SCOTTISH MUTUAL INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2007

INCORPORATED IN THE REPUBLIC OF IRELAND

Registration No. EO242244

Directors' report

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2007.

Business review

Principal activities

The principal activity of the Company is the transaction of individual life assurance business. Having closed to new business in April 2003, the operations of the Company now principally involve the receipt of incremental premiums and processing of claims arising on in-force policies and the collection of related amounts due from reinsurers.

Corporate developments

On 16 November 2007, the Board of Resolution plc (Resolution), the Company's ultimate parent company, announced that agreement had been reached on the terms of a recommended cash acquisition of Resolution by Impala Holdings Limited, a subsidiary of Pearl Group Limited.

As at the date of this report, the acquisition has not been completed.

The ultimate parent undertaking and controlling party is Resolution plc, a company incorporated in the United Kingdom.

Operational activities and state of affairs

The Board and management monitor business performance via a range of performance indicators, the key financial reporting items being profits in comparison to annual and quarterly targets and solvency in comparison to internal and external capital requirements. Details of the profit for the year are set out on page 12 and the Company's capital management process and capital resources are provided at note 29.

The Company's business is written in Ireland, the United Kingdom and Hong Kong (by the registered Hong Kong branch).

Scottish Mutual International Limited has two principal sub funds, namely, a non profit fund and a shareholder fund.

The non profit sub-fund is closed, other than increments on certain existing business. At 31 December 2007, the non profit sub-fund had admissible assets calculated in accordance with the Irish Financial Services Regulatory Authority standards of £769m (2006: £1,015m).

The investment element of Scottish Mutual International Limited's unitised with profit policies is partially reinsured with Scottish Mutual Assurance Limited, a fellow Resolution Group company.

The results of the Company for the year ended 31 December 2007 are set out on page 12. These are prepared under International Financial Reporting Standards (IFRS) for the first time, having previously been prepared under Generally Accepted Accounting Practice in the Republic of Ireland. These show that the Company generated profit after tax of £11m for the year then ended (2006: £5m). It is intended that this profit is to be transferred to reserves.

The financial position of the Company has been impacted during the year by the repayment of the £80m capital contributions previously gifted to the Company by Scottish Mutual International Holdings in accordance with section 45 of the Companies (Amendment) Act, 1983.

Shareholder net equity at 31 December 2007 was £99m (2006: £173m).

Dividends

The Directors do not propose the payment of a dividend for the year (2006: £nil).

Going concern

The Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The financial statements therefore continue to be prepared on a going concern basis.

Directors' report continued

Share capital

Details of the share capital structure of the Company are given in note 11 to the financial statements.

Principal risks

The Company's business is predominantly single premium investment products, incorporating single premium unit linked bonds, portfolio bond type investments, and unitised with profit bonds.

The principal risk exposures for the shareholder relate to expense and operational risks.

In relation to expense risk, the Company entered into a Participation Agreement with RMS (Ireland) Limited in 2007 to ensure close monitoring and management of the Company's expense base. However, as a significant element of the Company's in-force book is projected to run-off over the next few years, managing the fixed element of the cost base remains a significant challenge.

The Company faces operational risks, such as systems, processes and people and, interalia, the complexity of its outsourced policy administration arrangements. These risks are managed by the use of skilled, specialist resources provided to the Company via the Participation Agreement and by the close monitoring of process and controls performance as part of the Company's risk management framework, including the use of management information and performance indicators.

Further information on risks is provided in the notes to the financial statements.

Future developments

The Company will continue to be closed to new business and will not issue any new policies other than policy increments.

Environmental matters

Environmental policies and practices are managed on a group basis and are set out in the report and financial statements of the ultimate parent undertaking, Resolution plc.

Employment of disabled persons and employee involvement

As outlined above, a fellow Resolution Group company provides services to the Company and accordingly the Company has only one employee in 2007 (2006: two). It is the policy of the Resolution Group to encourage applications from people with disabilities and to take all practical steps to assist the recruitment, retention and development of disabled persons. During the year, the Resolution Group continued its commitment to an active programme of employee communication using a wide range of media with the aim of ensuring employees are fully informed of its performance.

Directors

Except as shown, the Directors of the Company throughout the year were:

R H Burke	(appointed 22 January 2007)
N F Gallagher	
C M Garthwaite	(appointed 11 January 2007)
C P McGettrick	(appointed 4 April 2007)
G L Singleton	
M P Smith	(appointed 10 January 2007)
B Woods	(appointed 11 January 2007)

Qualifying third party indemnity provisions are in place for the benefit of the Directors in relation to certain losses and liabilities that they may potentially incur to third parties in the course of their duties.

Transactions involving Directors

There were no contracts or arrangements of any significance in relation to the business of the Company in which Directors had any interest, as defined by the Companies Act, 1990, at any time during the year ended 31 December 2007.

Directors' report continued

Directors' and Secretary's interests

The Directors and Secretary had no interest in the shares of the Company, at the date of these financial statements or at any stage during the year.

The beneficial interests of the Directors in the ordinary shares of 5 pence in Resolution plc are shown in note 7 to the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing their report and the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and,
- comply with applicable accounting standards, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with IFRS and comply with Irish Statute comprising the Companies Acts, 1963 to 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Proper books of account

The Directors have taken appropriate measures to ensure compliance with Section 202 of the Companies Act, 1990. The specific measures taken are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The books of account are located at the Company's offices at Styne House, Upper Hatch Street, Dublin 2, Republic of Ireland.

Political donations

The Company did not make any political donations during the year.

Auditors

The auditors, Ernst & Young, Chartered Accountants, will continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

Directors' report continued

Registered office

The registered office address is:

25-28 North Wall Quay
IFSC
Dublin 1
Republic of Ireland

Payment of suppliers

In the forthcoming year, goods and services will continue to be supplied to the Company by RMS (Ireland) Limited, RMS Limited, SPILA Services (Hong Kong) Limited and SPILA Services (Isle of Man) Limited. RMS (Ireland) Limited will continue to be responsible for agreeing terms and conditions under which business is to be transacted and for making suppliers aware of these before business is contracted. It is the policy to ensure payments are made in accordance with legal and contractual obligations.

Details of payment policy and average creditors days are disclosed within the accounts of the appropriate service companies.

On behalf of the Board
24 April 2008

Niall F Gallagher	**Graham L Singleton**
Director	Director

Independent auditors' report to the members of Scottish Mutual International Limited

We have audited the Company financial statements of Scottish Mutual International Limited for the year ended 31 December 2007, which comprise the Income statement, the Statement of Recognised Income and Expense, the Balance sheet, the Cash flow statement, and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for the preparation of the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts, 1963 to 2006. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation which may require the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and other transactions is not disclosed and, where practicable, include such information in our report.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the Company as at 31 December 2007 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The financial statements are in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

In our opinion, the balance sheet does not disclose a financial situation which under section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Independent auditors' report to the members of Scottish Mutual International Limited
continued

Ernst & Young
Chartered Accountants and Registered Auditors
Dublin

24 April 2008

Accounting Policies

(a) Adoption of International Financial Reporting Standards and changes in accounting policy

The financial statements have for the first time, been prepared in accordance with IFRS adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The date of transition to IFRS for the Company and the date of its opening IFRS balance sheet was 1 January 2006. All other applicable standards have been applied retrospectively with effect from 1 January 2006.

The Company has restated its previously reported 2006 financial statements to comply with IFRS; the impact of the restatement is summarised in note 33. Where appropriate, comparative figures in the financial statements have been amended to conform to the presentation adopted in the current year.

