

Criterion Life Assurance Limited

Directors' report and financial statements

30 June 2000

Company Registration Number: 798365



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Criterion Life Assurance Limited

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Criterion Life Assurance Limited

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 30 June 2000.

Principal activity

The principal activity of the Company is the provision of ordinary long term insurance business within the United Kingdom.

Business Review

The Company transacts long term insurance business in the areas of life, pensions, annuities and permanent health business.

During the year, certain business partners started to produce significant amounts of new business. The Company will continue to seek the development and expansion of such business relationships in the coming year.

Results

The results for the year are set out on pages 5 and 6.

The Company has not prepared consolidated financial statements for the year ended 30 June 2000, since it is a wholly owned subsidiary of Criterion Insurance Company Limited, whose parent undertaking, Criterion Holdings plc has prepared consolidated financial statements for this period.

Dividend

The directors recommend that a final dividend of £388,000 be declared (1999: £1,452,000).

Directors and their interests

The directors who held office during the year are set out below. They and their families had no beneficial interest in the shares of the Company throughout the year.

N.J. Cooke	
H.J. Dunn	(Resigned 31 October 2000)
C. Hughes	(Resigned 30 June 2000)
Dr A. Kann	
W.G. Kilpatrick	
K-H. Klaeser	(Resigned 30 June 2000)
M. Kuhn	
M.W. Sullivan	

According to the Register of Directors' Interests, no rights to subscribe for shares or options in the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

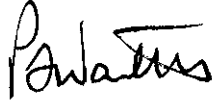
Criterion Life Assurance Limited

Directors' report *(continued)*

Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



P.J. Wainwright
Secretary

Swan Court
Petersfield
Hampshire
GU32 3AF

Criterion Life Assurance Limited

Statement of directors' responsibilities

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any *material departures disclosed and explained in the financial statements*;
- d) 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 which disclose with reasonable accuracy at any time the financial position of the company 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 company and to prevent and detect fraud and other irregularities.

Criterion Life Assurance Limited

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

We have audited the financial statements on pages 5 to 22.

Respective responsibility of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

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 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 of the state of the company's affairs as at 30 June 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Registered Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

Date *21 December 2000*

Criterion Life Assurance Limited

Profit and loss account: technical account - long term business for the year ended 30 June

		2000		1999	
	Note	£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	3	3,463		2,146	
Outward reinsurance premiums		(68)		(7)	
			3,395		2,139
Investment income	4	2,681		3,148	
Unrealised gains on investments		1,359		3,279	
			4,040		6,427
			7,435		8,566
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(7,426)		(6,935)	
Reinsurers' share		9		20	
			(7,417)		(6,915)
Change in the provision for claims	19				
Gross amount		292		352	
Reinsurers' share		-		(6)	
			292		346
			(7,125)		(6,569)
Change in other technical provisions, net of reinsurance	19				
Long term business provision, net of reinsurance					
Gross amount		1,491		(22)	
Reinsurers' share		-		(74)	
			1,491		(96)
Other technical provisions, net of reinsurance	19		311		1,706
			(5,323)		(4,959)
Net operating expenses	5	(2,135)		(951)	
Tax attributable to the long term business	8	(120)		(703)	
Transfers from/(to) the fund for future appropriations	18	581		(718)	
			(1,674)		(2,372)
Balance on the technical account for long term business			438		1,235

The notes on pages 11 to 22 form part of these financial statements.

Criterion Life Assurance Limited

Profit and loss account: non-technical account for the year ended 30 June

	Note	2000 £000	1999 £000
Balance on the long term business technical account		438	1,235
Tax credit attributable to the long term business technical account	8	-	418
Pre-tax profit arising on long term business		438	1,653
Investment income	4	213	262
Unrealised gains on investments		-	157
Unrealised losses on investments		(32)	-
Operating profit		619	2,072
Other charges, including value adjustments		(30)	(37)
Profit on ordinary activities before tax		589	2,035
Tax on profit on ordinary activities	8	-	(525)
Profit for the financial year after tax		589	1,510
Dividends	9	(388)	(1,452)
Retained profit for the financial year transferred to reserves	17	201	58

