CGU Life Assurance Limited

(formerly General Accident Life Assurance Limited)

Registered in England No. 226742 Registered Office : 2 Rougier Street, York, England, YO90 1UU

Directors

W H Jack

M N Urmston

P R Hales

G M Vance

G M Berville

Secretary

P M White

Auditors

KPMG Audit Plc
Chartered Accountants
Registered Auditor

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Contents

Directors' report

The directors present their annual report and audited financial statements of the Group for the year ended 31 December 1998.

Principal activity

The principal activity of the Company and of the Group continued to be the transaction of long term insurance business other than industrial life business.

Operations

On 2 June 1998 the Company's ultimate parent company became CGU plc following the merger of General Accident plc with Commercial Union plc. On 1 October 1998, the Company changed its name to CGU Life Assurance Limited.

During the year the Company disposed of its interests in General Accident Vie SA, ICOT Investments Limited, and NZI Life (Ireland) Limited as part of the reorganisation and rationalisation of the Group.

The Company continues to have branch operations in France and Germany and during the year launched a branch operation in Ireland.

New business

	1998 **£m**	1997 £m	1996 £m
New annual premiums	**49**	62	67
New single premiums	**836**	873	667
Balance on the technical account for long term business	**50**	39	32

The annual valuation of the liabilities and assets of the Company is made as at 31 December 1998 and the details of the valuation and distribution of profits will be provided in due course in the returns to HM Treasury.

Dividends

An interim dividend of £4,000 (1997 £3,200) per share was paid on 1 July 1998. The directors do not recommend payment of a final dividend.

Directors

The names of the present directors of the Company appear on page 1.

The Rt Hon Lord Lang of Monkton and Mr L Bolton resigned as directors on 11 May 1998 and Mr R A Scott and Mr P J Twyman resigned as directors on 19 October 1998.

Mr P R Hales, Mrs G M Vance and Mr G M Berville were appointed as directors on 19 October 1998.

Mr P R Hales, Mrs G M Vance and Mr G M Berville, having been appointed during the year, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. In accordance with the Articles of Association, Mr W H Jack will retire by rotation and, being eligible, will offer himself for re-election.

Directors' report

The beneficial interests of directors in shares of the ultimate parent company, CGU plc, are as follows:

	Ordinary shares At 1 January 1998 or date of appointment if later	At 31 December 1998	**Ordinary shares** Awarded under the Integration Incentive Plan
W H Jack *	11,582	3,410	23,719
M N Urmston *	4,369	7,407	14,684
P R Hales *	8,792	9,722	15,248
G M Vance *	7,403	7,403	9,600
G M Berville	1,316	1,334	12,424

During the year an award of shares was granted to the directors under the Integration Incentive Plan. These shares will only vest in the year 2000 upon the satisfaction of specified performance criteria.

	Share options			
	At 1 January 1998 or date of appointment if later	Options granted during the year	Options exercised or lapsed during the year	At 31 December 1998
W H Jack *	112,249	25,106	1,861	135,494
M N Urmston *	85,244	16,321	2,327	99,238
P R Hales *	85,426	15,826	-	101,252
G M Vance *	29,624	9,964	-	39,588
G M Berville	2,853	12,895	-	15,748

The directors marked with an asterisk held shares in General Accident plc which were converted on 2 June 1998 in accordance with the terms of the merger offer at the rate of 1.233 CGU plc shares for every 1 General Accident plc share held. In order to show the actual movement in shareholdings during the year General Accident plc shares held at 1 January 1998 have been converted to CGU plc shares on the basis detailed above.

Review of past sales of personal pensions

The Company has a relatively low exposure in respect of potential compensation payments arising from the review, required by UK regulatory bodies, of certain past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes. All PIA completion targets to date have been met by the specialist pensions review team. The work of the team has been subject to review by independent external consultants. The Company has taken appropriate steps to ensure that the cases requiring review under the next phase are properly addressed in a timely manner.

European Monetary Union

The Company has determined the implications of the introduction of the Euro by the UK Government. Should the UK decide to enter EMU the Company will deliver systems to support the introduction of the Euro in the most advantageous and economical way for its customers and suppliers.

Directors' report

European Monetary Union (continued)

A management charge in respect of administration services has been made by a fellow group undertaking, CGU Life Services Limited, which includes an element in respect of costs associated with the introduction of the Euro by the Company and its subsidiary undertakings. It is not possible to separately identify these group costs on a company by company basis. Accordingly, the relevant notes in relation to the costs incurred and estimated total costs are included in the financial statements of CGU Life Services Limited.

Year 2000 compliance

The CGU Life group has dedicated a significant amount of resources and staff to effect a smooth transition into the next millennium. An overall project management team is responsible for co-ordinating inter-related system, vendor and agency activity.

The primary focus has been the completion of year 2000 systems compliance plans. All CGU Life companies have spent the last few years assessing their systems, changing programs and testing for year 2000 compliance. Compliance activities relating to all policy issuance systems and agency rating software for all the CGU Life companies was completed in 1998. System testing will continue throughout 1999 with refinements made as necessary.