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(b) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These financial statements are presented in pounds sterling, rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention except as modified by the application of the following:

- financial instruments at fair value through income; and
- insurance liabilities.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

IAS 1 Amendments – Capital Disclosures (2007) has been adopted for the first time. The amendments to IAS 1 bring the capital disclosures in line with IFRS 7.

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

- IAS 1 Presentation of Financial Statements (Revised) (2009). This revises and enhances the presentation of information in the financial statements.
- IAS 23 Borrowing Costs (Revised) (2009) removes the existing option to recognise as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

These standards will be adopted by the Company on the effective date, if appropriate.

In addition, the following standards and interpretations have been issued but are not relevant to the Company:

- IAS 27 Consolidated and Separate Financial Statements (Revised) (2010).
- IFRS 3 Business Combinations (Revised) (2010).
- IFRIC 13 Customer Loyalty Programmes (2008).
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (2008).

A capital position statement has not been presented as this is disclosed in the financial statements of the ultimate parent company, Resolution plc.

Accounting Policies continued

(c) Critical accounting estimates and judgements

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

Insurance contract and investment contract liability accounting is discussed in more detail in note (f) with further detail of the key assumptions made in determining insurance contract and investment contract liabilities included in note 15.

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

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

(d) Foreign currency translation

The Company's functional currency is euro and its presentational currency is sterling. The Company's presentational currency is sterling, in line with Resolution plc.

Foreign currency transactions are recorded in the underlying currencies. Income statements and cash flows are translated into the Company's presentational currency at the appropriate rates prevailing during the year; the balance sheet is translated at the exchange rate ruling on 31 December. Resultant exchange gains and losses arising are reflected in the Statement of Recognised Income and Expenses and treated as a separate component of equity.

(e) Classification of contracts

The Company issues insurance contracts and investment contracts.

Insurance contracts are those contracts, which transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event. Investment contracts are those contracts which carry no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses that are likely to be a significant portion of the total contractual benefits and whose amount or timing is contractually at the discretion of the Company and based on the performance of specified assets. Contracts containing a DPF are also referred to as participating or with-profits contracts.

For insurance contracts and investment contracts with DPF, the Company continues to use the Modified Statutory Solvency Basis (MSSB) of accounting, modified as necessary to comply with the requirements of IFRS.

(f) Insurance contracts and investment contracts with DPF

The majority of the life assurance contracts issued by the Company are long-term life assurance contracts. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder.

The significant accounting policies applied in relation to insurance contracts and investment contracts with DPF are:

Premiums
Premiums received in respect of insurance contracts and investment contracts with DPF are recognised as revenue when due and shown before deduction of commission. Reassurance premiums are charged when they become payable.

Claims
Death claims are recognised on receipt of notifications. Maturity payments are recorded when contractually due. Surrenders are recorded on the earlier of the date paid or date the policy benefit or part thereof ceases to be included within "Liabilities under insurance contracts". Claims on participating business include bonuses payable. Reinsurance recoveries are credited to match the relevant gross amounts.

Accounting Policies continued

Fees and commissions
Fee and charge income from services provided in respect of insurance contracts and investment contracts with DPF is recognised in the income statement within “fees and commissions” income when the services are performed.

Liabilities under insurance contracts
Insurance liabilities are determined by the Directors on the advice of the Company’s Reporting Actuary following an annual investigation of the long-term business and reflect the value of related assets and the yield derived therefrom.

Insurance liabilities are calculated in accordance with the actuarial principles laid down in the European Communities (Life Assurance) Framework Regulations, 1994.

Although the process for the establishment of insurance liabilities follows specified rules and guidelines, the provisions that result from the process are the subject of estimations. As a consequence, the eventual value of claims could vary from the amounts provided to cover future claims. The Company seeks to provide appropriate levels of contract liabilities taking known facts and experiences into account but, nevertheless, such liabilities remain uncertain.

Liabilities – insurance and investment contracts with DPF, are calculated as follows:

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premium is recognised. The liabilities of the Company’s unitised with-profits business are calculated as the lower of the current unit value and surrender value of each policy.

Assumptions are made in respect of all material factors affecting future cash flows, including future interest rates, mortality and costs. The unitised with-profit liabilities are partially reassured to Scottish Mutual Assurance Limited, a fellow company of the Resolution Group.

Liability adequacy test
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of insurance contract and investment contract with DPF liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to income to establish an appropriate provision against these potential losses.

Embedded derivatives
Embedded derivative features contained within insurance contracts are accounted for at fair value and unrealised gains and losses arising on the embedded derivatives are reported in income. Where the risks and characteristics of embedded derivatives are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivatives are accounted for separately.

Reinsurance
The Company cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from or due to reinsurers are estimated in a manner consistent with the amounts associated with the reinsured policies and in accordance with the reinsurance contract. Premiums ceded and benefits reimbursed are presented on the balance sheet on a gross basis.

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company expects to become entitled under its ceded reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers as well as longer-term receivables that are dependent on expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance payables are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company regularly assesses its long-term reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Accounting Policies continued

Receivables and payables related to insurance contracts and investment contracts with DPF
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

Unallocated surplus
The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with profit business. This represents amounts which have yet to be allocated to equity holders.

(g) Net investment income

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis. Interest income includes coupons earned on fixed income financial assets. Dividend income is recognised in the income statement on the date the right to receive payment is established, which in the case of listed securities, is the ex-dividend date.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year.

Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current income statement.

Outstanding derivative contracts, including forward foreign exchange contracts, are marked to market at the balance sheet date. Unrealised gains or losses thereon are included in the income statement as unrealised gains or losses on financial assets.

(h) Income tax

The tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on income and gains arising in the accounting period and comprises both shareholder tax and tax payable on behalf of policyholders.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets or liabilities using currently enacted tax rates.

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

(i) Financial assets

The Company classifies its financial assets as financial assets at fair value through income. All financial assets have been designated at fair value through income on the transition to IFRS as their performance is evaluated on a fair value basis in accordance with a documented investment strategy. Categories of financial assets are as follows:

- loans and deposits
- derivatives
- equities
- fixed income securities
- collective investment schemes.

The fair values of financial instruments are determined by reference to quoted market bid prices or published bid prices. If quoted market prices or published prices are not available, fair values are determined or estimated by using various techniques, including but not limited to balance sheet analysis and comparison to similar quoted securities. Unlisted derivatives are valued on the basis of bid prices supplied by suitably qualified counterparties.

Changes in fair value of the financial assets are recognised in the income statement in the period in which they occur.

Purchases and sales of financial assets are accounted for at trade date.

Accounting Policies continued

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short-term highly liquid investments with an original maturity term of 90 days or less. On the balance sheet, bank overdrafts with legal right of set off are included in cash and cash equivalents.

(k) Provisions

Provisions (which do not include insurance liabilities) are recognised when the Company has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Where the Company has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

(l) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(m) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention that expected future cash flows will be settled on a net basis.

Income statement for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000 restated
Gross premiums written		**2,511**	4,550
Less: premiums ceded to reinsurers		**(70)**	(80)
Net premiums written		**2,441**	4,470
Fees and commissions	1	**3,738**	6,317
Net investment income	2	**75,824**	13,684
Total revenue, net of reinsurance payable		**82,003**	24,471
Net income		**82,003**	24,471
Policyholder claims		**419,762**	383,991
Less: reinsurance recoveries		**(173,340)**	(106,325)
Change in insurance contract liabilities		**(185,248)**	(279,589)
Transfer (from) / to unallocated surplus	14	**(8,633)**	10,770
Net policyholder claims and benefits incurred		**52,541**	8,847
Acquisition costs	3	**2,163**	457
Administrative expenses	4	**13,069**	7,608
Total operating expenses		**67,773**	16,912
Operating profit before financing costs and income taxes		**14,230**	7,559
Financing costs	5	**876**	1,184
Profit for the year before income taxes		**13,354**	6,375
Income taxes:			
Policyholder tax		**-**	-
Shareholder tax		**2,596**	979
Total tax expense	9	**2,596**	979
Profit for the year attributable to equity holders		**10,758**	5,396

All activities of the Company are classified as continuing.

