the linked fund is charged for the accrued realised gains in the fund and paid a cash credit for accrued realised losses. Unrealised gains and losses are carried forward to the next accounting period.

The rate of tax charge on gains is the policyholder tax rate discounted to reflect timing until the tax is paid, including allowance for spreading of gains under the deemed disposal rules where the underlying holding is a collective investment vehicle. The rate of tax credit on losses is the policyholder tax rate discounted to reflect timing until it is expected that the loss can be used to offset a future gain in the fund.

The rates of tax charge and credit for realised and unrealised gains and losses applying at 31 December 2006 were as follows:

Taxable Income	PLAL Rates (Dec 2006)
CGT - Realised Gains	17.00%
CGT - Realised Losses	12.25%
CGT - Unrealised Gains	17.00%
CGT - Unrealised Losses	12.75%

The amount of the tax deductions/charges are:

Linked life: Income tax deducted £5,709,405  
Tax on realised investment gains £2,669,324  
Tax charge on unrealised investment gains £1,501,086  
Linked Pension: income tax deducted -£138

### 3.9 Provision for tax on capital gains

Each internal fund is treated as an independent entity for the purposes of assessing capital gains tax. A rate of tax is levied on the gain net of any indexation relief and capital losses, as appropriate.

The maximum rate of tax for realised capital gains is the policyholder rate of tax for the period in question. Where appropriate, this may be reduced to reflect the period between the realisation of the gain and the date when the tax is actually due to be paid.

The maximum rate of tax for unrealised capital gains is the rate for realised capital gains. This is normally reduced to reflect the extra expected period until the gain is finally crystallised.

The rates of tax charge and credit for realised and unrealised gains and losses applying during the reporting period were as follows:

PLAL Taxable Income 2006	01 Jan-6 April	7 April-19 Sept	20 Sept-11 Oct	12 Oct-31 Dec
CGT - Realised Gains	18.25%	18.00%	17.25%	17.00%
CGT - Realised Losses	3.75%	6.75%	12.00%	12.25%
CGT - Unrealised Gains	18.25%	18.00%	17.25%	17.00%
CGT - Unrealised Losses	3.75%	6.75%	12.00%	12.75%

- 3.10 Where internal linked funds invest in units of the type referred to in paragraph 5 of Part 1 of Appendix 3.2, any discount or other allowance negotiated with the manager of the units is fully passed on to the appropriate policyholders.

## 4. Valuation Basis (other than special reserves)

- 4.1 Non-linked non-profit assurances are valued using the gross premium method. Negative reserves are held for those contracts where the gross premium method yields a negative reserve.

Linked contracts are valued individually with the number of units allocated to the contract being multiplied by the valuation price for the corresponding internal linked fund.

The prices used for the linked contracts were such as to equate the unit liability with the valuation of the corresponding linked assets.

The valuation net liability in Column 7 of Form 53 also includes an additional unit reserve to provide for the cost of loyalty bonuses available on certain products. For the Investment Bond, the reserve for this cost is built up evenly over the 36 months prior to allocation of loyalty bonus. For all other products with loyalty bonuses (Low Cost Endowment, Low Start Endowment, Personal Pension Single and Top-Up Pension Single, Personal Pension Regular and Top-Up Pension Regular, N&P Low Cost Endowment, N&P Low Start Endowment, N&P Flexible Lifetime Plan, N&P Regular Savings Plan, N&P Personal and Top-Up Pensions), the reserve for each bonus allocation is built up evenly over the 12 months prior to allocation. A cashflow valuation system has been used to calculate these reserves.

<b>Product</b>	<b>Loyalty Bonus</b>	<b>Period reserve built up over</b>
Investment Bond	2% on 5th policy anniversary	36 months
Low cost Endowment Low Start Endowment Personal Pension Single Top-up Pension Single	0.75% pa annually from year 10 onwards	12 months
Personal Pension Regular Top-up Pension Regular	0.35% pa annually from year 10 onwards	12 months
N&P Low cost Endowment	0.75% annually from year 1 or year 6 depending on series	12 months
N&P Low start Endowment	0.75% annually from year 1 or year 11 depending on series	12 months
N&P Flexible Lifetime N&P Regular savings plan	0.75% annually from year 1	12 months
N&P Personal Pension regular N&P Top-up pensions Regular	0.75% annually from year 6 or year 11 depending on series	12 months

A cash flow valuation system has similarly been used to assess the sterling fund liabilities contract by contract for all policies as shown in Column 8 of Form 53. The overall unit and Sterling reserve for each contract is always at least equal to the surrender or transfer value, subject to a minimum of zero. The valuation method has already taken the full initial expenses strain into account.

For unitised with profit business, the bid value of the units has been compared to the surrender value taking into account the duty to treat customers fairly, as required under INSPRU 1.2.10R, and the lower of these items has been valued. The result of this calculation is then compared with a valuation using the bonus reserve method and the larger of these two items is then taken as the reserve

The methodology and assumptions used in the valuation take into account the duty to treat customers fairly, as required under INSPRU 1.2.10R. For linked contracts, non-guaranteed management and mortality/morbidity charges would only be expected to increase on account

of external events outwith the control of the Company and non-unit reserves have been calculated assuming that no such increases apply.