Criterion Life Assurance Limited

Distributable/Non-distributable reserves

	2000 £000	1999 £000
Non-distributable reserves		
Called up share capital	3,325	3,325
Share premium account	291	291
Profit and loss account	1,159	958
	<u>4,775</u>	<u>4,574</u>
Distributable reserves	-	-
	<u>-</u>	<u>-</u>
Total reserves	<u><u>4,775</u></u>	<u><u>4,574</u></u>

Criterion Life Assurance Limited

Statement of total recognised gains and losses for the year ended 30 June

	2000 £000	1999 £000
Profit for the financial year	589	1,510
Total recognised gains and losses relating to the financial year	<u>589</u>	<u>1,510</u>

Reconciliation of movements in shareholders' funds for the year ended 30 June

	Note	2000 £000	1999 £000
Profit for the financial year		589	1,510
Dividends	9	(388)	(1,452)
Retained profit for the financial year		<u>201</u>	<u>58</u>
Opening shareholders' funds		4,574	4,516
Closing shareholders' funds		<u>4,775</u>	<u>4,574</u>

Criterion Life Assurance Limited

Balance Sheet

as at 30 June

	Note	2000		1999	
		£000	£000	£000	£000
ASSETS					
Investments					
Land and buildings	10	830		509	
Investments in group undertakings and participating interests	11	847		847	
Other financial investments	12	41,609		46,613	
			43,286		47,969
Assets held to cover linked liabilities					
	13		31,539		31,618
Reinsurers' share of technical provisions					
Long term business provisions	19	136		136	
Claims outstanding	19	-		-	
			136		136
Debtors					
Debtors arising out of direct insurance operations	14	180		85	
Other debtors	15	326		24	
			506		109
Other assets					
Cash at bank and in hand			6		44
Prepayments and accrued income					
Accrued interest and rent			152		245
Total assets			75,625		80,121

Criterion Life Assurance Limited

Balance Sheet

as at 30 June

	Note	2000		1999	
		£000	£000	£000	£000
LIABILITIES					
Capital and reserves					
Called up share capital	16	3,325		3,325	
Share premium account	17	291		291	
Profit and loss account	17	1,159		958	
		<hr/>		<hr/>	
Shareholders' funds attributable to equity interests			4,775		4,574
Fund for future appropriations	18		5,971		6,552
Technical provisions					
Long term business provision	19	25,042		26,533	
Claims outstanding	19	48		340	
		<hr/>		<hr/>	
			25,090		26,873
Technical provisions for linked liabilities	19		29,662		29,973
Provision for other risks and charges	20		8,371		9,522
Creditors due within one year					
Creditors arising out of direct insurance operations		30		17	
Other creditors including taxation and social security	21	1,726		2,610	
		<hr/>		<hr/>	
			1,756		2,627
Accruals and deferred income			-		-
Total liabilities			75,625		80,121
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 15 December 2000 and were signed on its behalf by:



W.G. Kilpatrick
Director

Criterion Life Assurance Limited

Notes

(Forming part of the financial statements)

1 Basis of preparation

The financial statements have been prepared in accordance with the special provisions of Schedule 9A of the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

As a wholly owned subsidiary of another company incorporated in Great Britain, the company is exempt from preparing group accounts under Section 228 of the Companies Act 1985.

These financial statements do not include a cash flow statement. This is permitted by Financial Reporting Standard No. 1, since the Company's parent undertaking includes in its financial statements a consolidated cash flow statement dealing with the cash flows of the group.

Under the exemption provided for in Financial Reporting Standard No. 8, transactions with fellow group undertakings are not separately disclosed.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Basis of accounting for long term insurance business

The company has adopted a modified statutory solvency basis for determining long term insurance business.

Premiums

Premiums are accounted for on a receivable basis excluding any taxes or duties levied with premiums. Outward reinsurance premiums are accounted for on a payable basis.

Claims

Death claims, maturities and surrenders are now held as part of the long term business provision until they are paid. Annuities are recognised as they fall due for payment.