Approved by the Board of Directors on 24 April 2008 and signed on its behalf by:

Niall F Gallagher
Director

Graham L Singleton
Director

Statement of recognised income and expense for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000 restated
Foreign currency translation	10	**(4,057)**	710
Net (expense) / income recognised directly in equity		**(4,057)**	710
Profit for the year attributable to equity holders	10	**10,758**	5,396
Total recognised income and expense for the year attributable to equity holders		**6,701**	6,106

Balance sheet as at 31 December 2007

	Notes	**2007** **£'000**	2006 £'000 restated
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**25,079**	25,079
Capital contribution reserve	12	**151,000**	231,000
Foreign currency translation reserve	12	**(3,347)**	710
Retained earnings	10	**(73,306)**	(84,064)
Total equity attributable to equity holders of the Company	10	**99,426**	172,725
Liabilities			
Insurance contracts			
Liabilities under insurance contracts	13	**1,393,654**	1,672,920
Unallocated surplus	14	**32,790**	41,423
		1,426,444	1,714,343
Reinsurance payables	16	**53**	29
Payables related to direct insurance contracts	17	**3,538**	1,282
Trade and other payables	18	**6,196**	18,467
Total liabilities		**1,436,231**	1,734,121
Total equity and liabilities		**1,535,657**	1,906,846

Balance sheet as at 31 December 2007 continued

	Notes	**2007 £'000**	2006 £'000 restated
ASSETS			
Financial assets			
Loans and deposits	20	**40,346**	13,434
Derivatives	21	**160**	1,549
Equities		**189,430**	199,804
Fixed income securities		**192,089**	244,361
Collective investment schemes		**172,865**	241,353
	19	**594,890**	700,501
Insurance assets			
Reinsurers' share of insurance contract liabilities	13	**716,310**	810,328
Insurance contract receivables	22	**1,914**	744
		718,224	811,072
Deferred tax	23	**503**	3,099
Prepayments		**3,890**	3,081
Trade and other receivables	24	**2,314**	6,861
Cash and cash equivalents	25	**215,836**	382,232
Total assets		**1,535,657**	1,906,846

Approved by the Board of Directors on 24 April 2008 and signed on its behalf by:

Niall F Gallagher
Director

Graham L Singleton
Director

Cash flow statement for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000 restated
Cash flows from operating activities			
Net (increase) / decrease in operating assets and liabilities	26	**(85,478)**	25,696
Finance costs		**(918)**	(1,184)
Net cash flows from operating activities		**(86,396)**	24,512
Cash flows from financing activities			
Capital contribution repaid		**(80,000)**	-
Net cash flows from financing activities		**(80,000)**	-
Net (decrease)/increase in cash and cash equivalents		**(166,396)**	24,512
Cash and cash equivalents at the beginning of the year		**382,232**	357,720
Cash and cash equivalents at the end of the year	25	**215,836**	382,232

Cash and cash equivalents comprise bank overdrafts, cash at bank and other short-term highly liquid investments with maturity of 90 days or less (note 25).

Notes to the financial statements

1. Fees and commissions

	2007	2006
	£'000	£'000
Other fees	**3,738**	6,317

2. Net investment income

	2007	2006
	£'000	£'000
Investment income	**17,606**	10,415
Fair value gains	**58,218**	3,269
	75,824	13,684

3. Acquisition costs

	2007	2006
	£'000	£'000
Acquisition costs paid	**2,163**	457

4. Administrative expenses

	2007	2006
	£'000	£'000
Operating expenses	**11,594**	7,094
Management fee (Resolution Investment Services Limited)	**1,475**	514
	13,069	7,608

All business administration services were provided to the Company by Resolution Management Services, SPILA Services (Hong Kong) Limited and SPILA Services (Isle of Man) Limited. Prior to the Company's acquisition by Resolution plc, all business administration services were provided by Abbey. Administration charges included in the operating results amount to £8,807,995 (2006: £4,678,372).

In 2006, Abbey National plc retained various pension schemes on acquisition of the Company by Resolution plc. Under the terms of the Sale and Purchase Agreement between Resolution plc and Abbey National plc, certain payments were required to be made to those pensions schemes. These costs were payable by Resolution Management Services (Glasgow) Limited and £1,347,527 was recharged to the Company in 2006 along with other staff related costs as an estimate of the Company's proportionate share. The 2007 charge from Resolution Management Services (Glasgow) Limited reflects a £412,971 credit in this regard following finalisation of the Company's share of the pension scheme payments.

5. Financing costs

	2007	2006
	£'000	£'000
Interest expense	**876**	1,184

Notes to the financial statements continued

6. Employee information

The average number of persons (including Directors) employed by the Company during the year was:

	2007 Number	2006 Number
Administration	**1**	2

Staff costs for the above persons were:	**2007 £'000**	2006 £'000
Wages and salaries	**98**	136
Social security costs	**10**	16
Pension costs	**14**	22
	122	174

7. Directors' emoluments

	2007 £'000	2006 £'000
For services in connection with the management of the Company		
Fees / salaries	**371**	152
Other emoluments (including pension contributions and benefits in kind)	**99**	22
	470	174

Directors' emoluments for G L Singleton are disclosed in the annual report and financial statements of Resolution Life Limited.

Directors' interests include the following:

(a) Share capital

The beneficial interests of the Directors in the share capital of Resolution plc, the ultimate parent undertaking, as at 31 December 2007 and at 1 January 2007 or date of appointment if later are as follows (number of ordinary shares of 5 pence each):

	31 Dec 2007	1 Jan 2007
G L Singleton	**15,857**	-

(b) Interest in share options

Options held by the Directors over Resolution plc shares in respect of the savings related share option scheme and executive share option scheme as at 31 December 2007 and at 1 January 2007 or date of appointment if later are as follows (number of ordinary shares of 5 pence each):

	31 Dec 2007	1 Jan 2007
Savings related share options		
C M Garthwaite	**1,834**	-
G L Singleton	**1,834**	3,821
Executive share options		
C M Garthwaite	**27,840**	27,840
G L Singleton	**-**	41,813

Notes to the financial statements continued

7. Directors' emoluments continued

(c) Interest in long-term incentive plans

Rights held by the Directors in the Long Term Incentive Plan of Resolution plc as at 31 December 2007 and at 1 January 2007 or date of appointment if later are as follows:

	31 Dec 2007	1 Jan 2007
Rights		
C M Garthwaite	**59,807**	41,087
G L Singleton	**378,027**	377,100

8. Profit for the year before income taxes

	2007	2006
	£'000	£'000
Profit for the year before income taxes is stated after charging:		
Auditors' remuneration (excluding VAT)	**100**	55

The results for the financial year arise mainly from the administration of in-force policies.