Throughout 1998, all of CGU's critical business partners, facility managers, and vendors have been contacted regarding their year 2000 compliance efforts. In instances where a survey has not been returned or concerns have been raised, we have contacted that entity directly to assess whether the year 2000 will have a significant negative impact on our business operations.

We are in the process of assessing risk exposures and their impact on our operations. Our goal is to ensure, where necessary and practical, contingency plans and strategies are in place to assist in maintaining necessary service levels.

As noted above, a management charge in respect of administration services has been made by a fellow group undertaking, CGU Life Services Limited, which includes an element in respect of costs associated with Year 2000 compliance. It is not possible to separately identify these group costs on a company by company basis. Accordingly, the relevant notes in relation to the costs incurred and estimated total costs are included in the financial statements of CGU Life Services Limited.

Creditor payment policy and practice

Under a management agreement CGU Life Services Limited, a fellow group undertaking, supplies and makes a charge for the provision of all goods and services to the Company. Accordingly, the relevant details in relation to creditor payment policy and practice are included in the directors' report of CGU Life Services Limited.

Directors' report

Statement of directors' responsibilities

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 the Group and of the profit 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the 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 Group and to prevent and detect fraud and other irregularities.

By order of the Board

P. M. White.

P M White *Secretary*

18 February 1999

Auditor's report

Report of the auditors to the members of CGU Life Assurance Limited

We have audited the financial statements on pages 9 to 29.

Respective responsibilities of directors and auditors

As described on page 7 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 of the state of affairs of the Company and the Group as at 31 December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

1 The Embankment
Neville Street
Leeds
LS1 4DW

KPMG Audit Plc
Chartered Accountants
Registered Auditor

18 February 1999

Actuary's certificate

I certify that in my opinion the aggregate amount of the actuarial liabilities of the Company in relation to its long term business at 31 December 1998, being the amount of the long term business provision and the technical provisions for linked liabilities, are as shown in the balance sheet.

M N Urmston

M N Urmston *Actuary*

18 February 1999

Consolidated profit and loss account

for the year ended 31 December 1998

Technical account - long term business

	Note	1998 £m	1997 Restated £m
Earned premiums, net of reinsurance			
Gross premiums written	2	**1,907.8**	1,706.8
Outward reinsurance premiums		**(704.4)**	(470.1)
		1,203.4	1,236.7
Investment income	3	**787.4**	674.4
Unrealised gains on investments		**565.8**	599.6
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(618.8)**	(498.4)
Reinsurers' share		**89.9**	57.0
		(528.9)	(441.4)
Change in the provision for claims			
Gross amount		**(11.6)**	(4.8)
Reinsurers' share		**0.5**	1.7
		(11.1)	(3.1)
		(540.0)	(444.5)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		**(1,230.0)**	(1,108.7)
Reinsurers' share		**95.7**	28.1
		(1,134.3)	(1,080.6)
Other technical provisions, net of reinsurance		**(29.0)**	(58.4)
		(1,163.3)	(1,139.0)
Net operating expenses	5	**(254.4)**	(216.0)
Investment expenses and charges	6	**(18.1)**	(17.6)
Tax attributable to the long term business	9	**(48.9)**	(75.8)
Minority interest		**-**	(1.6)
Transfers to the fund for future appropriations		**(482.0)**	(576.9)
Balance on the technical account for long term business		**49.9**	39.3

Consolidated profit and loss account
for the year ended 31 December 1998

Non-technical account

	Note	1998 £m	1997 Restated £m
Balance on the long term business technical account		**49.9**	39.3
Tax credit attributable to balance on the long term business technical account	9	**21.8**	18.1
Pre-tax profit arising on long term business		**71.7**	57.4
Investment income	3	**17.6**	1.5
Unrealised gains on investments		**0.9**	2.0
Investment expenses and charges	6	**(1.2)**	(0.1)
Operating profit on ordinary activities before tax	7	**89.0**	60.8
Tax on profit on ordinary activities	9	**(5.3)**	(18.5)
Profit for the financial year after tax		**83.7**	42.3
Dividends proposed and paid	10	**(40.0)**	(32.0)
Retained profit for the financial year	19	**43.7**	10.3

There were no significant acquisitions or discontinued operations in the current and previous financial year.

A statement of movement in reserves can be found in note 19.

Consolidated statement of total recognised gains and losses
for the year ended 31 December 1998

	1998 £m	1997 £m
Profit for the financial year (as previously reported)	**83.7**	40.3
Prior year adjustment - unrealised gains now included in the non-technical account	**-**	2.0
Restated profit for the financial year	**83.7**	42.3
Total recognised gains and losses relating to the year	**83.7**	42.3

Statement of historical cost profits and losses
for the year ended 31 December 1998

There is no material difference between the results for the current year and the previous year as shown in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note of the historical cost profits and losses for the year is not given.