4.2 The interest rates in the table below were used on the following lines of business:

Liability	Interest Rate (pa)	
	31 December 2005	31 December 2006
Sterling Reserve Discount Rate	3.70%	4.10%
Life Conventional (ex N&P Life)	3.55%	3.95%
Life Conventional (N&P Life)	3.25%	3.25%
Pension Conventional (ex N&P Pensions)	3.55%	3.95%
Pension Conventional (N&P Pensions)	4.0%	4.0%
Annuity (ex N&P)	3.85%	4.45%
Annuity (N&P)	4.0%	4.0%
UWP Life (excluding ISA)	3.15%	3.60%
UWP ISAs & Pensions	3.65%	3.90%

4.3 Yields were adjusted for risk, to calculate the risk-adjusted yields shown in form 57, as follows:

- for fixed interest securities, the yield on each corporate bond was reduced by a fixed amount which depended on the bond's credit rating; these amounts were based on Moody's published default rates with a margin for prudence.
- there is currently no investment in equity or property and so no risk adjustment is considered for these asset classes.

4.4 The mortality valuation bases used at both 31 December 2005 and 31 December 2006 were as follows:

**Conventional Business**

		Dec 05			Dec 06		
		Table	Proportion	Aids	Table	Proportion	Aids
Life Term Assurance	Female Smoker	TF92, ULT	150%	Zeroaids	TF92, ULT	150%	Zeroaids
	Female Non-Smoker	TF92, ULT	75%	Zeroaids	TF92, ULT	75%	Zeroaids
	Male Smoker	TM92, ULT	150%	33% AIDSR6AAMJ	TM92, ULT	150%	33% AIDSR6AAMJ
	Male Non-Smoker	TM92, ULT	75%	33% AIDSR6AAMJ	TM92, ULT	75%	33% AIDSR6AAMJ
Immediate Annuities	Female Smoker	PFA92mc	96%	Zeroaids	Age related percentages of PFA92/PFA92mc with 1% p.a. underpin on mortality improvements.		
	Female Non-Smoker	PFA92mc	96%	Zeroaids			
	Male Smoker	PMA92mc	86%	Zeroaids			
	Male Non-Smoker	PMA92mc	86%	Zeroaids			
Home Improvement Loan Life Cover	Female Smoker	TF92, ULT	150%	Zeroaids	TF92, ULT	150%	Zeroaids
	Female Non-Smoker	TF92, ULT	81%	Zeroaids	TF92, ULT	81%	Zeroaids
	Male Smoker	TM92, ULT	150%	33% AIDSR6AAMJ	TM92, ULT	150%	33% AIDSR6AAMJ
	Male Non-Smoker	TM92, ULT	81%	33% AIDSR6AAMJ	TM92, ULT	81%	33% AIDSR6AAMJ

Pension Term Assurance	Female Smoker	TF92, ULT	150%	Zeroaids	TF92, ULT	150%	Zeroaids
	Female Non-Smoker	TF92, ULT	81%	Zeroaids	TF92, ULT	81%	Zeroaids
	Male Smoker	TM92, ULT	150%	33% AIDSR6AAMJ	TM92, ULT	150%	33% AIDSR6AAMJ
	Male Non-Smoker	TM92, ULT	81%	33% AIDSR6AAMJ	TM92, ULT	81%	33% AIDSR6AAMJ
Protection Plan Stand Alone CI / Term Assurance Accelerated Death	Female Smoker	ReassACC GE 2004, SEL	14.00%	zeroaids	ReassACC GE 2004, SEL	15.00%	Zeroaids
	Female Non-Smoker	ReassACC GE 2004, SEL	17.00%	zeroaids	ReassACC GE 2004, SEL	20.00%	Zeroaids
	Male Smoker	ReassACC GE 2004, SEL	14.00%	zeroaids	ReassACC GE 2004, SEL	16.00%	Zeroaids
	Male Non-Smoker	ReassACC GE 2004, SEL	19.00%	zeroaids	ReassACC GE 2004, SEL	20.00%	Zeroaids

Note that the table AIDSR6AAMJ is the standard AIDSR6A table with interpolation between quinquennial calendar years.

Sample reinsurer's rates (i.e. ReassACC GE 2004 Select, above), following application of proportions mentioned in above table, are shown in the table below -

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.00020	0.00024	0.00016	0.00018
35	0.00029	0.00036	0.00030	0.00037
45	0.00071	0.00120	0.00068	0.00089
55	0.00205	0.00368	0.00153	0.00216

### Unit Linked Business

All mortality rates for unit linked business below are Ultimate.

		Dec 05			Dec 06		
		Table	Proportion	Aids	Table	Proportion	Aids
Pension (Personal and Top Up)	Female Smoker	AF92	184%	Zeroaids	AF92	184%	Zeroaids
	Female Non-Smoker	AF92	92%	Zeroaids	AF92	92%	Zeroaids
	Male Smoker	AM92	147%	Zeroaids	AM92	147%	Zeroaids
	Male Non-Smoker	AM92	74%	Zeroaids	AM92	74%	Zeroaids
Pension (Stakeholder and Flexi)	Female Smoker	AF92	115%	Zeroaids	AF92	81%	Zeroaids
	Female Non-Smoker	AF92	115%	Zeroaids	AF92	81%	Zeroaids
	Male Smoker	AM92	92%	Zeroaids	AM92	81%	Zeroaids
	Male Non-Smoker	AM92	92%	Zeroaids	AM92	81%	Zeroaids
PLAL Mortgage Endowment, Flexible Lifetime and Regular Savings	Female Smoker	AF92	144%	Zeroaids	AF92	144%	Zeroaids
	Female Non-Smoker	AF92	58%	Zeroaids	AF92	61%	Zeroaids
	Male Smoker	AM92	104%	33% AIDSR6AAMJ	AM92	115%	33% AIDSR6AAMJ
	Male Non-Smoker	AM92	61%	33% AIDSR6AAMJ	AM92	61%	33% AIDSR6AAMJ