9. Income taxes

(a) Current year tax charge

	2007	2006
	£'000	£'000
Current tax:		
Overseas tax	**-**	(12)
Deferred tax:		
Reversal of temporary differences	**2,596**	991
Total income tax expense	**2,596**	979
Attributable to: equity holders	**2,596**	979

(b) Reconciliation of tax charge

	2007	2006
	£'000	£'000
Profit before tax	**13,354**	6,375
Policyholder tax	**-**	-
Profit after policyholder tax	**13,354**	6,375
Tax at standard rate (12.5%)	**1,669**	797
Disallowable expenses	**348**	-
Adjustment to tax charge in respect of prior years (deferred tax)	**169**	-
Other	**410**	182
Equity holders' tax	**2,596**	979
Policyholder tax	**-**	-
Total tax charge for the year	**2,596**	979

Notes to the financial statements continued

10. Statement of changes in equity

	Share Capital £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2006	25,079	231,000	-	(89,460)	166,619
Arising in the period:					
Foreign currency translation	-	-	710	-	710
Net income recognised directly in equity	-	-	710	-	710
Profit for the year	-	-	-	5,396	5,396
Total recognised income and expense for the year attributable to equity holders	-	-	710	5,396	6,106
Balance at 31 December 2006	25,079	231,000	710	(84,064)	172,725
Balance at 1 January 2007	**25,079**	**231,000**	**710**	**(84,064)**	**172,725**
Arising in the period:					
FX translation	**-**	**-**	**(4,057)**	**-**	**(4,057)**
Net income recognised directly in equity	**-**	**-**	**(4,057)**	**-**	**(4,057)**
Capital contributions repaid	**-**	**(80,000)**	**-**	**-**	**(80,000)**
Profit for the year	**-**	**-**	**-**	**10,758**	**10,758**
Total recognised income and expense for the year attributable to equity holders	**-**	**(80,000)**	**(4,057)**	**10,758**	**(73,299)**
Balance at 31 December 2007	**25,079**	**151,000**	**(3,347)**	**(73,306)**	**99,426**

11. Share capital

	2007 **£'000**	2006 £'000
Authorised:		
44,500,000 ordinary share at £1 each	**44,500**	44,500
30,000 ordinary shares at €1.25 each	**31**	31
Issued and fully paid:		
25,048,000 ordinary shares at £1 each	**25,048**	25,048
30,000 ordinary shares at €1.25 each	**31**	31
	25,079	25,079

The holders of ordinary shares are entitled to receive dividends as declared from time to time but are not entitled to any voting rights. The ordinary shareholders are entitled to any residual assets on the winding up of the Company.

Notes to the financial statements continued

12. Other reserves

	2007 £'000	2006 £'000
Capital contribution reserve	**151,000**	231,000
Foreign currency translation reserve	**(3,347)**	710
	147,653	231,710

The capital contribution reserve represents a capital contribution gifted from the immediate Company's parent in prior years. Subject to the Company having distributable reserves, the capital contribution can be repaid at the Company's discretion. £80m was repaid to Scottish Mutual International Holdings in December 2007.

13. Insurance contracts liabilities

	Gross liabilities **2007** **£'000**	Reinsurers' share **2007** **£'000**
Insurance contracts	**1,122,854**	**703,214**
Investment contracts with DPF	**270,800**	**13,096**
	1,393,654	**716,310**
Amount due for settlement/recovery within 12 months	**481,192**	**337,445**
Amount due for settlement/recovery after 12 months	**912,462**	**378,865**

	Gross liabilities 2006 £'000	Reinsurers' share 2006 £'000
Insurance contracts	1,323,122	795,376
Investment contracts with DPF	349,798	14,952
	1,672,920	810,328
Amount due for settlement/recovery within 12 months	306,775	134,285
Amount due for settlement/recovery after 12 months	1,366,145	676,043

	Gross liabilities **2007** **£'000**	Reinsurers' share **2007** **£'000**
At 1 January 2007	**1,672,920**	**810,328**
Premiums	**2,511**	**70**
Claims	**(419,762)**	**(173,340)**
Other changes in liabilities	**137,985**	**79,252**
As at 31 December 2007	**1,393,654**	**716,310**

	Gross liabilities 2006 £'000	Reinsurers' share 2006 £'000
At 1 January 2006	2,053,661	911,480
Premiums	4,550	80
Claims	(383,991)	(106,325)
Other changes in liabilities	(1,300)	5,093
As at 31 December 2006	1,672,920	810,328

Notes to the financial statements continued

14. Unallocated surplus

	2007	2006
	£'000	£'000
As at 1 January	**41,423**	30,653
Transfer (to)/from income statement	**(8,633)**	10,770
As at 31 December	**32,790**	41,423

15. Insurance contract and investment contract with DPF liabilities – assumptions and sensitivities

(a) Assumptions

Process used to determine 2007 assumptions
Best estimate demographic assumptions are determined after considering the Company's recent experience and/or relevant industry data. Demographic assumptions used to calculate liabilities are derived by adding a prudence margin to best estimate assumptions. Economic assumptions are prudent estimates of the returns expected to be achieved on the assets backing the liabilities.

As outlined below, particular attention was given to the impact of deteriorating credit ratings on corporate bonds.

A number of changes were made to assumptions during the year to reflect changes in expected experience, none of which had a material overall impact on liabilities.

Valuation interest rate
The method used to determine valuation interest rates are calculated in accordance with the actuarial principles laid down in the European Communities (Life Assurance) Framework Regulations, 1994. Assets are firstly hypothecated to classes of business being valued.

The valuation interest rates for each block of business are based on the expected returns of the hypothecated assets. The yield is then adjusted to make allowance for credit risk, reinvestment risk and investment management expenses. As a consequence of deteriorating credit ratings on corporate bonds, we have compared credit ratings of assets held against actual credit spreads and made an adjustment where appropriate. The impact is negligible. Valuation interest rates are generally in the following ranges:

Pension policies 3.90% - 4.75%

As a consequence of a deterioration in credit ratings on corporate bonds, a comparison of the credit ratings of assets held against actual credit spreads was undertaken and adjustments made to valuation interest rates where appropriate. The impact of this was, however, immaterial.

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

Expense inflation
Expenses are assumed to increase at the rate of increase in the CPI plus a fixed margin in accordance with the management service agreements (MSAs). CPI inflation is assumed to be 3.50% per annum. For MSA contractual increases set by reference to national average earnings inflation, this is approximated as CPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations is then added to the rate of expense inflation.

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

15. Insurance contract and investment contract with DPF liabilities – assumptions and sensitivities continued

Lapse and surrender rates (persistency)
The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force. Withdrawal rates used in the valuation of unitised with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which market value adjustments do not apply.

(b) Sensitivities
The table below indicates the stand-alone impact of certain key assumption changes to insurance and investment contracts.

	Change in assumption %	Impact on profit before equity holders' tax £'000	Impact on equity holders' funds £'000
Fixed interest yield assumptions	-1%	(1,042)	(911)
Fixed interest yield assumptions	+1%	1,562	1,367
Equity and property values	-10%	29	25
Mortality assumptions for assurances	-5%	52	45

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

16. Reinsurance payables

	2007 £'000	2006 £'000
Reinsurance payables	**53**	29
Amount due for settlement within 12 months	**53**	29

17. Payables related to direct insurance contracts

	2007 £'000	2006 £'000
Payables related to direct insurance contracts	**3,538**	1,282
Amount due for settlement within 12 months	**3,538**	1,282

18. Trade and other payables

	2007 £'000	2006 £'000
Due to fellow subsidiaries	**3,245**	2,199
Net collateral loan	**319**	3,896
Other liabilities	**2,632**	12,372
	6,196	18,467
Amount due for settlement within 12 months	**6,071**	14,571
Amount due for settlement after 12 months	**125**	3,896

18. Trade and other payables continued

Net collateral loan

Collateral sums are deposited back to the Company by credit institutions in order to reduce the counterparty risk to the Company on particular assets held to back certain policyholder benefits. Interest on deposit back arrangements is payable on the amounts owed based on the 3 month LIBOR.