Consolidated reconciliation of movements in shareholders' funds
for the year ended 31 December 1998

	1998 £m	1997 £m
Profit for the financial year	**83.7**	40.3
Prior year adjustment - unrealised gains now included in the non-technical account	**-**	2.0
Restated profit for the financial year	**83.7**	42.3
Dividends	**(40.0)**	(32.0)
	43.7	10.3
Opening shareholders' funds	**57.5**	47.2
Closing shareholders' funds	**101.2**	57.5

Balance sheets
as at 31 December 1998

Assets

	Note	Group 1998 £m	Group 1997 Restated £m	Parent 1998 £m	Parent 1997 Restated £m
Investments					
Land and buildings	11	**788.5**	753.0	**658.9**	650.5
Investments in group undertakings and participating interests		**-**	-	**4.4**	15.8
Other financial investments	12	**8,596.0**	7,215.7	**8,462.0**	6,890.4
		9,384.5	7,968.7	**9,125.3**	7,556.7
Assets held to cover linked liabilities	13	**461.2**	583.2	**461.2**	435.7
Reinsurers' share of technical provisions					
Long term business provision		**223.4**	124.5	**173.8**	75.2
Claims outstanding		**2.3**	2.4	**1.9**	1.4
Technical provisions for unit-linked liabilities		**1,894.0**	1,224.6	**1,894.0**	1,224.6
		2,119.7	1,351.5	**2,069.7**	1,301.2
Debtors					
Debtors arising out of direct insurance operations	14	**58.3**	35.0	**56.4**	31.4
Debtors arising out of reinsurance operations	15	**29.4**	1.2	**29.3**	1.2
Other debtors	16	**138.6**	135.8	**261.9**	239.4
		226.3	172.0	**347.6**	272.0
Other assets					
Tangible assets	17	**0.6**	1.5	**0.4**	0.6
Cash at bank and in hand		**110.6**	101.0	**103.2**	75.8
		111.2	102.5	**103.6**	76.4
Prepayments and accrued income					
Accrued interest and rent		**48.5**	47.8	**45.8**	38.8
Deferred acquisition costs		**256.0**	248.2	**256.0**	248.2
Other prepayments and accrued income		**19.9**	17.1	**19.8**	16.7
		324.4	313.1	**321.6**	303.7
Total assets		**12,627.3**	10,491.0	**12,429.0**	9,945.7

Balance sheets
as at 31 December 1998

Liabilities

	Note	Group 1998 £m	Group 1997 Restated £m	Parent 1998 £m	Parent 1997 Restated £m
Capital and reserves					
Called up share capital	18	**0.3**	0.3	**0.3**	0.3
Profit and loss account	19	**100.9**	57.2	**100.9**	57.2
Shareholders' funds attributable to equity interests		**101.2**	57.5	**101.2**	57.5
Minority interests - equity		**-**	1.6	**-**	-
Fund for future appropriations		**2,691.3**	2,231.4	**2,690.7**	2,209.1
Technical provisions					
Long term business provision		**7,116.1**	6,075.4	**6,986.8**	5,766.6
Claims outstanding		**37.1**	27.9	**35.9**	25.1
		7,153.2	6,103.3	**7,022.7**	5,791.7
Technical provisions for linked liabilities		**2,355.2**	1,807.8	**2,355.2**	1,660.3
Provisions for other risks and charges	20	**4.9**	2.1	**4.3**	-
Deposits received from reinsurers		**49.6**	49.3	**-**	-
Creditors					
Creditors arising out of direct insurance operations		**21.4**	18.8	**18.2**	15.1
Creditors arising out of reinsurance operations	21	**5.2**	10.3	**5.2**	9.9
Other creditors including taxation and social security	22	**158.9**	101.2	**147.2**	97.4
		185.5	130.3	**170.6**	122.4
Accruals and deferred income		**86.4**	107.7	**84.3**	104.7
Total liabilities		**12,627.3**	10,491.0	**12,429.0**	9,945.7

The financial statements on pages 9 to 29 were approved by the Board on 18 February 1999 and were signed on its behalf by

W H Jack *Director*

Notes to the accounts

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and comply with the revised Statement of Recommended Practice ('SORP') issued by the Association of British Insurers. As permitted by section 230 of the Companies Act 1985 no profit and loss account has been presented for the parent company.

The Group has adopted a modified statutory solvency basis of accounting for long term insurance business.

Changes in accounting policies or presentation

In accordance with the SORP, all net unrealised gains are now included in the profit and loss account reserve. They were previously taken to the revaluation reserve. Prior year figures have been restated as appropriate. There is no change to shareholders' funds as a result.

The new Financial Reporting Standard on goodwill and intangible assets ('FRS10') has been adopted in these accounts. Any goodwill arising after 1 January 1998 will be capitalised on the balance sheet and amortised through the profit and loss account over its useful economic life. Goodwill on acquisitions before this date has been written off to the fund for future appropriations and has not been reinstated, as permitted under FRS10. On subsequent disposal such goodwill will be charged to the profit and loss account. There is therefore no impact on opening shareholders' funds.

