

**LONDON PACIFIC LIFE AND
ANNUITY COMPANY IN RECEIVERSHIP**

**Statements of Recorded Cash Receipts
and Disbursements**

Years ended December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Honorable James E. Long,
Commissioner of Insurance
State of North Carolina:

We have audited the accompanying statements of recorded cash receipts and disbursements of London Pacific Life and Annuity Company in Receivership (the "Company") for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the statements of recorded cash receipts and disbursements present a summary of cash activity, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly, in all material respects, the recorded cash receipts and disbursements of London Pacific Life and Annuity Company in Receivership for the years ended December 31, 2007 and 2006, and its cash and short-term investment balances as of December 31, 2007 and 2006, on the basis of accounting described in note 1 to the financial statements.

Batchelor, Tillery & Roberts, LLP
September 24, 2008

LONDON PACIFIC LIFE AND ANNUITY COMPANY IN RECEIVERSHIP

Statements of Recorded Cash Receipts and Disbursements

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating activities:		
Receipts:		
Premium receipts (net of refunds)	\$ -	2,496
Agents' commission and interest collections	39,823	25,357
Other receipts	15,856	25,698
Total operating receipts	<u>55,679</u>	<u>53,551</u>
Disbursements and other:		
Salaries and benefits	44,447	258,892
Rent	113,051	180,390
Legal fees	8,857	37,194
Contract services	151,806	264,615
Postage, telephone and printing	2,443	8,236
Technology support and software	1,528	(6,361)
Utilities and maintenance	314	656
Bank fees	395	3,604
Travel and related expense	838	489
Insurance (excluding health)	1,545	478
Miscellaneous	5,157	9,079
Change in stale check liability	-	(104,553)
Change in RAD Trust deposit	-	(202,000)
Total operating disbursements	<u>330,381</u>	<u>450,719</u>
Net cash used in operating activities	<u>(274,702)</u>	<u>(397,168)</u>
Investing activities:		
Cost of investments acquired	(21,307,136)	(12,919,356)
Proceeds from investments sold	23,806,537	7,790,019
Investment income	1,401,785	1,116,721
Investment expenses	(71,923)	(82,818)
Net cash provided by (used in) investing activities	<u>3,829,263</u>	<u>(4,095,434)</u>
Net increase (decrease) in cash and cash equivalents	3,554,561	(4,492,602)
Cash and short-term investments, beginning of period	<u>6,935,369</u>	<u>11,427,971</u>
Cash and short-term investments, end of period	<u>\$ 10,489,930</u>	<u>6,935,369</u>

See accompanying notes to financial statements.

LONDON PACIFIC LIFE AND ANNUITY COMPANY IN RECEIVERSHIP

Notes to Financial Statements

Years ended December 31, 2007 and 2006

(1) Organization and Basis of Presentation

Organization

London Pacific Life and Annuity Company in Receivership (the "Company") is a North Carolina domiciled life insurance company that was placed into rehabilitation by the Wake County Superior Court on August 6, 2002, and subsequently into liquidation effective September 30, 2004. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Receiver of the Company. It is the Receiver's responsibility to recover and liquidate assets as necessary to fund the operations of the Company and to investigate the events that led to the insolvency of the Company.

Basis of Presentation

The accompanying statements of recorded cash receipts and disbursements have been prepared on the cash basis of accounting without regard to any revenue or expense accruals, which may have existed at the beginning or end of the periods.

(2) Cash and Short-Term Investments

Cash and short-term investments consist of the following:

	<u>2007</u>	<u>2006</u>
Columbia Strategic Cash Portfolio	\$ -	5,522,460
Bank of America Hartford Escrow	1,111,466	1,069,763
Bank of America General Custody	46	19,014
Branch Bank & Trust Co. General Custody	319,174	-
Branch Bank & Trust Co. Money Market	39,561	321,654
Branch Bank & Trust Co. Operating	2,701	2,478
Branch Bank & Trust Co. Gov't Strategic Cash Custody	1,190,064	-
Total cash	<u>2,663,012</u>	<u>6,935,369</u>
Treasury Bills & other agency notes	6,899,907	-
Other short-term notes	<u>927,011</u>	<u>-</u>
	\$ <u>10,489,930</u>	<u>6,935,369</u>

Cash and short-term investments are carried at cost, which approximates market value.

The Company maintains cash and short-term investments balances at several financial institutions in North Carolina. The Federal Deposit Insurance Corporation insures balances up to \$100,000. The Company's uninsured cash and short-term investments balances total \$10,447,666 and \$6,832,891 as of December 31, 2007 and 2006, respectively.

LONDON PACIFIC LIFE AND ANNUITY COMPANY IN RECEIVERSHIP

Notes to Financial Statements, Continued

Years ended December 31, 2007 and 2006

(3) Assumption/Exchange Activities

On December 30, 2003, the Receiver of the Company entered into an assumption reinsurance agreement with Fidelity Security Life Insurance Company ("Fidelity") whereby Fidelity would assume the variable annuity policies of the Company. The agreement was approved by the Wake County Superior Court on December 31, 2003. The agreement required the approval of the Securities and Exchange Commission ("SEC") and provided for 100% coinsurance of the contracts by Fidelity until such approval was received. Approval of the agreement by the SEC was received by Fidelity on August 27, 2004. Assumption Certificates were mailed to all contract holders in September 2004. There were no payments under the agreement in 2007 and 2006.

During 2004, the Receiver entered into three agreements involving the remaining annuity and life insurance policies of the Company. Assumption reinsurance agreements for the immediate annuities and universal life policies were entered into with Hartford Life Insurance Company ("Hartford"). The Receiver, in conjunction with the National Organization of Life and Health Insurance Guaranty Associations and the participating Guaranty Associations ("GA"), entered into an exchange agreement with Hartford for selected deferred annuity contracts of the Company. All three agreements were approved by the Wake County Superior Court on the dates provided below along with the closing dates of the transactions.

<u>Agreements for Inforce Annuity and Life Policies</u>	<u>Approved</u>	<u>Closed</u>
Immediate annuities assumption	June 21, 2004	July 30, 2004
Deferred annuities exchange	July 9, 2004	October 12, 2004
Universal Life assumption	July 9, 2004	July 11, 2005

Summarized below are the amounts funded (received) in millions by the Company and the participating Guaranty Associations during 2004 for each of the Hartford agreements:

<u>Agreements for Inforce Annuity and Life Policies</u>	<u>Company Funding</u>	<u>GA Funding</u>
Immediate annuities assumption	\$ 175.5	-
Deferred annuities exchange	1,454.3	84.6
Universal Life assumption	(4.2)	-

The amounts shown for the Immediate Annuities Assumption and the Deferred Annuities Exchange reflect the balance paid at closing as well as all "true-up" transactions through December 31, 2004. There was another "true-up" in April, 2005. At that time, the Company received an additional \$1,356,344 from Hartford Life and paid an additional \$476,600 to the Guaranty Associations. The Universal Life Assumption was closed July 11, 2005. The Company received \$3,958,275 from Hartford Life on July 12, 2005. There are no further significant "true-ups" with Hartford Life or the Guaranty Associations anticipated at this time for any of the transactions.