The table below provides analysis of the derivative assets and related collateral loans as described in note 21.

		2007			2006	
	£'000 Fair value assets	**£'000 Collateral Loan**	**£'000 Net fair value of liabilities**	£'000 Fair value assets	£'000 Collateral Loan	£'000 Net fair value of liabilities
Equity index contracts	**4,681**	**(5,000)**	**(319)**	11,773	(15,669)	(3,896)

19. Financial assets

	2007 £'000	2006 £'000
Financial assets	**594,890**	700,501
Amount recoverable within 12 months	**415,164**	451,994
Amount recoverable after 12 months	**179,726**	248,507

20. Loans and deposits

	2007 £'000	2006 £'000
At 1 January 2007	**13,434**	15,250
Additions	**26,912**	-
Repayments	**-**	(1,816)
At 31 December 2007	**40,346**	13,434
Amount recoverable within 12 months	**40,346**	13,434

21. Derivatives

	2007 £'000	2006 £'000
Exchange traded futures	**160**	1,549
Amount recoverable within 12 months	**100**	1,549
Amount recoverable after 12 months	**60**	-

21. Derivatives continued

(a) Hedges for policy guarantees (OTC options)

During the year, the Company held OTC derivative contracts with nominal values totalling £99m with Goldman Sachs (2006: £482m with Abbey National Treasury Services plc), to provide financial protection against a range of embedded policy guarantees. The contracts take the form of a number of derivatives, specified to capture the material elements of the economic exposure of the with-profits business to costs of guarantees attributable to equity returns, interest rate movements and foreign exchange rate movements. The terms of the derivatives have been determined to match as closely as possible central expectations regarding asset management, management actions and customer choices.

The derivative types, and range of maturity dates and strike levels are set out below.

Option guarantee type	Derivative type	Maturity date range
Market Value Adjustment (MVA) free guarantees on unitised with-profit (UWP) policies	European Equity Put Interest Rate Swaptions	Nov '09 – Nov '17
	Equity Futures	Nov '09 – Nov '13 Rolled every 3 mths

The premium payable by the Company for the purchase of these derivatives was £7m.

As at 31 December 2007, there was an unrealised loss of £2m on the derivatives held (2006: unrealised loss of £18m).

As security for the maturity proceeds of these derivatives, Goldman Sachs lent the Company sums amounting to £5m (2006: Abbey National Treasury Services plc lent the Company sums amounting to £16m). As there is a legal right of set off for the derivative assets and related collateral loans, and it is intended that settlement will be made on a net basis, the derivatives and collateral loans are presented as net derivative assets or net collateral loans as appropriate in the balance sheet and notes (see note 18). The equity futures are not included in the collateralisation agreement and, as such, they are presented along with the exchange traded futures above.

(b) Exchange traded futures

These are held for efficient portfolio management purposes.

22. Insurance contracts receivables

	2007 **£'000**	2006 £'000
Insurance contracts receivables	**1,914**	744
Amount recoverable within 12 months	**1,914**	744

23. Tax assets and liabilities

	2007 **£'000**	2006 £'000
Deferred tax assets	**503**	3,099
Total tax assets	**503**	3,099

Deferred tax assets comprise:

	2007 **£'000**	2006 £'000
Unutilised tax losses	**503**	3,099
Total deferred tax assets	**503**	3,099

23. Tax assets and liabilities continued

Movements in deferred tax assets comprise:

	2007 £'000	2006 £'000
At 1 January	**3,099**	4,090
Amounts charged to the income statement	**(2,596)**	(991)
At 31 December	**503**	3,099

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 12.5%.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

24. Trade and other receivables

	2007 £'000	2006 £'000
Trade and other receivables	**1,522**	4,662
Due from fellow subsidiaries	**792**	2,199
Amount recoverable within 12 months	**2,314**	6,861

25. Cash and cash equivalents

	2007 £'000	2006 £'000
Bank and cash balances	**210,816**	270,486
Short term deposits (including demand and time deposits)	**5,020**	111,746
	215,836	382,232

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the balance sheet date.

26. Cash flows

(a) Cash flows from operating activities

	2007 £'000	2006 £'000
Profit for the year before income taxes	**13,354**	6,375
Non-cash movements in profit for the year before income taxes:		
Gain on sale of financial assets	**(13,619)**	(84,456)
Fair value (gain)/loss on financial assets	**(58,797)**	83,195
Net (increase)/decrease in working capital	**(26,416)**	20,582
Net (increase)/decrease in operating assets and liabilities	**(85,478)**	25,696

Notes to the financial statements continued

27. Related party transactions

In the comparative period, transactions with related parties which existed up to the date of acquisition by Resolution plc on 10 August 2006 are shown for the period up to the date of the acquisition only. Transactions with companies who became related parties subsequent to the date of acquisition are presented showing transactions from that date.

	Notes	2007 £'000	2006 £'000
Net investment income			
Resolution Fund Managers Limited**	(a)	**(1,874)**	(35,610)
Scottish Mutual International Investment Fund plc	(a)	**(1,559)**	(1,106)
Scottish Mutual Investment Managers Limited	(a)	**(539)**	(6,990)
Reinsurance recoveries			
Scottish Provident Limited – Irish Branch		**(3,568)**	(1,744)
Scottish Mutual Assurance Limited	(b)	**(168,915)**	(104,581)
Change in insurance contract liabilities			
Scottish Provident Limited – Irish Branch	(c)	**2,732**	841
Scottish Mutual Assurance Limited	(c)	**91,411**	100,311
Administrative expenses			
Resolution Investment Services Limited	(d)	**1,475**	514
RMS (Ireland) Limited	(d)	**9,066**	2,098
RMS (Glasgow) Limited	(d)	**(413)**	3,928
Financing costs			
Abbey National Treasury Services plc*	(e)	**-**	833

* related parties prior to 10 August 2006
** related parties from 10 August 2006

Notes:
(a) Balances represent net unrealised and realised gains/(losses) in period with relevant counterparty.
(b) Reinsurers' share of claims include £173m (2006: £69m) received in respect of unit liabilities of property-linked contracts invested in With-Profits units, which were reinsured with Scottish Mutual Assurance Limited. The nature of the reinsurance contract is that the amount payable/receivable is based on net unit movements. As such, premiums and claims cannot be separately identified. The amount disclosed above is net of premiums and management charges.
(c) Balance represents the movement on the internal reinsurance assets.
(d) Balances represent business administration services, which were provided to the Company by the relevant counterparty.
(e) Balance represents interest payable to Abbey National plc in respect of the collateral loan.

The Company has a related party relationship with its Directors and the Directors of its parent entities who are the key management personnel of the Company.

Details of Directors' emoluments are set out in note 7.

Qualifying third party indemnity provisions are in place for the benefit of the Directors in relation to certain losses and liabilities, which they may potentially incur to third parties, in the course of their duties.