WP Bond and ISA	Female Smoker	AF92	115%	Zeroaids	AF92	69%	zeroaids
	Female Non-Smoker	AF92	115%	Zeroaids	AF92	69%	zeroaids
	Male Smoker	AM92	92%	33% AIDSR6AAMJ	AM92	58%	33% AIDSR6AAMJ
	Male Non-Smoker	AM92	92%	33% AIDSR6AAMJ	AM92	58%	33% AIDSR6AAMJ
Investment and Stockmarket Bonds	Female Smoker	AF92	184%	Zeroaids	AF92	81%	zeroaids
	Female Non-Smoker	AF92	92%	Zeroaids	AF92	81%	zeroaids
	Male Smoker	AM92	147%	33% AIDSR6AAMJ	AM92	58%	33% AIDSR6AAMJ
	Male Non-Smoker	AM92	74%	33% AIDSR6AAMJ	AM92	58%	33% AIDSR6AAMJ
Standalone CIC	Female Smoker	AF92	184%	Zeroaids	AF92	184%	zeroaids
	Female Non-Smoker	AF92	92%	Zeroaids	AF92	92%	zeroaids
	Male Smoker	AM92	147%	33% AIDSR6AAMJ	AM92	147%	33% AIDSR6AAMJ
	Male Non-Smoker	AM92	74%	33% AIDSR6AAMJ	AM92	74%	33% AIDSR6AAMJ
N&P (Life)	Female Smoker	AF92	184%	Zeroaids	AF92	184%	Zeroaids
	Female Non-Smoker	AF92	92%	Zeroaids	AF92	92%	Zeroaids
	Male Smoker	AM92	147%	33% AIDSR6AAMJ	AM92	147%	33% AIDSR6AAMJ
	Male Non-Smoker	AM92	74%	33% AIDSR6AAMJ	AM92	74%	33% AIDSR6AAMJ
N&P (Pension)	Female Smoker	AF92	184%	Zeroaids	AF92	184%	Zeroaids
	Female Non-Smoker	AF92	92%	Zeroaids	AF92	92%	Zeroaids
	Male Smoker	AM92	147%	Zeroaids	AM92	147%	Zeroaids
	Male Non-Smoker	AM92	74%	Zeroaids	AM92	74%	Zeroaids

The future expectation of life for annuitants was as follows:

Expectation of Life (years)	31 December 2005	31 December 2006
Male, age 65	22.98	23.43
Male, age 75	14.24	14.79
Female, age 65	25.05	25.73
Female, age 75	16.16	16.56

4.5 The morbidity valuation bases used at both 31 December 2005 and 31 December 2006 were as follows:

	31 December 2005	31 December 2006
<b>PLAL Conventional</b>	Based on reinsurer's rates – see below	Based on reinsurer's rates – see below
<b>PLAL Unit-Linked</b>	Based on reinsurer's rates – see below	Based on reinsurer's rates – see below
<b>N&amp;P Unit-Linked</b>	Based on reinsurer's rates – see below	Based on reinsurer's rates – see below

### **Conventional Business**

31 December 2005

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.00055	0.00065	0.00041	0.00051
35	0.00081	0.00096	0.00079	0.00106
45	0.00198	0.00322	0.00176	0.00255
55	0.00574	0.00990	0.00398	0.00619

31 December 2006

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.00058	0.00071	0.00046	0.00055
35	0.00085	0.00105	0.00090	0.00114
45	0.00208	0.00352	0.00200	0.00272
55	0.00605	0.01082	0.00451	0.00663

### **Unit Linked Business**

31 December 2005

PLAL morbidity rates (Unit Linked Endowment Mortgages and Flexible Lifetime Plan) - 31 December 2005

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.00042	0.00060	0.00048	0.00069
35	0.00083	0.00128	0.00126	0.00199
45	0.00338	0.00535	0.00348	0.00552
55	0.00665	0.01006	0.00745	0.01137

PLAL morbidity rates (Unit Linked Endowment Mortgages and Flexible Lifetime Plan) - 31 December 2006

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.00042	0.00060	0.00049	0.00071
35	0.00083	0.00128	0.00104	0.00163
45	0.00338	0.00535	0.00231	0.00357
55	0.00665	0.01006	0.00555	0.00822

### **N&P Unit Linked Business**

N&P morbidity rates – 31 December 2005

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.00040	0.00040	0.00040	0.00040
35	0.00048	0.00048	0.00048	0.00048



45	0.00142	0.00142	0.00142	0.00142
55	0.00458	0.00458	0.00458	0.00458

N&P morbidity rates – 31 December 2006

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.00040	0.00040	0.00040	0.00040
35	0.00048	0.00048	0.00048	0.00048
45	0.00142	0.00142	0.00142	0.00142
55	0.00458	0.00458	0.00458	0.00458

