

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007

DIRECTORS

R G ELLIS, MA, APMI, Solicitor
D MONGER, B Soc Sc (HONS), FCIS

SECRETARY

R G ELLIS, MA, APMI, Solicitor

00004599

PRINCIPAL ACTIVITY

Friends Provident (London & Manchester) Assurance Limited (the company), a non-trading wholly owned subsidiary of London and Manchester Group Limited is part of the Friends Provident plc group

The principal activity of the company was formerly to conduct general business, long-term life assurance, pensions and annuity business in the United Kingdom. The company did not trade during the year. General business ceased being written in 1987, and claims continue to be administered by the reinsurers on the company's behalf. No change in this activity is envisaged in the future. The directors are satisfied that the company has adequate resources to continue to operate as a going concern for the foreseeable future.

A fellow subsidiary undertaking, Friends Provident Management Services Limited (FPMS), provides the company's services and administration and employs all staff. Accordingly, the company has no direct employees.

RESULTS AND BUSINESS REVIEW

Trading performance and outlook

The company ceased writing general business in 1987 and the long-term life assurance, pensions and annuity business was transferred to Friends Provident Life Office in 2000. With respect to general business written prior to 1987, there are a total of three claims outstanding as at 31 December 2007.

Financial performance

The result for the year ended 31 December 2007 is shown in the profit and loss account on page 5.

Financial Strength

The company has assets in excess of its allowable solvency margin of £3,779,652.

Risks

All business written prior to 1980 was 100% reassured, and between 1980 and 1987 the reinsurance was between 40% and 60% and further limited by excess of loss treaties. London Capital Holdings Limited, a fellow group undertaking, has agreed to provide indemnity to the company against any future claims.

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COMPANIES HOUSE

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
REPORT OF DIRECTORS (continued)

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006 £Nil)

DIRECTORS

The directors named above held office throughout the year

DIRECTORS AND OFFICERS –INSURANCE

The ultimate parent company, Friends Provident plc, maintains insurance cover in respect to directors' and officers' liabilities and has granted indemnity in favour of directors and officers of companies within the Group in accordance with Article 140 and the provisions of section 234 of the Companies Act 2006 against financial exposure that they may incur in the course of their professional duties. Copies of the indemnity are available for inspection at the company's registered office.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

In accordance with section 487 of the Companies Act 2006, the company has dispensed with the obligation to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
REPORT OF THE DIRECTORS (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Pixham End
Dorking
Surrey
RH4 1QA

27 March 2008

Registered Number 4599

ON BEHALF OF THE BOARD



R G ELLIS
SECRETARY

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRIENDS PROVIDENT
(LONDON & MANCHESTER) ASSURANCE LIMITED**

We have audited the financial statements of Friends Provident (London & Manchester) Assurance Limited for the year ended 31 December 2007, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read 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 judgments 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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London
Registered Auditor

27 March 2008

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

TECHNICAL ACCOUNT – GENERAL BUSINESS

Discontinued operations

	2007	2006
	£000	£000
Claims incurred, net of reinsurance	-	-
Claims paid		
- gross amount	172	1
- reinsurers share	(172)	(1)
Change in provision for claims		
- gross amount	73	105
- reinsurers' share	(73)	(105)
BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS	-	-

NON - TECHNICAL ACCOUNT

Notes

Discontinued operations

		2007	2006
		£000	£000
Balance on the Technical Account – General Business		-	-
Investment income		330	3
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	330	3
Tax on profit on ordinary activities before tax	3	(99)	(1)
PROFIT FOR THE FINANCIAL YEAR		231	2

There are no recognised gains or losses for 2007 or 2006 other than those included in the Technical account above and therefore no statement of total recognised gains and losses have been presented

All of the amounts above are in respect of discontinued operations

There is no difference between the results disclosed above and the results on a modified historical cost basis

The notes on pages 7 to 8 form an integral part of these financial statements

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
ASSETS			
Reinsurer's share of technical provisions			
Claims outstanding		33	106
Cash in bank and in hand		6,083	5,753
TOTAL ASSETS		6,116	5,859
LIABILITIES			
Capital and reserves			
Called-up share capital	4	5,750	5,750
Profit and loss account		233	2
Equity shareholder's funds	5	5,983	5,752
Technical provisions			
Claims outstanding		33	106
Creditors			
Taxation payable		100	1
TOTAL LIABILITIES		6,116	5,859

Approved by the Board on 27 March 2008 and signed on its behalf by



D MONGER
DIRECTOR

The notes on pages 7 to 8 form an integral part of these financial statements

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 and comply with the Association of British Insurers (ABI) Statement of Recommended Practice on Accounting for Insurance Business (SORP) (revised 2006)

The company is a wholly owned subsidiary of London and Manchester Group Limited and is included in the consolidated financial statements of Friends Provident plc which are publicly available. Both companies are incorporated in the United Kingdom. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996)

(b) Claims

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, together with any adjustments from previous years

2. PROFIT BEFORE TAX ON ORDINARY ACTIVITIES

Auditor's remuneration for audit services for 2007 of £1,000 (2006 £1,000) was borne by London and Manchester Group Limited

All directors are employed by, and receive their emoluments from, another group undertaking. The directors holding office during 2007 consider that their services to the company are incidental to their other duties within the Friends Provident Group and accordingly no remuneration has been apportioned to this company

The company has no direct employment costs as these are borne by a fellow subsidiary undertaking FPMS

3. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007	2006
	£000	£000
(a) Analysis of the tax charge for the period		
UK corporation tax	99	1
(b) Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	330	3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	99	1

FRIENDS PROVIDENT (LONDON & MANCHESTER) ASSURANCE LIMITED
NOTES TO THE ACCOUNTS (continued)

4. SHARE CAPITAL

	2007	2006
	£000	£000
Authorised		
6,250,000 ordinary shares of £1 each	6,250	6,250
Allotted, called-up and fully paid		
5,750,000 ordinary shares of £1 each	5,750	5,750

5. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS

	Share capital	Profit and loss account	Total shareholder's fund
	£000	£000	£000
Balance as at 1 January 2007	5,750	2	5,752
Retained profit for the year	-	231	231
Balance as at 31 December 2007	5,750	233	5,983

6. RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary undertaking of London & Manchester Group Limited. The results of both the company and London & Manchester Group Limited are consolidated in the results of Friends Provident plc, the company's ultimate parent and controlling undertaking, whose financial statements are publicly available. Accordingly, the company is exempt from the requirements of Financial Reporting Standard 8 concerning the disclosure of transactions with other companies, which qualify as related parties within the Friends Provident Group.

There are no other material related parties.

7. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is London and Manchester Group Limited.

The ultimate parent company is Friends Provident plc, which is incorporated in the United Kingdom. Copies of the Group Report and Accounts of Friends Provident plc can be viewed via its website at www.friendsprovident.com.