27. Related party transactions continued

The Company had the following outstanding related party balances at the year-end, which are included within the captions noted in the balance sheet:

	Notes	2007 £'000	2006 £'000
Financial assets			
Resolution Fund Managers Limited**	(a)	**50,048**	97,394
Scottish Mutual International Investment Funds Limited	(a)	**53,546**	69,121
Scottish Mutual Investment Managers Limited	(a)	**8,887**	8,982
Reinsurers' share of insurance contract liabilities			
Scottish Mutual Assurance Limited	(b)	**699,784**	791,195
Scottish Provident Limited – Irish Branch	(b)	**16,401**	19,133
Other receivables			
RMS (Ireland) Limited	(c)	**-**	3,332
Scottish Provident Limited – Irish Branch	(c)	**-**	818
Trade and Other payables			
Scottish Mutual Assurance Limited	(c)	**-**	858
RMS (Glasgow) Limited	(d)	**-**	3,033
Resolution Investment Services Limited	(c)	**369**	514
RMS (Ireland) Limited	(c)	**2,876**	-

Notes:

(a) Balances represent the market value of investments held with the relevant counterparty.
(b) Balances represent the internal reinsurance asset.
(c) Balances represent intercompany balances with relevant counterparty.
(d) Balance represents an intercompany creditor with RMS (Glasgow) Limited, formerly known as Abbey National Financial Investment Services plc. RMS (Glasgow) Limited wound up on 31 December 2006, hence the balance is now payable to Resolution Management Services Limited.

The Company enters into transactions with related parties in the normal course of business. Transactions are carried out on an arms' length basis.

28. Risk management policies

Management of insurance and financial risk

The Company is part of Resolution plc. The Company issues contracts that transfer insurance risk or financial risk or both. This note summarises these risks and the way the Company manages them.

The Company has implemented processes and structures to support the effective management of risk. Board and Board sub-committee structures, membership and terms of reference have been implemented by Resolution plc and have been adopted across the group. The Company's Directors are responsible for the system of risk management and internal control, including financial, operational and compliance controls and for reviewing its effectiveness. Due to the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, risk completely. In assessing these risks, the Directors take into account any benefits that may accrue from risk acceptance before making a commercial decision to ensure that risks are commensurate with the anticipated returns.

Risk within Resolution plc is overseen by the Risk Management function. The Risk Management function uses a hierarchy of Resolution-wide policy documents as the basis for its approach. Accompanying these, the Resolution Risk Management Framework sets out the high level arrangements for risk management, control, monitoring and assurance within Resolution plc. It is designed to provide a structured approach for identifying and managing financial and non-financial risk within Resolution plc.

Notes to the financial statements continued

28. Risk management policies continued

Management of insurance and financial risk

The risk policy documents set out the nature and level of risks that are acceptable to Resolution plc and its various businesses, and sets out the Board's tolerance for earnings volatility and possible losses. It provides a description of the types and quantum of risk that Resolution plc is prepared to take as a result of its various business operations.

The Group Risk Committee and Firm Risk Committee meets on a monthly basis to ensure that all key risks impacting the Group are suitably monitored and managed.

Contracts are split into three categories, the key risks of which are summarised as follows:

Unitised with-profits

Controlled investment risk is taken with the aim of enhancing policyholder investment returns. The aim is to limit that risk, in line with the risk policies, to that supportable by the assets backing this business. The costs of guarantees are, in general, spread across the contracts, but there remains a risk that the shareholder may have to contribute capital. However, derivative backed hedge assets are in place to protect against this risk.

For unitised with-profit contracts, the Company receives an annual management charge, typically ranging between 0.5% and 1.5% per annum, so that the earnings risks to the shareholder are similar to unit-linked contracts.

Unit-linked

In relation to unit-linked contracts, the policyholders carry all investment risks, with any changes in underlying investments being reflected by an equal and opposite change in the related contract liabilities. The Company receives an annual management charge (AMC), typically ranging between 0.5% and 1.5% per annum of the net asset value of the underlying funds. As a result of this, AMC income can increase or decrease depending on price movements within each underlying unit-linked contract.

Non linked

The risk with non linked business is directly with the shareholder, in the event of assets not matching liabilities.

Further detail of the risks relevant to the above contract types and how they are controlled is set out below.

(a) Insurance risk

Insurance risk is the possibility under any one insurance contract that the insured event occurs and the uncertainty of the amount of the resulting claim. It refers to the inherent uncertainties in insurance, including:

- the occurrence of any event specifically insured against;
- for long-term insurance business, adverse mortality, morbidity and persistency experience; and
- expense overruns relative to pricing or provisioning assumptions.

Those terms and conditions of insurance contracts that have a material effect on the Company's cash flows are as follows:

- fixed and guaranteed benefits for a fixed future premium;
- the option to pay reduced or no future premiums; and
- the option to terminate the contract completely.

Notes to the financial statements continued

28. Risk management policies continued

(a) Insurance risk continued

The Company controls insurance risk through the following:

- the use of actuarial models to calculate premiums and monitor claims patterns. Past experience, as well as statistical methods, are used;
- issued guidelines for concluding insurance contracts and assuming insurance risks;
- close monitoring of the management of assets and liabilities to attempt to match the expected pattern of claim payments with the maturity dates of assets; and
- stress and scenario testing to monitor insurance risk as part of regular investigation of the financial condition of the Company. Each main category of insurance risk is subject to a detailed experience analysis to ensure that all assumptions are reasonable.

(i) Sensitivity analysis

The nature of the insurance business is such that a number of assumptions have been made in compiling the financial statements.

The table at note 15 provides a sensitivity analysis in relation to certain assumptions.

The Company's exposure to movements in equity markets is limited by the use of derivative backed hedges. For unit-linked contracts invested in equities, the investment risk is borne entirely by the contract holders. Accordingly, the Company's results are less sensitive to movements in equity markets.

(ii) Concentrations of insurance risk

The table below presents an analysis of insured benefits across products.

2007	Liability values	
	Gross liabilities £'000	Net of reinsurance £'000
Property linked	**227,316**	**210,915**
Traditional life non-profit	**249**	**124**
Other non-profit	**17,022**	**17,022**
With profit	**1,149,067**	**449,283**
Total	**1,393,654**	**677,344**

2006	Liability values	
	Gross liabilities £'000	Net of reinsurance £'000
Property linked	258,923	239,790
Traditional life non-profit	106	106
Other non-profit	18,533	18,533
With profit	1,395,358	604,163
Total	1,672,920	862,592

28. Risk management policies continued

(b) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities.

The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts as they fall due. The most important components of this financial risk are market risk, credit risk and liquidity risk, as outlined in the following sections.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises three types of risk: interest rate risk, price risk and currency risk. These risks impact on the Company depending on the nature of the contracts written, as follows:

Insurance and investment contracts with DPF

The main market risks inherent in these contracts are dependent upon the asset allocation backing unitised with-profits business. The more invested in an asset class, the greater the risk attached to movements in the particular asset market.

The main market risks, reflecting the asset allocation, backing unitised with-profits business are due to variations in:

- equity prices;
- interest rates and bond prices;
- corporate bond spreads; and
- equity price volatility affecting the value of policy guarantees.

Non-linked insurance contracts without DPF

The volume of business in this category is small and not material in value.

Unit-linked insurance contracts without DPF

For unit-linked policies, the asset values determine the liabilities and the policyholder, therefore, bears all the market risk.

Fee income to the Company from unit-linked policies is normally taken as a percentage of funds under management, which is determined by cash flows, including the rate of asset growth. Therefore, if markets fall, the value of the fee income falls as the charges on the funds under management is reduced.

The level of market risk in the Company is monitored and a report on risk levels, including Risk Based Capital levels (both total risk and market risk), is provided regularly to the Executive Management Board, the Risk Committee and to the Asset and Liability Committee (ALCO).

A system of exposure limits is in place with clearly specified escalation procedures in the event of breaches. Risk positions against limits are included in the monthly reports to senior management. In relation to contracts with DPF, risk mitigation actions are likely to include switching the asset allocation into less risky assets or using derivatives to hedge positions.