Long term business provision

The long term business provision has been computed using a prospective net premium valuation method.

Criterion Life Assurance Limited

Notes (*continued*)

2 Accounting policies (*continued*)

Investment income, expenses and charges

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the related investment goes 'ex-dividend'. Interest is accrued up to the balance sheet date.

Investment income (which is received net of investment management charges), realised gains and losses, expenses and charges are included in the long term business technical account to the extent that they relate to the long term fund. Other investment income, realised gains and losses, expenses and charges are included in the non-technical account.

Realised gains and losses represent the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date.

Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. Unrealised gains and losses on other investments which are attributed to the long term fund or held to cover linked liabilities are included in the long term business technical account. Any movement on these investments is charged or credited to the long term business technical account. Unrealised gains and losses on all other investments are included in the non-technical account.

Investments

All investments, including those classified under assets held to cover linked liabilities, are stated at their current value.

Listed investments are stated at mid-market value.

Investments in group undertakings and participating interests are stated at current value.

Mortgages and loans on policies are stated at the directors' estimate of assignable value.

Foreign currencies

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the long term business technical account or the non-technical account as appropriate.

Criterion Life Assurance Limited

Notes (continued)

2 Accounting policies (continued)

Taxation

The charge for taxation is based on the result of the application of the rules for the taxation of life assurance companies to the items included in the profit and loss account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

The transfer from the long term business technical account to the non-technical account is grossed up at the effective rate of corporation tax applicable to the year.

3 Gross premiums earned

Gross premiums earned, all of which relate to direct insurance, can be analysed as follows:

	2000 £000	1999 £000
Periodic premiums	1,561	1,784
Single premiums	1,902	362
	<u>3,463</u>	<u>2,146</u>
Premiums from non-participating contracts	2,118	675
Premiums from participating contracts	113	162
Premiums from investment linked contracts	1,232	1,309
	<u>3,463</u>	<u>2,146</u>
Premiums from life business	3,235	1,906
Premiums from pension business	219	240
Premiums from permanent health business	9	-
	<u>3,463</u>	<u>2,146</u>

All premiums are derived from contracts concluded in the United Kingdom, with the exception of £9,000 (1999: £1,000), which are derived from contracts concluded in Finland and Malta. Commissions expensed in respect of direct insurance amounted to £1,289,589 (1999: £194,587).

Criterion Life Assurance Limited

Notes (continued)

3 Gross premiums earned (continued)

Annualised new business premiums can be analysed as follows:

	2000 £000	1999 £000
Individual premiums	2,011	466
Periodic premiums	109	104
Single premiums	1,902	362
	2,011	466
Premiums from investment linked contracts	12	16
Premiums from life business	1,971	444
Premiums from pension business	27	22
Premiums from permanent health business	13	-
	2,011	466

No material reinsurance has been placed on new business.

In classifying new business premiums, the basis of recognition adopted is as follows:

- New recurrent single premium contracts are classified as periodic where they are deemed likely to renew at or above the amount of 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 company and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both 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, the regular new business premiums are on an annualised basis.

Criterion Life Assurance Limited

Notes (continued)

4 Investment income

	Technical account		Non-technical account	
	2000	1999	2000	1999
	£000	£000	£000	£000
Income from other investments				
Land and buildings	55	52	-	-
Other investments	2,836	3,288	249	241
Net (losses)/gains on the realisation of investments	(210)	(192)	(36)	21
	<u>2,681</u>	<u>3,148</u>	<u>213</u>	<u>262</u>

5 Expenses of Management

Management expenses are incurred by the immediate parent undertaking, Criterion Insurance Company Limited, and charged to the Company on the basis of an allocation by reference to the type of costs incurred. The management charges include auditors' remuneration in respect of audit work of £45,625 (1999: £45,036), and auditors' remuneration in respect of non-audit work of £31,005 (1999: £34,331).