Debt securities and other fixed income securities relating to non-linked business have been valued at amortised cost. Previously they were included at current value. This change was necessary to align accounting policies following the merger of the Company's ultimate parent company, General Accident plc, with Commercial Union plc. The impact of this change has been to reduce the value of investments and the balance on the fund for future appropriations by £386.7m (1997 £148.8m), and to reduce the investment return recognised and the transfer to the fund for future appropriations in the technical account for long term business by £237.9m (1997 £159.8m).

Premiums

Premiums in respect of investment linked policies are accounted for in the period in which the liability is established. Other premiums are accounted for as they fall due for payment.

Claims

Claims arising from death or maturity are included in the technical account for long term business when the insured event is notified or becomes due. Surrenders are charged in the period when payment is made and annuities are charged in the period in which each payment becomes due.

Claims payable are stated gross of any related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

Bonuses

Reversionary bonuses are recognised in the technical account for long term business when they are declared and terminal bonuses are recognised when the bonus is paid.

Notes to the accounts

Investment return

Investment return comprises investment income, including realised investment gains and losses and the amortisation of differences between cost and maturity value of investments carried at amortised cost, and movements in unrealised investment gains and losses, net of investment expenses and charges. Investment return on investments attributable to the long term business is reported in the technical account for long term business. Investment return on assets not directly attributable to the long term business is included in the non-technical account.

Investment income is recognised on an accruals basis. Dividend income, grossed up where appropriate by the imputed tax credit, is recognised when the related investment goes ex-dividend.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price or amortised cost. Net realised gains and losses are included within the technical account for long term business if the gain is attributable to assets in the long term business fund. All other net realised gains and losses are included in the non-technical account.

The movement in net unrealised gains and losses represents the difference between the valuation of investments at the balance sheet date and the valuation at the last balance sheet date, or purchase price if purchased during the year, after adjustment for any previously recognised unrealised gains and losses on investments disposed of in the year.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but are to be recovered out of a subsequent financial year. An explicit deferred acquisition cost asset has been established in the balance sheet.

The basis of amortisation is proportional to the first available margins arising in respect of the related policies. Deferral of costs has been limited to the extent that there are available margins. Costs have not been deferred where they are not considered to be recoverable.

Taxation and deferred taxation

The charge for taxation for long term business is based on the result of the application of the rules for the taxation of life companies to the items included in the profit and loss account for the year. The transfer of shareholders' profit included in the non-technical account is grossed up at the effective rate of tax applicable for the period. Provision is made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

Investments

Investments are stated at current value except for non-linked long term business debt securities and fixed income securities which are stated at amortised cost, as this basis more closely corresponds with the valuation of the relevant long term liabilities.

Properties are valued annually at open market value in accordance with the guidance note on the valuation of assets issued by the Royal Institution of Chartered Surveyors, as determined by the Group's professionally qualified internal valuers and by external valuers for a proportion of these properties. Properties which are wholly or partly occupied by group companies are included as investments and do not form a material proportion of the total assets.

Listed investments are stated at mid-market value or amortised cost. Unlisted investments are carried at directors' valuation.

Notes to the accounts

Subsidiary undertakings

The consolidated financial statements include the results of the Company and its subsidiary undertakings, all of which have a common year end date. The subsidiaries are investments of the long term business fund and do not therefore contribute directly to the shareholders' fund.

Any goodwill arising on the acquisition of subsidiaries is capitalised on the balance sheet and amortised over its useful economic life. The carrying value of goodwill is regularly reviewed for impairment. Goodwill arising before 1 January 1998 was eliminated against the fund for future appropriations and has not been reinstated.

Shares in subsidiary undertakings are included at net asset value or cost less a provision for diminution in value where appropriate.

Depreciation

No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view. No depreciation is provided on properties held for own use since such property represents an immaterial proportion of total assets.

Depreciation in relation to tangible fixed assets of overseas branches and subsidiary undertakings is calculated so as to write off the cost on a straight line basis over the expected useful economic lives of the assets concerned.

Long term business provision

The long term business provision is computed annually having due regard to the actuarial principles laid down in the Insurance Companies Regulations 1994. The valuation uses a net premium method in respect of the majority of the Company's non-linked business. Provision for linked contracts is based upon the market value of the related assets, together with an additional reserve to cover future net cash outflows.

Fund for future appropriations

The fund for future appropriations represents all funds the allocation of which between policyholders and shareholders has not been determined by the end of the financial year. Transfers between the fund for future appropriations and the technical account for long term business represent the changes in the unallocated amounts between balance sheet dates.

Foreign currencies

Transactions denominated in currencies other than sterling are translated at the exchange rate at the date of the transaction. Assets and liabilities in currencies other than sterling are translated at the year end rate of exchange. The resulting exchange gains and losses are dealt with in the profit and loss account.