4.6 The expense valuation bases used at both 31 December 2005 and 31 December 2006 were as follows:

	31 December 2005 (pa)	31 December 2006 (pa)
Term Assurance (325/330)	£20.17	£19.44
Critical Illness (340/345/350/355)	£19.98	£19.27
Annuity (400)	£14.64	£14.11
UWP Premium Pension (525/545) Single	£22.83	£22.01
Regular	£32.60	£31.44
UWP Group Pension (535) Single	£22.83	£22.01
Regular	£32.60	£31.44
UWP Investment Bond (500)	£23.15	£22.32
UWP Savings Endowment (510) Premium Paying	£19.45	£18.75
PUP	£13.62	£13.12
UL Premium Pension (725) Single	£22.83	£22.01
Regular	£32.60	£31.44
UL Group Pension (735) Single	£22.83	£22.01
Regular	£32.60	£31.44
UL Investment Bond (700)	£23.15	£22.32
UL Savings Endowment (715) Premium Paying	£19.45	£18.75
PUP	£13.62	£13.12

Per annum Investment Expenses are 0.11% of reserves (0.12% in December 2005).

No tax relief is assumed in the valuation. There were no Zillmer adjustments.

4.7 Economic assumptions required for calculations

	December 2005	December 2006
Unit growth rate before management charges:		
- Gross	5.10% p.a.	5.60% p.a.
- Net	4.08% p.a.	4.48% p.a.
Expense inflation	3.75% p.a.	5.30% p.a.
Policy fee inflation	3.30% p.a.	3.30% p.a.

4.8 Future bonus rate assumptions of 0% were used for the valuation of unitised with-profits business.

- 4.9 The PLAL With Profit Bond has an annual lapse assumption of 7.5% per annum, which affects the bonus reserve methodology used to calculate unitised with profit liabilities. Partial withdrawals have been assumed for the Investment Bond (2.5% pa), With Profit Bond (5.0% pa) and With Profit Investment Bond (5.0% pa).

Annual lapse assumptions for calculations of the valuation reserves:

Product		Average lapse rate for the policy years			
		1 – 5	6 – 10	11 – 15	16 – 20
Level Term	Lapse	14%	11%	10%	10%
Decreasing Term	Lapse	17%	16%	15%	15%
Accelerated CI	Lapse	19%	20%	20%	20%
UWP bond	Surrender	7.5%	7.5%	7.5%	7.5%
UWP bond	Automatic withdrawals	5%	5%	5%	5%
UL bond	Automatic withdrawals	2.5%	2.5%	2.5%	2.5%

Reserves for protection business are calculated using the lapse rates shown in the table above and with lapse rates both increased and decreased by 40%. The highest reserve for each policy is taken, i.e. aggregate reserves are a mixture of the 3 lapse scenarios.

- 4.10 There are no other material basis assumptions not stated.
- 4.11 No allowance is made for derivatives in the determination of long-term liabilities except for in the valuation of the Guaranteed Income Bond where, for each tranche of business and each income option chosen, 97.5% of the yield on the backing asset is used to value the liability.
- 4.12 The valuation methodology was changed at 31 December 2006, allowing for negative reserves and the introduction of prudent lapse rates on protection business, effective from that date. Only the changes applying to protection business were adopted. The effects of those changes on the net reserves for the affected business are shown in the following table:

£m	Net reserves	Change in reserves
Methodology as at 31 December 2005	9.4	
Allowing for negative reserves	-107.4	-116.8
Allowing for lapses	-64.3	43.1

The modelling process used does not allow the effect of lapses to be calculated before the effect of negative reserves.

## 5 Options and Guarantees

5.1 Not applicable.

5.2 Not applicable.

5.3

a

### Endowment Mortgage

Increased Mortgage Option: if the planholder increases their mortgage to extend/improve the existing property or move house the existing cover can be extended, without the need for medical evidence, to double the existing cover or £100,000 whichever is the lower.

The total gross reserve held in respect of the endowment mortgages is £564.3m for the Low Cost and £10.6m for the Low Start. There are no additional reserves for the guaranteed insurability option.

### **N&P Endowment Mortgages**

Moving House Option: In conjunction with moving house, the death benefit can be increased to twice the original death benefit (overall maximum £100,000) without evidence of health. Maximum age at increase is 55.

The total gross reserve held in respect of N&P Endowment Mortgages is £74.7m. There are no additional reserves

b

Conversion: The option allows the customer to replace existing term cover by taking out a new endowment policy for the same sum assured. The only policy open for conversion is the EMP. The conversion from a Protection Plan must be before the customer reaches the age 55. There are no conversion options for the Life Cover Plan or Mortgage Life Cover Plan or Protection (decreasing / level term) Plans. No evidence of health is required.

The total gross reserve held in respect of the protection plans is -£87.8m. There are no additional reserves.

- 5.4 There are investment guarantees on the Guaranteed Income Bond. Policyholders of the Guaranteed Income Bond choose whether to receive monthly, quarterly or annual income payments. The income level is guaranteed from the outset, and calculated as a fixed percentage of the policyholder's enhanced premium. The enhanced premium is the original premium plus an early bird bonus. On maturity, policyholders will receive their entire enhanced premium. The investment contracts are supported by appropriate derivative contracts

The total reserve held in respect of the Guaranteed Income Bond is £287.2m. There is no additional reserve held for the Guaranteed Income Bond.