The net operating expenses shown in the profit and loss account: technical account - long term business comprise of:-

	2000	1999
	£000	£000
Interest payable	16	8
Acquisition costs	283	74
Commission	1,290	195
Administrative expenses	899	816
Business development expenses	648	584
Other operating expenses	107	156
Movement in excess expense provisions	(658)	(424)
Movement in provision for personal pensions review costs	(450)	(458)
	<u>2,135</u>	<u>951</u>

6 Remuneration of directors

Directors' emoluments excluding pension contributions, totalled £16,250 (1999: £20,000).

7 Loans to officers

At the year end, the aggregate amount outstanding of loans made to two officers of the Company was £7,062 (1999: £Nil).

Criterion Life Assurance Limited

Notes (continued)

8 Taxation

	Technical account		Non-technical account	
	2000 £000	1999 £000	2000 £000	1999 £000
UK corporation tax at 30% (1999:30.75%)	15	225	-	62
UK corporation tax at 22.75% (1999:23%)	43	292	-	-
UK corporation tax at 20% (1999:20%)	62	580	-	-
Tax credit on franked investment income	-	86	-	-
Prior year adjustments for deferred tax	-	(605)	-	-
Other prior year adjustments	43	21	-	45
Tax attributable to shareholders' profits at 30% (1999:30.75%)	-	-	-	418
	<u>163</u>	<u>599</u>	<u>-</u>	<u>525</u>
Deferred taxation (see note 20)	(43)	(501)	-	-
Prior year adjustments for deferred tax	-	605	-	-
	<u>120</u>	<u>703</u>	<u>-</u>	<u>525</u>

9 Dividends

The amount recommended for distribution by way of dividend is £388,000 (11.67 pence per ordinary share), (1999: £1,452,000; 43.7 pence per ordinary share).

10 Land and buildings

The directors have included the land and buildings which is for the Company's own use, at a valuation of £830,000 (1999: £509,300). Its original cost was £640,266 (1999: £122,000).

11 Investments in group undertakings and participating interests

	Market value		Cost	
	2000 £000	1999 £000	2000 £000	1999 £000
Shares in group undertaking	847	847	106	106

Criterion Life Assurance Limited

Notes (continued)

11 Investments in group undertakings and participating interests (continued)

Criterion Life Assurance Limited's remaining subsidiary undertaking at 30 June 2000 is Internet Life Assurance Company Limited which is wholly owned by the Company, and registered in England and Wales.

12 Other financial investments

	Market value		Cost	
	2000 £000	1999 £000	2000 £000	1999 £000
Shares and other variable-yield securities and units in unit trusts	23,119	21,530	22,420	19,629
Debt securities and other fixed-income securities	16,103	23,217	15,480	21,131
Loans secured by mortgages	276	426	276	428
Loans secured by insurance policies	810	836	840	874
Loan to parent undertaking	862	-	862	-
Deposits with credit institutions	439	604	439	604
	<u>41,609</u>	<u>46,613</u>	<u>40,317</u>	<u>42,666</u>
Included in the above were investments:				
Listed on the UK Stock Exchange	39,222	44,747	37,900	40,760
	<u>39,222</u>	<u>44,747</u>	<u>37,900</u>	<u>40,760</u>

13 Assets held to cover linked liabilities

	2000 £000	1999 £000
Purchase price of investments included under assets held to cover linked liabilities	<u>24,634</u>	<u>23,846</u>

Criterion Life Assurance Limited

Notes (continued)

14 Debtors arising out of direct insurance operations

	2000 £000	1999 £000
Amounts due from policyholders	168	63
Amounts due from reinsurers	3	-
Amounts due from Inland Revenue	9	22
	<u>180</u>	<u>85</u>

15 Other debtors

	2000 £000	1999 £000
Sales for subsequent settlement	61	-
Taxation	179	-
Other debtors	86	24
	<u>326</u>	<u>24</u>

16 Called up share capital

	2000 £000	1999 £000
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
3,325,000 ordinary shares of £1 each	<u>3,325</u>	<u>3,325</u>

17 Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of the year	291	958	1,249
Retained profit for the year	-	201	201
At end of the year	<u>291</u>	<u>1,159</u>	<u>1,450</u>

Criterion Life Assurance Limited

Notes (continued)