The results of branches and subsidiaries which trade in currencies other than sterling are translated at average exchange rates while their assets and liabilities are translated at year end rates. The resulting exchange differences are taken to the fund for future appropriations.

Notes to the accounts

Deposits received from reinsurers

Reinsurance contracts exist in some of the Company's overseas subsidiary undertakings. Under these contracts, the reinsurers make payments at the outset of a block of policies, and the subsidiaries cede a proportion of future regular premiums in respect of these policies to the reinsurers. Reinsurance premiums, commissions and contributions to claims are accounted for in the technical account for long term business in the period in which they fall due.

2 Gross premiums written

Gross premiums written, which relate to direct insurance, can be analysed as follows:

	1998 £m	1997 £m
Individual premiums	**1,706.1**	1,519.1
Premiums under group contracts	**196.5**	181.9
	1,902.6	1,701.0
Periodic premiums	**434.4**	409.7
Single premiums	**1,468.2**	1,291.3
	1,902.6	1,701.0
Premiums from non-participating contracts	**223.5**	217.9
Premiums from participating contracts	**1,061.5**	1,034.8
Premiums from investment linked contracts	**617.6**	448.3
	1,902.6	1,701.0
Gross premiums written which relate to reinsurances accepted	**5.2**	5.8
	1,907.8	1,706.8
Gross premiums are derived from contracts concluded in :		
United Kingdom	**1,782.7**	1,553.1
Other EU member states	**92.3**	86.9
Other countries	**32.8**	66.8
	1,907.8	1,706.8

Annualised new business premiums

	Annualised periodic premiums		**Single premiums**	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Gross	**82.7**	81.6	**1,495.8**	1,290.8
Reinsurance	**(33.5)**	(20.0)	**(660.3)**	(418.2)
Net	**49.2**	61.6	**835.5**	872.6

Notes to the accounts

2 Gross premiums written (continued)

In classifying new business premiums, the following basis of recognition has been adopted.

New recurring single premium contracts are classified as periodic where they are deemed likely to renew at or above the amount of the initial premium. Incremental increases on existing policies are classified as new business premiums.

Rebates from the Department of Social Security are classified as new single premiums.

Funds at retirement under individual pension contracts left with the Group and transfers from group to individual contracts are classified as new business single premiums and are included in the financial statements both in claims incurred and as single premiums within gross premiums written.

Increments under existing group pension schemes are classified as new business premiums.

Where periodic premiums are received other than annually, such premiums are included on an annualised basis.

3 Investment income

	Technical account		**Non-technical account**	
	1998	1997 Restated	**1998**	1997
	£m	£m	**£m**	£m
Income from other investments				
Land and buildings	**48.0**	40.3	**-**	-
Other	**352.2**	327.2	**1.6**	1.5
Net gains on the realisation of investments	**387.2**	306.9	**16.0**	-
	787.4	674.4	**17.6**	1.5

Assets were disposed of in 1995 under unconditional contracts which provided for payment of the consideration in future years. Accordingly recognition of the realised gains and losses has been spread over the period to settlement on a straight line basis.

In 1998 a net realised gain of £32.2m (1997 £32.1m) has been recognised. This has been offset by related margining loan interest of £31.2m (1997 £25.8m). The balance of the net realised gain not recognised in the current and preceding years of £58.5m (1997 £90.7m), has been included under accruals and deferred income.

4 Total bonuses

Total bonuses included in claims and the change in other technical provisions, net of reinsurance were £439.8m (1997 £357.7m).

Notes to the accounts

5 Net operating expenses

	1998 £m	1997 £m
Acquisition costs	**227.6**	218.3
Change in deferred acquisition costs	**(7.8)**	(24.5)
Administrative expenses	**60.2**	48.5
Reinsurance commissions and profit participation	**(25.6)**	(26.3)
	254.4	216.0

Under a management agreement CGU Life Services Limited, a fellow group undertaking, supplies and makes a charge for the provision of UK operational assets and UK staff to the Group. The agreement specifies the amounts payable in respect of acquisition costs and administrative expenses. Accordingly, the relevant notes in relation to these operational assets and employees are included in the financial statements of CGU Life Services Limited. Appropriate notes in relation to operational assets and employees of overseas long term insurance operations are included in these financial statements.

Total commission paid to external agents included above is £137.6m (1997 £140.4m).

Net operating expenses include an amount of £5.0m in respect of transitional costs arising from the merger of General Accident plc and Commercial Union plc. This amount includes provisions totalling £2.7m for costs which will be incurred in the next financial year.

6 Investment expenses and charges

	Technical account		Non-technical account	
	1998 £m	1997 £m	1998 £m	1997 £m
Investment management expenses, including interest	**18.1**	17.6	**1.2**	0.1

7 Operating profit on ordinary activities before tax

	1998 £m	1997 £m
Operating profit on ordinary activities before tax is stated after (charging)/crediting:		
Remuneration of auditors and their associates		
Audit	**(0.3)**	(0.4)
Other services	**(0.3)**	(0.1)
Depreciation	**(0.5)**	(0.4)
Income from fellow group undertakings	**0.3**	1.4

The auditors' remuneration in respect of the parent company was £0.1m (1997 £0.1m).