There are investment guarantees on the Guaranteed Growth Bond. At maturity policyholders will receive between 118% and 133% of the enhanced premium, where the percentage depends on the performance of the FTSE 100 index over the term. The enhanced premium is the original premium plus a bonus amount. The investment guarantees are supported by appropriate derivative contracts.

The total reserve held in respect of the Guaranteed Growth Bond is £84.9m. There is no additional reserve held for the Guaranteed Growth Bond.

### **Protection Plans**

Mortgage Shortfall: Guarantees to repay the outstanding balance of the mortgage if the plan is taken out in connection with a repayment Abbey National Mortgage.

## **6 Expense Reserves**

- 6.1 The aggregate amount of expense loadings expected to arise in the next 12 months to meet expenses from existing business is £18.921m. The amount is split as follows:
- £2.841m from investment expenses of which £2.090m is explicit and £0.751m implicit
  - £16.080m from maintenance expenses.

- 6.2 Implicit allowance is made for investment expenses on conventional business by reducing the valuation interest rate by the investment expenses assumption of 0.11% p.a.
- 6.3 The amount of maintenance expenses shown at line 14 of Form 43 is £40.399m. This includes one-off pension costs of £23.5m, which were not included in the valuation expense assumptions. Removing this amount leaves £16.9m, which is comparable to the amount shown in section 6.1.
- 6.4 A model office projection, allowing for budgeted new business in 2007 and no new business thereafter, on normal best estimate assumptions has been carried out to assess whether an additional reserve is required to allow for any new business expenses overrun. Total loadings were sufficient to cover budgeted expenses for 2007 so no additional reserve is required.
- 6.5 A model office projection, allowing for budgeted new business volumes in 2007, and no new business thereafter, and on the basis of lapse rates being double the current best estimate assumptions has been carried out to assess whether any additional reserve is required from closure to new business. The Statutory Profit released in 2008 from such a projection is more than sufficient to cover costs of closure, and ongoing expenses, while also being more conservative than a best estimate lapse rates basis, so that no additional reserve is required.
- 6.6 Not applicable

## 7 Mismatching Reserves

- 7.1 The following table analyses the non-property linked liabilities as at 31 December 2006:

<b>Currency in which liabilities are denominated (£000s)</b>	<b>Mathematical Reserves (excluding reserves for property linked benefits)</b>	<b>Currency in which assets are denominated</b>	<b>Matching Assets (£000s)</b>
Sterling	419,380	Sterling	419,380

- 7.2 Not applicable.
- 7.3 Not applicable.
- 7.4 The following scenario was the more onerous for the purposes of calculating the resilience capital requirement under INSPRU 3.1.16R, for assets invested in the United Kingdom:  
A nominal decrease in fixed interest yields of 0.924% (absolute).
- 7.5 The assets used in the determination of the resilience capital requirement were not invested outside the United Kingdom.
- 7.6
- From paragraph 7.4 above, the most onerous scenario tested produced an additional capital requirement of £7.593m.
  - the increase in aggregate amount of the long term liabilities based on the revised interest rates described in Paragraphs 7.4 and 7.6(a) above is £23.123 million.
  - the increase in aggregate amount of assets used to match these long term liabilities is £15.529 million.

- 7.7 No further reserve arises from the test on assets in INSPRU 1.1.34 R(2). The liabilities are analysed by nature and the investment strategy is chosen appropriately so that there is no significant mismatch between the cashflows arising from assets and liabilities.

## **8 Other Special Reserves**

There are no significant other special reserves.

## **9 Reinsurance**

9.1 a Not applicable.

b Not applicable.

9.2 a-k

Reinsurer	Reinsurance Cover	Premiums payable £m	Deposits back made	Treaty Status	Undischarged obligation of the insurer	Mathematical Reserves ceded £m	Insurer's Retention
(i) Scottish Mutual Assurance plc	UWP units fully reassured	£49.5m	Not applicable	Closed to new business	Not applicable	£1,032m	UWP units are fully reinsured
(ii) Swiss Re	A Surplus basis, mortality (risk premium) B Quota Share Mortality (risk premium) C Quota Share Mortality (modified original terms) D Quota Share Critical Illness and mortality (risk premium) E Quota Share Critical Illness and mortality ((modified original terms) F Quota Share Critical Illness (risk premium) G Quota Share Critical Illness (modified original terms)	£16.4m	Not applicable	Open to new business – C Quota Share Mortality (modified original terms).  The rest are closed to new business	Not applicable	-£13.6m	A £125,000 of sum at risk B 50% of sum at risk C 25% of sum at risk, maximum £125,000 D 50% of sum at risk, maximum £125,000 E 25% of sum at risk, maximum £125,000 F 50% of sum at risk, maximum £125,000 G 25% of sum at risk, maximum £125,000
(iii) Norwich Union Life	A Quota share mortality and waiver of premium on ex N&P Life business B All mortgage protection, level term assurance, pension term assurance and immediate annuity liabilities written under N&P Life	£0.9m	Not applicable	Closed to new business	Not applicable	£4.3m	
(iv) Swiss Re	Quota share critical illness and mortality (risk premium) – All Protection Plans	£12.0m	Not applicable	Open to new business	Not applicable	-£12.4m	25% of sum at risk, maximum £125,000

- l In all cases, the reinsurers are authorised to carry on insurance business in the United Kingdom.
- m Scottish Mutual Assurance plc is connected with Phoenix Life Assurance Ltd, both being subsidiaries of Resolution. The other reinsurers in the table above are not connected companies.
- n This section does not apply.
- o This section does not apply.
- p This section does not apply.