18 Fund for future appropriations

	2000 £000	1999 £000
At beginning of the year	6,552	5,834
Transfer from technical account - long term business	(581)	718
At end of the year	<u>5,971</u>	<u>6,552</u>

19 Technical provisions

	Claims outstanding £000	Long term business provision £000	Technical provisions for linked liabilities £000
Gross amount			
At beginning of the year	340	26,533	29,973
Movement in the provision	(292)	(1,491)	(311)
At end of the year	<u>48</u>	<u>25,042</u>	<u>29,662</u>
Reinsurers' share			
At beginning of the year	-	(136)	-
Movement in the provision	-	-	-
At end of the year	<u>-</u>	<u>(136)</u>	<u>-</u>
Net technical provisions			
At beginning of the year	340	26,397	29,973
Net movement to the long term business technical account excluding bonuses	(292)	(1,491)	(311)
At end of the year	<u>48</u>	<u>24,906</u>	<u>29,662</u>

Criterion Life Assurance Limited

Notes (continued)

19 Technical provisions (continued)

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

(a) Rates of interest

	2000	1999
Assurances		
With profit	3.44%	3.44%
Without profit	5.50%	5.00%
Deferred Annuities		
With profit	4.00%	4.00%
Without profit	5.50%	5.00%
Annuities		
Without profit	5.50%	5.00%

(b) Mortality tables

Life assurance business	non linked linked	A67/70 ultimate A67/70 ultimate
General annuity business	90% of IM80/IF80 (Calendar year = 2010) for immediate annuities and 80% for deferred annuities	
Pensions business	assurances annuities	A67/70 ultimate 90% of PMA80/PFA80 (Calendar year = 2010) for immediate annuities and 80% for deferred annuities

20 Provision for other risks and charges

	Provision for deferred taxation £000	Other provisions £000	Total £000
At beginning of the year	1,641	7,881	9,522
Transfer to the technical account	(43)	(1,108)	(1,151)
At end of the year	1,598	6,773	8,371

Other provisions include £5,471,000 (1999: £6,129,000) in respect of the discounted projected future expenses required for running off the funds in a closed fund scenario.

Criterion Life Assurance Limited

Notes (continued)

20 Provision for other risks and charges (continued)

The amounts provided for deferred taxation are set out below:

	2000 £000	1999 £000
Unrealised gains on investments	1,943	1,700
Timing differences arising from capital allowances	20	(6)
Other timing differences	(365)	(53)
	<u>1,598</u>	<u>1,641</u>

There are no amounts of deferred taxation unprovided (1999: £Nil).

21 Other creditors including taxation and social security

	2000 £000	1999 £000
Bank overdraft	4	49
Amounts due to group undertakings	1,010	2,146
Taxation and social security	-	37
Other creditors	138	378
Purchases for subsequent settlement	574	-
	<u>1,726</u>	<u>2,610</u>

22 Long term fund

At 30 June 2000, the total amount of assets representing the long term fund as defined in the Insurance Companies Act 1982, valued in accordance with Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £67,952,000 (1999: £67,235,000).

23 Contingent liabilities - pension transfers and opt outs

Provision has been made in respect of rectification and review costs of pension transfers and opt outs from occupational schemes which is included in the long term business technical provision. The number of policyholders who should be compensated and the amount of compensation payable cannot currently be accurately determined. Accordingly, the provision might prove insufficient or excessive when the position is finally determined.

Criterion Life Assurance Limited

Notes *(continued)*

24 Parent undertakings

The immediate parent undertaking is Criterion Insurance Company Limited, a company registered in England and Wales.

The Company's financial statements are consolidated into the financial statements of Criterion Holdings plc, a company registered in England and Wales.

Copies of the group financial statements of Criterion Holdings plc are available from its registered office at Swan Court, Swan Street, Petersfield, Hampshire, GU32 3AF.

The ultimate parent undertaking is VHV - Vereinigte Haftpflichtversicherung VaG, a company registered in Germany.

Copies of the group financial statements of VHV - Vereinigte Haftpflichtversicherung VaG are available from the parent undertaking's registered office at Constantinstrasse 40, D-30177 Hannover, Germany.