Notes to the accounts

8 Directors and employees

Directors' emoluments in respect of services as directors

	1998 £'000	1997 £'000
Aggregate emoluments in respect of services as directors	3	8
Compensation for loss of office	-	5

Directors' emoluments in respect of management of the Company and its subsidiaries

As detailed in note 5, a management charge in respect of administration services has been made by CGU Life Services Limited, which includes an element in respect of directors' time spent in managing the Company and its subsidiaries. It is not possible to separately identify these group costs on a company by company basis. Eligible directors also participate in CGU group share option schemes and group retirement benefit schemes.

Emoluments, share options exercised and retirement benefits accruing in respect of the directors, who are also directors of CGU Life Services Limited, are provided in the financial statements of that company.

Employees

As stated in note 5, details of UK employees who provide services to the Group are included in the financial statements of CGU Life Services Limited. In addition the Group employs staff in its overseas long term insurance operations. The average number of such employees was 105 (1997 193). Employment costs of these employees were:

	1998 £m	1997 £m
Wages and salaries	3.9	7.3
Social security costs	0.7	0.9
Other pension costs	-	0.3
	4.6	8.5

Notes to the accounts

9 Taxation

	Technical account 1998 £m	Technical account 1997 £m	Non-technical account 1998 £m	Non-technical account 1997 £m
UK corporation tax at 31% (1997 31.5%)	**42.7**	53.1	**(17.9)**	0.3
Tax attributable to UK dividends received	**10.3**	15.7	**-**	0.1
Overseas taxation	**3.1**	4.2	**-**	-
	56.1	73.0	**(17.9)**	0.4
Adjustments in respect of prior years	**(7.8)**	2.8	**-**	-
	48.3	75.8	**(17.9)**	0.4
Taxation attributable to shareholders' profits on long term business	**-**	-	**21.8**	18.1
	48.3	75.8	**3.9**	18.5
Deferred taxation	**0.6**	-	**1.4**	-
	48.9	75.8	**5.3**	18.5

The prior year adjustment relates to the recalculation of liabilities in view of current information

10 Dividends

	1998 £m	1997 £m
Interim dividend paid of £4,000 per share (1997 £3,200)	**40.0**	32.0

11 Land and buildings

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Freehold	**547.1**	468.3	**451.4**	397.4
Long leasehold	**238.6**	281.4	**204.7**	249.8
Short leasehold	**2.8**	3.3	**2.8**	3.3
	788.5	753.0	**658.9**	650.5
Of which occupied by the Company for its own activities	**16.8**	15.7	**16.5**	15.4
Purchase price of land and buildings	**638.6**	627.3	**512.4**	517.2

Group land and buildings include £33.9m (1997 £82.8m) in respect of investment properties currently under development by subsidiary undertakings.

The land and buildings above was valued at 31 December 1998 on an open market basis (and at market value based on vacant possession for owner occupied properties) by St Quintin, Montagu Evans and DTZ Debenham Thorpe, independent Chartered Surveyors.

Notes to the accounts

12 Other financial investments

Group

	Carrying value		Cost	
	1998	1997 Restated	**1998**	1997
	£m	£m	**£m**	£m
Shares and other variable-yield securities and units in unit trusts	**6,146.7**	4,856.8	**3,457.6**	2,702.2
Debt securities and other fixed income securities	**2,374.3**	2,160.9	**2,382.6**	2,164.4
	8,521.0	7,017.7	**5,840.2**	4,866.6
Loans secured by mortgages	**0.3**	16.5	**0.3**	16.5
Loans secured by insurance policies	**45.2**	45.9	**45.2**	45.9
Other loans	**2.9**	9.9	**2.9**	9.9
Deposits with credit institutions	**26.6**	125.7	**26.6**	125.7
	8,596.0	7,215.7	**5,915.2**	5,064.6

Parent

	Carrying value		Cost	
	1998	1997 Restated	**1998**	1997
	£m	£m	**£m**	£m
Shares and other variable-yield securities and units in unit trusts	**6,146.7**	4,833.8	**3,457.6**	2,679.6
Debt securities and other fixed income securities	**2,276.0**	1,915.4	**2,283.6**	1,918.6
	8,422.7	6,749.2	**5,741.2**	4,598.2
Loans secured by mortgages	**0.3**	16.5	**0.3**	16.5
Loans secured by insurance policies	**15.7**	13.5	**15.7**	13.5
Deposits with credit institutions	**23.3**	111.2	**23.3**	111.2
	8,462.0	6,890.4	**5,780.5**	4,739.4