9.3 This section does not apply.

## 10 Annual Bonus

10.1 The following table shows the applicable reversionary bonuses for each UWP Bonus Series:

<b>Bonus Series</b>	<b>Mathematical Reserves £'000</b>	<b>Annual Bonus Rate in 2006</b>	<b>Annual Bonus Rate in 2005</b>	<b>Total Guaranteed Bonus Rate in 2006</b>
Series III	453,344	0%	0%	0%
Series IV	220	0%	0%	0%
Series V	529,269	0%	0%	0%
Series VI	3,595	0%	0%	0%
ISAs	45,933	0%	0%	0%

## Returns under the Accounts and Statements Rules

### Supplementary Notes to the Returns

#### Phoenix Life Assurance Limited

Financial period ended 31 December 2006

#### **\*0201\* Financial Services and Markets Act 2000 Section 148**

The FSA, on the application of the firm, made a direction in December 2004 under section 148 of the Act. A waiver of IPRU (INS) 9.31(b) was granted effective from 31 December 2004 with the result that the firm is not required to make the disclosures as set out in IPRU (INS) Appendix 9.4A.

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

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Net Assets per FSA Return :		
Form 13, Line 89 (other than long-term business)	124,018	207,126
Form 13, Line 89 (long-term business)	2,613,674	2,221,655
Form 14, Line 11	(2,271,500)	(2,035,040)
Form 14, Line 49	(216,448)	(58,008)
Form 15, Line 69	(60)	-
Other	(1)	-
Total Capital Resources after deductions, Form 3, Line 79	249,683	335,733

#### **\*0310\* Positive valuation differences**

The valuation difference within Form 3 line 14 represents liabilities where the valuation in INSPRU is lower than the valuation in the IFRS financial statements:

- Deferred tax on the deferred acquisition cost inadmissible asset of £5.7m

#### **\*1304\* & \*1310\* Offset of debtor and creditor balances**

Certain amounts shown in Forms 13 and 14 have been calculated by netting amounts due to any one party against amounts due from that party to the extent permitted by generally accepted accounting principles.



**\*1305 & 1319\* Maximum permitted counterparty limits**

- (a) Prior to 1 September 2006 deposits could only be made with counterparties, which had been agreed by the Company's Credit and Market Risk Committee or its Investment Sub-Committee as set under the Banco Santander Central Hispano governance structure. Banco Santander Central Hispano was until that date the Company's ultimate parent undertaking. Since that date, deposits can only be made with counterparties which have been agreed by the Company's Counterparty Risk Committee as set up under the Resolution Group governance structure. From that date Resolution plc is the Company's ultimate parent undertaking.

The maximum exposure allowable depends on the credit rating and type of the institution. The maximum allowed is 5% of funds for AAA banks in respect of UK non-linked business.

- (b) These limits apply also to counterparties which are not "approved counterparties".
- (c) There were no breaches of overall limits during the period.

**\*1306\* & \*1312\* Counterparty exposure**

At 31 December 2006 exposure to the following counterparties was greater than 5% of the sum of base capital resources requirement and long-term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

	<b>Total</b>	<b>LTBF</b>	<b>SHF</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Resolution plc *			
Unsecured debt	200,000	90,000	110,000
Accrued income	4,177	2,000	2,177
	<b>204,177</b>	<b>92,000</b>	<b>112,177</b>

\* Resolution plc is the company's ultimate parent undertaking

**\*1307\* & \*1313\* Exposure secured by collateral**

Form 13 line 44 includes a hedge asset of £264m held with Abbey National Treasury Services, which is secured by a collateral loan of £276m (see note 1701).

### **\*1318\* Other Asset Adjustments**

Other asset adjustments on Form 13 line 100 are shown below.

	<b>LTF £'000</b>	<b>SHF £'000</b>
Form 13 Line 100		
Reclassification of unrealised loss on futures	(15)	-
Reclassification of negative accrued interest after linked asset adjustment	(5,457)	-
Reclassification of net collateral loan	11,820	-
Reclassification of policyholder debtors	213	-
Reclassification of tax debtor	-	(60)
Reclassification of index linked loan balance	(81,338)	-
	<hr/> <b>(74,777)</b>	<hr/> <b>(60)</b>

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

No provision has been made for adverse changes on derivative contracts because there are, within the admissible assets of the Company, assets of a nature and quantity such that it is reasonable to expect that any adverse change would be matched by a favourable change in the value of the assets.

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

No charge has been made on the assets of the Company.

Full provision is made in respect of corporation tax on the long-term business fund within line 21 of Form 14. Full provision is made in respect of corporation tax on the Life fund proportion of unrealised capital gains in the long term business fund. The provision is nil.

There were no guarantees, indemnities or other contractual commitments effected by the Company in respect of the existing or future liabilities of any related companies at the end of the financial year.