Market risk can be further subdivided into the following components:

Interest rate risk

Interest rate risk is part of market risk and is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Resolution plc interest rate risk policy requires the Company to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturity profile of these assets consistent with liabilities to policyholders.

28. Risk management policies continued

(b) Financial risk continued

Currency risk

The Company's transactions are principally carried out in euro and this is the Company's functional currency. Some business is, however, transacted in pounds sterling and, to a lesser extent, US dollars and HK dollars.

As part of a hedging programme, liabilities denominated in each currency are matched by assets held in the same currency. Therefore, on a net basis, foreign currency mismatch exposure is not significant.

As the Company's presentational currency is sterling, the Company's reported results and net assets are exposed to foreign currency translation risks.

Limited foreign currency risk does arise within the investment portfolios supporting the Company's euro, pounds sterling and US dollar insurance and investment operations, where assets are held that are denominated in a foreign currency. These positions are deliberately taken to obtain diversification benefits and exposures are generally low in proportion to total fund size. The level of exposure in total and by currency is monitored daily.

Price risk

The Company's price risk exposure relates primarily to financial assets and liabilities whose values fluctuate as a result of changes to market prices other than from interest rate and currency fluctuations.

Equity price risk is primarily undertaken in respect of assets held in unit linked funds or in respect of with profits business. For unit linked funds this risk is borne by policyholders as asset movements directly impact unit prices and hence policy values. With profit policyholders' future bonuses will be impacted by price risk via investment returns achieved. However, the Company has entered into derivative contracts to provide financial protection against volatility in a range of embedded policy guarantees in respect of the with profit business.

There is also an exposure to credit spread changes affecting the prices of corporate bonds and derivatives. The exposure applies to the unit linked funds, unitised with-profits business and the shareholder fund.

The assets held in the shareholder fund that are exposed to price risk are primarily high rated short term liquid assets.

(ii) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The Company recognises that credit risk in its life insurance business arises from:

- cash deposits;
- holdings of debt (principally corporate bonds);
- the impact of credit default on equity holdings;
- reinsurance contracts; and
- derivatives transactions.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, thereby ensuring concentrations of credit risk are minimised. In view of market volatility and credit tightening in markets, these limits and exposures are subject to ongoing monitoring and frequent review in the context of the exposure limits placed and changes in credit ratings and spreads.

The tables below show the rating of fair value of assets held by the Company, which are subject to credit risk. Only credit risk on assets where risk is borne by the shareholder is shown, therefore, unit-linked assets are excluded.

Notes to the financial statements continued

28. Risk management policies continued

(b) Financial risk continued

The credit risk borne by the shareholder on with profits policies is minimal. The bonuses to with profit policyholders are designed to distribute to policyholders a fair share of the return on the assets held in respect of the with profits business together with other elements of relevant experience. With profit policies are managed such that bonuses distributed to the policyholder are smoothed by building and dissolving returns over the years.

As at 31 December 2007	AAA	AA	A	BBB	BB & below	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets:							
Loans and deposits	-	9,028	-	-	-	-	9,028
Derivative assets	-	-	-	-	-	-	-
Fixed interest securities	180,238	-	-	-	-	-	180,238
Insurance assets:							
Reinsurers' share of insurance contract liabilities	-	-	-	-	-	716,310	716,310
Reinsurance receivables	-	-	-	-	-	-	-
Insurance contract receivables	-	-	-	-	-	1,808	1,808
Prepayments	-	-	-	-	-	1,704	1,704
Trade and other receivables	-	-	-	-	-	2,460	2,460
Cash and cash equivalents	5,020	-	-	-	-	178,344	183,364

As at 31 December 2006	AAA	AA	A	BBB	BB & below	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets:							
Loans and deposits	-	-	-	-	-	-	-
Derivative assets	-	-	-	-	-	143	143
Fixed interest securities	244,724	-	-	-	-	141	244,865
Insurance assets:							
Reinsurers' share of insurance contract liabilities	-	-	-	-	-	810,328	810,328
Reinsurance receivables	-	-	-	-	-	-	-
Insurance contract receivables	-	-	-	-	-	744	744
Prepayments	-	-	-	-	-	1,740	1,740
Trade and other receivables	-	-	-	-	-	5,064	5,064
Cash and cash equivalents	-	4,679	-	-	-	344,914	349,593

(source of credit ratings – Standard & Poors/ Moodys)

Credit ratings have not been disclosed in the above table for equities. Whilst the Company is exposed to the impact of credit default on its equity holdings, this risk is not considered significant due to the spread of holdings.

Credit risk in relation to loans and deposits, fixed income securities and cash and cash equivalents have been assessed on a look through basis where the exposure to the securities is via collective investment vehicles.

Notes to the financial statements continued

28. Risk management policies continued

(b) Financial Risk continued

(iii) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities as they fall due.

The Company manages liquidity risk through a clearly articulated Liquidity Policy, Investment Guidelines and Investment Management Agreements. The Resolution plc Liquidity Policy has the objectives of ensuring low probability of loss due to liquidity risk events, documentation of systems and controls of liquidity risk and cost-efficient control of liquidity risk.

The Company effects operational control of liquidity risk through clearly documented and frequently monitored treasury guidelines.

Liquidity controls in the Company are monitored on a daily basis and breaches are escalated as provided for in the Liquidity Policy. A report on liquidity risk levels is included in the monthly risk reports submitted to the ALCO and the Risk Committee.

The tables below summarise the maturity profile of the financial liabilities and insurance contract liabilities of the Group. The basis of presentation is such that investment contracts and insurance contracts are on a discounted basis consistent with the balance sheet. All the remaining financial liabilities are shown on an undiscounted basis.

As at 31 December 2007	**Up to 1 year**	**1-5 years**	**Greater than 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Insurance contract liabilities	**481,192**	**618,329**	**294,133**	**1,393,654**
Payables	**9,787**	**-**	**-**	**9,787**

As at 31 December 2006	Up to 1 year	1-5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000
Insurance contract liabilities	314,031	1,200,709	158,180	1,672,920
Payables	15,882	3,896	-	19,778

29. Capital management

The Company's policy is to maintain a strong and flexible capital base so as to satisfy regulatory requirements whilst still creating shareholder and policyholder value.

The Company's capital position is monitored in the context of both the Financial Regulator (the Regulator) solvency requirements and Resolution Group's own capital management requirements.

The Resolution group has developed a capital management framework using Individual Capital Assessment Standard (ICAS) principles for identifying the risks to which each of its business units and the Resolution group as a whole are exposed and quantifying their impact on capital. The ICAS process estimates the level of capital the Company should retain to ensure that there is only an extremely small risk that the Company will be unable to meet its liabilities. The capital required is calculated based on extreme but foreseeable risk events over a 1-year timeframe. The Company then holds a further capital buffer above this to ensure it would be able to withstand a single stress event, whether that arose from market conditions or other causes and have sufficient capital resources to still meet the capital requirements set by the Regulator from internal resources.

29. Capital management continued

The Company's capital position is monitored by the Financial Management Committee (FMC) and is reported to both the Executive Management Board (EMB) and the statutory Board. The FMC and EMB monitor the Company's capital composition and position against the Company targets, which are regularly reviewed to ensure they remain appropriate to optimise value for the policyholders and shareholders. The level of required capital of the Company is the greater of

- the amount of capital required to meet the Regulator's regulatory capital adequacy requirements; and
- the capital required under the Company's capital management policy.

There have been no material changes in the Company's management of capital during the period. The Company has complied with all externally and internally imposed capital requirements throughout the period.