Listed investments

	Group		Parent	
	1998	1997	**1998**	1997
Included in the carrying values above are listed investments as follows.	**£m**	£m	**£m**	£m
Shares and other variable-yield securities and units in unit trusts	**6,137.6**	4,804.0	**6,137.6**	4,781.0
Debt securities and other fixed income securities	**2,239.4**	2,145.3	**2,141.1**	1,899.8
	8,377.0	6,949.3	**8,278.7**	6,680.8

Debt securities and other fixed income securities shown at amortised cost are analysed

	Group		Parent	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Cost	**2,376.3**	2,163.8	**2,277.3**	1,918.1
Cumulative amortisation	**(10.2)**	(3.2)	**(9.5)**	(3.2)
Amortised cost	**2,366.1**	2,160.6	**2,267.8**	1,914.9
Market value	**2,752.8**	2,309.3	**2,644.6**	2,062.4

The redemption value of the above investments was £380.7m (1997 £258.5m) less than the amortised cost.

Notes to the accounts

13 Assets held to cover linked liabilities

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Carrying value	**461.2**	583.2	**461.2**	435.7
Purchase price	**401.6**	508.3	**401.6**	395.6

14 Debtors arising out of direct insurance operations

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Amounts owed by policyholders	**58.3**	34.8	**56.4**	31.3
Amounts owed by intermediaries	**-**	0.2	**-**	0.1
	58.3	35.0	**56.4**	31.4

15 Debtors arising out of reinsurance operations

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Group	**27.9**	-	**27.9**	-
Other	**1.5**	1.2	**1.4**	1.2
	29.4	1.2	**29.3**	1.2

16 Other debtors

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Amounts owed by group undertakings	**6.8**	12.3	**137.1**	123.0
Tax recoverable	**31.2**	13.4	**30.5**	13.2
Other debtors	**100.6**	110.1	**94.3**	103.2
	138.6	135.8	**261.9**	239.4

Other debtors include £542.6m (1997 £542.6m) in respect of amounts due to the Company in future years on the disposal of assets during 1995. This has been reduced by an amount of £487.2m (1997 £450.3m) being balances owed by the Company where there is a right of offset.

Notes to the accounts

17 Tangible assets

The net book value of fixtures, fittings, office equipment, computer hardware and motor vehicles is made up as follows:

	Group £m	Parent £m
Cost		
Balance at 1 January 1998	4.8	0.8
Additions	0.1	0.2
Disposals	(2.8)	-
Balance at 31 December 1998	**2.1**	**1.0**
Depreciation		
Balance at 1 January 1998	3.3	0.2
Charged in year	0.5	0.4
On disposals	(2.3)	-
Balance at 31 December 1998	**1.5**	**0.6**
Net book value		
At 31 December 1998	**0.6**	**0.4**
At 31 December 1997	1.5	0.6

As detailed in note 5, relevant notes in relation to UK operational assets of the Group and the Company are included in the financial statements of CGU Life Services Limited. The amounts shown above for the parent relate to tangible assets held by the overseas branches of the Company.

18 Share capital

	1998 £m	1997 £m
Authorised:		
10,000 ordinary shares of £100 each	**1.00**	1.00
Allotted, called up and 25% paid:		
10,000 ordinary shares of £100 each	**0.25**	0.25

Notes to the accounts

19 Reserves

Group and parent	Revaluation reserve 1998 £m	Profit and loss account 1998 £m
Balance at 1 January 1998	4.3	52.9
Transfer of unrealised gains now included in the non-technical account	(4.3)	4.3
Restated opening balance	-	57.2
Retained profit for the financial year	-	43.7
Balance at 31 December 1998	-	**100.9**

The amounts available for distribution are restricted by the Insurance Companies Act 1982 in respect of long term business. In addition, unrealised gains and losses reported in the non-technical account are not considered to be distributable. Of the profit and loss reserve balance £55.1m is not regarded as realised profits available to pay dividends.

20 Provisions for other risks and charges

Group	Deferred taxation 1998 £m	Other 1998 £m	Total 1998 £m
Balance at 1 January 1998	-	2.1	2.1
Movement in the year	2.0	0.8	2.8
Balance at 31 December 1998	**2.0**	**2.9**	**4.9**

Of the above amounts, £1.4m (1997 £Nil) of the deferred taxation provision and all of the other provision relates to the parent company.

The amounts provided for deferred taxation and the amounts not provided are set out below:

Group and parent	1998		1997	
	Provided £m	Unprovided £m	Provided £m	Unprovided £m
On revaluation of investments	**1.4**	**388.5**	-	287.3
Deferred acquisition costs	**-**	**(86.6)**	-	(71.5)
Other timing differences	**0.6**	**11.6**	-	8.3
	2.0	**313.5**	-	224.1

The unprovided amount relating to the revaluation of investments has been taken into account in the calculation of technical provisions.