Contingent liabilities not included in Form 14 and Form 15 are:

- (1) The company is required under the Financial Services Compensation Scheme to contribute towards levies raised by that scheme on long term insurance business companies for the purpose of assisting policyholders of UK long-term business insurers that may become insolvent. The amount collected may vary, but cannot exceed 0.8% of relevant net premium income, gross of reinsurance, in any one financial year of the scheme. The amount levied in the year was £53,452 (2005: nil)
- (2) The company is registered with HM Customs and Excise as members of a group for VAT purposes and, as a result, is jointly & severally liable on a continuing basis for amounts owing by any other member of that group in respect of unpaid VAT. Any liability in this respect is considered to be remote. At 31 December 2006 the Group liability was £3m (2005: £4 million).

**\*1405\* Other Adjustments to Liabilities**

Other adjustments to liabilities on Form 14 line 74 are shown below.

	<b>LTBF £'000</b>
Form 14 Line 74	
Reclassification of unrealised loss on futures	(15)
Reclassification of negative accrued interest after linked asset adjustment	(5,457)
Reclassification of net collateral loan	11,820
Reclassification of index linked loan balance	(81,338)
	<u>(74,990)</u>

**\*1507\* Other Adjustments to Liabilities**

Other adjustments to liabilities on Form 15 line 83 are shown below.

	<b>SHF £'000</b>
Form 15 Line 83	
Reclassification of tax debtor (see note 1318)	(60)
	<u>(60)</u>

**\*1601\* & 4005\* Basis of conversion of foreign currency**

Assets and liabilities in currencies other than sterling have been translated at the rate of exchange ruling at 31 December 2006. Revenue transactions are converted at the rates of exchange ruling at the date of settlement.

**\*1701\* Derivative contracts**

The variation margin received has been invested as follows:

	<b>2006 £'000</b>	<b>2005 £'000</b>
Fixed interest debt securities (Form 13 Line 46)	-	117,162
Holdings in collective investment schemes (Form 13 Line 43)	276,433	-
	<u>276,433</u>	<u>117,162</u>

#### **\*1800\* & 1900\* With-profits insurance capital component**

Phoenix Life Assurance Limited is a regulatory basis only firm and therefore all relevant entries on Forms 18 and 19 are blank.

#### **\*4002\* Other income**

Included in Other income on Form 40 line 15 is an amount of £4,979 representing sundry income.

For 2005, other income on Form 40 Line 15 of £296,401,307 represents the net amount of reinsured premiums and claims received in respect of With Profit units reinsured with Scottish Mutual Assurance Limited (formerly known as Scottish Mutual Assurance plc). The net amount is reported as the apportionment between premiums and claims is not possible. In 2006 the equivalent amount of £279,235,434 has been included at Form 42 Line 33 (see note 4201).

#### **\*4008\* Management Services**

During the year, investment management and business administration services were provided to the Company via Abbey National Asset Managers Limited and Abbey National Financial and Investment Services plc, both of which are or were wholly owned subsidiaries of Abbey National plc. On 1 September 2006, investment management services were transferred to Resolution Investment Services Limited following the acquisition of Phoenix Life Assurance Limited by Resolution plc. Business administration services continued to be provided by Abbey National Financial and Investment Services plc, which was renamed RMS (Glasgow) Limited following its acquisition by Resolution plc.

Charges from these companies were £55.4m from RMS (Glasgow) Limited, £0.6m from Resolution Investment Services Limited and £0.2m from Abbey National Asset Managers Limited.

#### **\*4009\* Material connected-party transactions**

- (a) Claims incurred is net of £279m (2005: £296m included in other income) in respect of net claims reassured from Scottish Mutual Assurance Limited, a fellow subsidiary within the Resolution group.
- (b) At 31 December 2006, the company had entered into other connected party transactions with Resolution plc group companies – refer to note 1306. Resolution plc is the Company's ultimate parent.
- (c) Management services were provided by Resolution plc group companies – refer to note 4008.
- (d) At 31 December 2005, £921m (2005: £1,911m) was invested in unit trusts or Open-ended Investment Companies managed by subsidiaries of Resolution plc.

**\*4201\* Net reinsurance claims on unitised with profits business**

The net excess of £279,235,434 of reinsured claims recoveries over reinsured premiums payable in respect of unitised with profits business reinsured with Scottish Mutual Limited has been reported as net claims in Form 42 Line 33 as the net amount cannot be analysed between premiums and claims and between types of claims. In 2005, the comparable amount of £296,401,307 has been included at Form 40 Line 15 (see note 4002).

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

The fair values of financial instruments are determined by reference to quoted market prices or published prices. If quoted market prices or published prices are not available, fair values are determined or estimated by using various different techniques, including but not limited to balance sheet analysis and comparison to similar quoted securities.

**\*4402\* Aggregate value of derivative**

The aggregate value of rights and liabilities under derivative contracts included in Form 44, after the right of set off, are as follows:

---

	<b>£'000</b>
Gross of variation margin	454
Net of variation margin	454

---

**\*4900\* Fixed interest securities**

No Form 49 is required as the non-linked fixed securities which are not approved do not exceed £100m (as per instructions to the form).