The table below sets out the Company's capital resources position at 31 December 2007 as reported in the annual returns to the Regulator and compares this with total equity available to equity holders of the Company as reported on the IFRS balance sheet at that date:

	31 December 2007 £'000
Total equity attributable to equity holders of the Company on an IFRS basis	99,426
Deferred tax asset	(503)
Resilience reserve	(133)
Capital resources on a regulatory basis	98,790

The capital position and requirements of the Company are set out in more detail in the accounts of Resolution plc.

30. Contingent liabilities

There are no contingent liabilities as at 31 December 2007 (2006: nil).

31. Commitments

There are no outstanding calls, uncalled liabilities or underwriting commitments on securities held as at 31 December 2007 (2006: nil).

32. Parent undertaking and controlling party

The Company's immediate parent is Scottish Mutual International Holdings, a company incorporated in the Republic of Ireland.

The Company's ultimate parent undertaking and controlling party is Resolution plc, a company incorporated in the UK.

The only group in which the results of the Company are consolidated is headed by Resolution plc.

The consolidated accounts of Resolution plc are available to the public and may be obtained from Resolution plc, Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU.

Notes to the financial statements continued

33. Transition to IFRS and changes in accounting policy

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last statements under Generally Accepted Accounting Practice in Ireland were for the year ended 31 December 2006 and the date of transition to IFRS was, therefore, 1 January 2006.

(i) Reconciliation of equity at 1 January 2006 (date of transition to IFRS)

	Notes	**Irish GAAP £'000**	**Effect of transition to IFRS £'000**	**IFRS £'000**
Equity and Liabilities				
Equity				
Share capital		25,079	-	25,079
Capital contribution reserve		231,000	-	231,000
Retained earnings		(89,460)	-	(89,460)
Total equity attributable to equity holders of the Company		166,619	-	166,619
Liabilities				
Insurance contracts				
Liabilities under insurance contracts		2,053,661	-	2,053,661
Unallocated surplus		30,653	-	30,653
		2,084,314	-	2,084,314
Financial liabilities				
Borrowings	(a)	30,632	(30,632)	-
Reinsurance payables		-	17	17
Payables related to direct insurance contracts		2,493	-	2,493
Trade and other payables	(b)	5,742	1,141	6,883
Total Liabilities		2,123,181	(29,474)	2,093,707
Total Equity and Liabilities		**2,289,800**	**(29,474)**	**2,260,326**
Assets				
Financial assets	(c)	1,081,727	(1,081,727)	-
Loans and deposits		-	15,250	15,250
Derivatives		-	1,603	1,603
Equities		-	4,570	4,570
Fixed income securities		-	381,739	381,739
Collective investment schemes		-	571,777	571,777
		1,081,727	(106,788)	974,939
Insurance assets				
Reinsurers' share of insurance contract liabilities		911,480	-	911,480
Reinsurance receivables		884	-	884
Insurance contract receivables		202	-	202
		912,566	-	912,566
Deferred tax	(b)	-	4,090	4,090
Prepayments		4,006	-	4,006
Trade and other receivables		10,346	(3,341)	7,005
Cash and cash equivalents		281,155	76,565	357,720
Total assets		**2,289,800**	**(29,474)**	**2,260,326**

Notes to the financial statements continued

33. Transition to IFRS and changes in accounting policy continued

(ii) Reconciliation of equity at 31 December 2006 (date of last Irish GAAP financial statements)

	Notes	Irish GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Equity and Liabilities				
Equity				
Share capital		25,079	-	25,079
Capital contribution reserve		231,000	-	231,000
Foreign currency translation reserve	(d)	-	710	710
Retained earnings	(d)	(83,354)	(710)	(84,064)
Total equity attributable to equity holders of the Company		172,725	-	172,725
Liabilities				
Insurance contracts				
Liabilities under insurance contracts		1,677,799	(4,879)	1,672,920
Unallocated surplus		36,544	4,879	41,423
		1,714,343	-	1,714,343
Financial liabilities				
Borrowings	(c)	15,669	(15,669)	-
Reinsurance payables		-	29	29
Payables related to direct insurance contracts		1,282	-	1,282
Trade and other payables	(c)	14,099	4,368	18,467
Total Liabilities		1,745,393	(11,272)	1,734,121
Total Equity and Liabilities		**1,918,118**	**(11,272)**	**1,906,846**
Assets				
Financial assets	(a+c)	782,515	(782,515)	-
Loans and deposits		-	13,434	13,434
Derivatives		-	1,549	1,549
Equities		-	199,804	199,804
Fixed income securities		-	244,361	244,361
Collective investment schemes		-	241,353	241,353
		782,515	(82,014)	700,501
Insurance assets				
Reinsurers' share of insurance contract liabilities		810,328	-	810,328
Reinsurance receivables		-	-	-
Insurance contract receivables		744	-	744
		811,072	-	811,072
Deferred tax	(b)	-	3,099	3,099
Prepayments		1,962	1,119	3,081
Trade and other receivables	(a+c)	9,945	(3,084)	6,861
Cash and cash equivalents		312,624	69,608	382,232
Total assets		**1,918,118**	**(11,272)**	**1,906,846**

Notes to the financial statements continued

33. Transition to IFRS and changes in accounting policy continued

The transition to IFRS on 1 January 2006 resulted in the following adjustments being made to the 1 January 2006 and 31 December 2006 balance sheets:

(a) Financial Investments – Under IFRS, unit-linked assets backing unit-linked liabilities are not required to be separately identified. As a result of this, the assets held to cover linked liabilities have been reallocated to the relevant balance sheet lines.
(b) Deferred tax – Under IFRS deferred tax is required to be separately identified.
(c) Net Collateral Loan – to align to Resolution Group presentation there has been a line reclassification for the derivative asset and the related collateral loans.
(d) Translation of functional currency to presentational currency – Under IFRS, translational foreign exchange differences are taken directly to equity.

(iii) Reconciliation of profit and loss account for the year to 31 December 2006 (date of last Irish GAAP financial statements)

	Notes	**Irish GAAP £'000**	**Effect of transition to IFRS £'000**	**IFRS £'000**
Gross premiums written		4,550	-	4,550
Less: premiums ceded to reinsurers		(80)	-	(80)
Net premiums written		4,470	-	4,470
Fees and commissions	(b)	-	6,317	6,317
Net investment income	(a+b)	20,711	(7,027)	13,684
Total revenue, net of reinsurance payable		25,181	(710)	24,471
Other operating income		-	-	-
Net Income		25,181	(710)	24,471
Policyholder claims		383,991	-	383,991
Less: reinsurance recoveries		(106,325)	-	(106,325)
Change in insurance contract liabilities	(b)	(274,710)	(4,879)	(279,589)
Transfer from unallocated surplus	(b)	5,891	4,879	10,770
Net policyholder claims and benefits incurred		8,847	-	8,847
Acquisition costs	(b)	-	457	457
Administrative expenses	(b)	9,249	(1,641)	7,608
Total operating expenses		18,096	(1,184)	16,912
Operating profit before financing costs and income taxes		7,085	474	7,559
Financing costs	(b)	-	1,184	1,184
Profit for the year before income taxes		7,085	(710)	6,375
Total tax expense		979	-	979
Profit for the year attributable to equity holders		**6,106**	**(710)**	**5,396**

The adjustments impacting on the 2006 income statement reflect:
(a) Translation of functional currency to presentational currency – Under IFRS translational foreign exchange differences are taken directly to equity.
(b) Line reclassifications.

34. Approval of financial statements

The financial statements were approved by the Board of Directors on 24 April 2008.