Notes to the accounts

21 Creditors arising out of reinsurance operations

	Group		Parent	
	1998	1997	1998	1997
	£m	£m	£m	£m
Group	**2.2**	7.2	**2.2**	7.2
Other	**3.0**	3.1	**3.0**	2.7
	5.2	10.3	**5.2**	9.9

22 Other creditors including taxation and social security

	Group		Parent	
	1998	1997	1998	1997
	£m	£m	£m	£m
Corporation taxation payable	**4.6**	0.5	**4.4**	0.1
Other taxation payable	**5.9**	43.5	**5.3**	43.0
Amounts owed to group undertakings	**68.1**	28.7	**72.4**	32.9
Other creditors	**80.3**	28.5	**65.1**	21.4
	158.9	101.2	**147.2**	97.4

Other creditors includes £53.9m in relation to cash received from policyholders in advance of the due date. In 1997 such items, totalling £35.9m, were included in the technical provision for linked liabilities.

23 Commitments

The Group had capital commitments under contracts entered into but not provided for in these accounts of £15.8m (1997 £67.0m).

24 Pension transfer and opt-out provision

The long term business technical provision includes an amount in respect of potential compensation payments to certain of the Company's policyholders arising from the Company's review, required by UK regulatory bodies, of certain past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes. Provision has also been made for the costs associated with the review.

In addition to the Company's own costs, the long term business technical provision includes an amount, based on industry projections, for expected future Investors' Compensation Scheme (ICS) levies in relation to sales by IFA's which form part of the industry review. The ultimate cost of these levies, however, is contingent upon the quantification of the IFA sector's need for support from the ICS in meeting its compensation and associated costs.

The total amount provided by the Company is £14.7m. Because of the complexity of the review, it is not possible to determine with accuracy the ultimate cost to the Company. However, the directors remain of the opinion that suitable provision has been made and that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders.

Notes to the accounts

25 Cash flow statements

The Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of CGU plc whose consolidated accounts are publicly available.

26 Related party transactions

Advantage has been taken of the exemption provided within Financial Reporting Standard No.8 'Related Party Disclosures' not to disclose intra-group related party transactions in respect of 90% subsidiaries. There were no material related party transactions in respect of directors.

27 Long term fund

At 31 December 1998, the total amount of assets representing the long term fund of the Company valued in accordance with Schedule 9A to the Companies Act 1985 was £12,032.7m (1997 £9,636.0m).

28 Parent companies' details

The immediate parent company is CGU Life Holdings Limited.

The ultimate parent company is CGU plc. Its group accounts are available on application to the Group Company Secretary, CGU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ. No other group accounts include the results of the Company.

Notes to the accounts

29 Subsidiary undertakings and other shareholdings

Principal subsidiary undertakings

	Principal activity	Percentage of ordinary share capital held	Incorporated in
Assecura Versicherungsholding SA	Long term insurance	100	Luxembourg
The Lancashire and Yorkshire Reversionary Interest Company Limited	Investment in reversions and life interests	100	United Kingdom
General Accident Life Developments Limited	Property development	100	United Kingdom
Quarryvale One Limited	Holding company	100	United Kingdom
Stuart Wyse Ogilvie Estates Limited	Estate agents	50	United Kingdom

The remainder of the ordinary share capital of Stuart Wyse Ogilvie Estates Limited is held by General Accident Fire and Life Assurance Corporation p.l.c., a wholly owned subsidiary of CGU plc.

During the year the Company disposed of its 81% interest in NZI Life (Ireland) Limited and its 100% interests in General Accident Vie SA and in ICOT Investments Limited. The losses arising were included in net realised gains on investments and amounted to £3.1m, after writing back goodwill of £4.9m which had previously been written off to the fund for future appropriations.

Notes to the accounts

30 Technical provisions assumptions

The principal assumptions underlying the calculation of the long term business provision are provided below:

Rates of interest

	1998 %	1997 %
Assurances		
With profit	**2.5**	2.5
Without profit	**3.5**	3.5
Deferred annuities		
With profit	**3.25**	3.25
Without profit	**4.25**	5.0
Vested annuities		
Without profit	**4.25**	5.5

Mortality tables

Assurances	AM80 & AF80 ultimate with adjustments for smoker status (1997 AM80 & AF80 ultimate with adjustments for smoker status)
Deferred annuities	
In deferment	
Retirement annuities	AM80 & AF80 ultimate rated down 4 years (1997 AM80 & AF80 ultimate rated down 4 years)
Group	AM80 & AF80 ultimate rated down 2 years (1997 AM80 & AF80 ultimate rated down 2 years)
In possession	
Retirement annuities	IM80 & IF80 ultimate (C=2010) rated down 3 years (1997 IM80 & IF80 ultimate (C=2010) rated down 2 years)
Group	PMA80 & PFA80 (C=2010) rated down 3 years (1997 PMA80 & PFA80 (C=2010) rated down 2 years)
Vested annuities	
Retirement annuities	IM80 & IF80 ultimate (C=2010) rated down 2 years (1997 IM80 & IF80 ultimate (C=2010) rated down 1 year)
Group	PMA80 & PFA80 (C=2010) rated down 2 years (1997 PMA80 & PFA80 (C=2010) rated down 1 year)