**\*5204\* Product apportionment**

All accumulating with profits contracts sold by Phoenix Life Assurance Limited, with the exception of the With Profit Bond, the With Profit Investment Bond, and the ISAs are hybrid in that investment in linked funds is also permitted. Form 52 has, therefore been completed on the basis that only that portion of the current death benefit, office premium and current liability which is invested in accumulating with profits is included for each policy. The total policy count, and all additional benefits, premiums and liabilities, in excess of those attributable purely to accumulating with profits for each policy, is included within Form 53.

**\*5701\* Reserves offset**

Negative Mathematical reserves from products in the following two product groupings:

“UK UK Pens NP Form 51 assurances (other)”  
“UK UK Life NP Form 51 assurances”

have been used to offset the positive liabilities of products in:

“UK UK Pens NP Form 51 (annuity)”  
The total value of these negative liabilities is (£64m)

## Returns under the Accounts and Statements Rules

### Statement required by Rule 9.29 of the IPRU(INS)

#### Phoenix Life Assurance Limited

Financial Year ended 31 December 2006

#### Additional information on derivative contracts

The investment guidelines operated by the Company during the period up to 31 December 2006 for the use of derivative contracts were based on the principles of reduction of risk or efficient portfolio management.

- a In particular:
- i no uncovered liabilities were permitted;
  - ii all contracts were either:
    - a transacted on an approved exchange; or
    - b with an approved counterparty.
  - iii all monies relating to exchange traded positions were held in client money segregated accounts at a highly rated international bank.
  - iv transactions were conducted within the Life Division North Delegated Authorities.

The use of derivatives is further restricted by the variety of regulations laid down for the use of derivatives in life assurance companies – in particular the rules and guidance set out in INSPRU 3.2.

- b The investment guidelines do not prohibit entry into contracts, which were not at the time of entry, reasonably likely to be exercised, to ensure that Life Division North is not prevented from entering into contracts which could potentially enhance efficient portfolio management.
- c The company was not a party to any contract during 2006 that was not expected, at the time when the contract was entered into, to be capable of exercise.
- d The extent to which amounts recorded on Form 13 would be changed if assets which the Company had a right or obligation to acquire or dispose of under derivative contracts outstanding at the end of the financial year had been so acquired or disposed of:

		£'000
<b>Form 13</b>		
Line 81	Cash	11,825
Line 78	Other debtors	(5)
Line 44	Rights under derivative contracts	(11,820)

There would be no change to amounts recorded on Form 14 if liabilities, which the Company had a right or obligation to acquire or dispose of under derivative contracts outstanding at the end of the financial year, had been so acquired or disposed of.

- e The information provided in sub paragraph d above represents the maximum possible change to the amounts recorded in Form 13.
- f There was no material difference between positions at the year end and that during the financial year.
- g No loss would be incurred by the Company in the event of failure by any one other person to fulfil its obligations under derivative contracts outstanding at the year-end under existing market conditions. At other times during the relevant period there may have been a loss but at any time the possible losses are included within the overall monitoring of counterparty exposure and subject to strict internal guidelines. Collateralisation also limits overall exposure.
- h. There has been no use of derivatives or contracts having the equivalent effect which did not meet the requirements of an approved derivative contract or did not fall within the definition of a permitted derivative contract.
- i. The Company did not grant any uncovered rights under derivative contracts during the year.

## Returns under the Accounts and Statements Rules

### Statement required by Rule 9.30

#### Phoenix Life Assurance Limited

#### Financial year ended 31 December 2006

Prior to 10 August 2006 Phoenix Life Assurance Limited had the following controllers:

<u>Controller</u>	<u>Relationship</u>	<u>% Interest*</u>
Banco Santander Central Hispano, S.A.	Ultimate parent company	100%
Abbey National plc	Ultimate UK parent company	100%

From 10 August 2006 Phoenix Life Assurance Limited had the following controllers:

<u>Controller</u>	<u>Relationship</u>	<u>% Interest*</u>
Resolution plc	Ultimate parent company	100%
Resolution Life Limited	Immediate parent company	100%

\* interest in respect of both share capital and voting rights



## Returns under the Accounts and Statements Rules

### Certificate required by Rule 9.34(1)

#### Phoenix Life Assurance Limited

#### Financial year ended 31 December 2006

We certify that:

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

Graham Singleton  
**Managing Director**

Stephen McGee  
**Director**

Kerr Luscombe  
**Director**

27 March 2007

Note to the certificate required by Rule 9.34

During the year the Company underwent a change in ownership and control, which took effect on 10 August 2006. We have made appropriate enquiry of previous management to certify that we are satisfied that the Company has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU (INS), PRU, GENPRU and INSPRU (as applicable). We also carried out the usual due diligence enquiries prior to the change of ownership. As a result we have not been made aware of, nor discovered any evidence to suggest that the Company was not continuing in compliance in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU (INS), PRU, GENPRU and INSPRU (as applicable) during the period 1 January 2006 to 9 August 2006.

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

### **Phoenix Life Assurance Limited**

#### **Global business**

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

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

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

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

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

This report is made solely to the insurer's directors, in accordance with rule 9.35 of the Accounts and Statements Rules. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our examination, for this report, or for the opinions we have formed.

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

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. The requirements of the Rules have been modified by the direction referred to in supplementary note 0201. Under rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31(a) are required to reflect appropriately the requirements of INSPRU 1.2.

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

## **Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 27 March 2007. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

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

## **Opinion**

In our opinion:

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

Ernst & Young LLP

Registered Auditor

London

27 March 2007