

Criterion Life Assurance Limited

Directors' Report and Financial Statements

30 June 2003

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 2003.

Principal activity

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

Business Review

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

New business volumes increased slightly compared to last year. As disclosed in note 3, pension new business has increased by some 40% but new life business has fallen sharply following the withdrawal from certain unprofitable lines of UK credit life business.

Since the year end, a contract has been exchanged for the sale of the Company. The proposed change of control of the Company requires the approval of the Financial Services Authority and will take effect once that approval has been given.

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 2003 since it is a wholly owned subsidiary of Vereinigte Haftpflichtversicherung V.a.G. which prepares consolidated financial statements.

Dividend

The directors recommend that no dividend be declared (2002: £Nil).

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.

P.E.J. Le Beau	(Resigned 1 August 2002)
Dr A. Kann	(Resigned 10 December 2002)
W.G. Kilpatrick	
M. Kuhn	
A. Scott	
M.W. Sullivan	

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

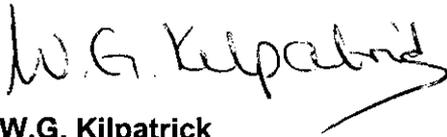
Criterion Life Assurance Limited

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



W.G. Kilpatrick
Secretary

Swan Court
Petersfield
Hampshire
GU32 3AF

29 September 2003

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 of 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

Independent auditor's report to the members of Criterion Life Assurance Limited

We have audited the financial statements on pages 5 to 21.

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 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 1985. 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 audit 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Registered Auditor
Chartered Accountants
1 Canada Square
Canary Wharf
London
E14 5AG

30 September 2003

Criterion Life Assurance Limited

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

	Note	2003		2002	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	3	76,798		54,940	
Outward reinsurance premiums		(6,678)		(7,561)	
			70,120		47,379
Investment income	4	4,466		2,024	
Unrealised gains on investments		677		(4,445)	
			5,143		(2,421)
			<u>75,263</u>		<u>44,958</u>
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(11,607)		(6,291)	
Reinsurers' share		297		85	
			(11,310)		(6,206)
Change in the provision for claims	18				
Gross amount		(21)		(18)	
Reinsurers' share		-		-	
			(21)		(18)
			<u>(11,331)</u>		<u>(6,224)</u>
Change in other technical provisions, net of reinsurance	18				
Long term business provision, net of reinsurance					
Gross amount		(1,112)		(3,761)	
Reinsurers' share		973		1,510	
			(139)		(2,251)
Other technical provisions, net of reinsurance	18		(46,176)		(26,197)
			<u>(57,646)</u>		<u>(34,672)</u>
Net operating expenses	5	(16,462)		(11,607)	
Tax attributable to the long term business	7	267		(38)	
Transfers from the fund for future appropriations	17	268		507	
			<u>(15,927)</u>		<u>(11,138)</u>
Balance on the technical account for long term business			<u>1,690</u>		<u>(852)</u>

The notes on pages 11 to 21 form part of these financial statements.

Criterion Life Assurance Limited

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

	<i>Note</i>	2003 £000	2002 £000
Balance on the long term business technical account		1,690	(852)
Tax credit attributable to the long term business technical account	7	-	-
Pre-tax profit/(loss) arising on long term business		<u>1,690</u>	<u>(852)</u>
Investment income	4	217	256
Unrealised losses on investments		(98)	(96)
Operating profit/(loss)		<u>1,809</u>	<u>(692)</u>
Other charges, including value adjustments		(25)	(27)
Profit/(Loss) on ordinary activities before tax		<u>1,784</u>	<u>(719)</u>
Tax on profit on ordinary activities	7	-	-
Profit/(Loss) for the financial year after tax		<u>1,784</u>	<u>(719)</u>
Dividends	8	-	-
Retained profit/(loss) for the financial year transferred from/to reserves	16	<u>1,784</u>	<u>(719)</u>

Criterion Life Assurance Limited

Distributable/Non-distributable reserves

	2003 £000	2002 £000
Non-distributable reserves		
Called up share capital	3,325	3,325
Share premium account	291	291
Profit and loss account	1,495	1,340
	<hr/> 5,111	<hr/> 4,956
Distributable reserves	1,141	(488)
	<hr/>	<hr/>
Total reserves	<u>6,252</u>	<u>4,468</u>

Criterion Life Assurance Limited

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

	<i>Note</i>	2003 £000	2002 £000
Profit/(loss) for the financial year		1,784	(719)
Dividends	8	-	-
		<hr/>	<hr/>
Retained profit/(loss) for the financial year		1,784	(719)
Opening shareholders' funds		4,468	5,187
		<hr/>	<hr/>
Closing shareholders' funds		6,252	4,468
		<hr/>	<hr/>

Criterion Life Assurance Limited

Balance Sheet as at 30 June

	Note	2003		2002	
		£000	£000	£000	£000
ASSETS					
Investments					
Land and buildings	9	855		855	
Investments in group undertakings and participating interests	10	847		847	
Other financial investments	11	45,533		42,625	
			<u>47,235</u>	<u>44,327</u>	
Assets held to cover linked liabilities	12		104,792		59,065
Reinsurers' share of technical provisions					
Long term business provisions	18	2,643		1,670	
			<u>2,643</u>	<u>1,670</u>	1,670
Debtors					
Debtors arising out of direct insurance operations	13	1,996		1,510	
Other debtors	14	2,057		467	
			<u>4,053</u>	<u>1,977</u>	1,977
Other assets					
Cash at bank and in hand			214		68
Prepayments and accrued income					
Accrued interest and rent			169		170
Total assets			<u>159,106</u>	<u>107,277</u>	

Criterion Life Assurance Limited

Balance Sheet

as at 30 June

	Note	2003		2002	
		£000	£000	£000	£000
LIABILITIES					
Capital and reserves					
Called up share capital	15	3,325		3,325	
Share premium account	16	291		291	
Profit and loss account	16	2,636		852	
		<hr/>		<hr/>	
Shareholders' funds attributable to equity interests			6,252		4,468
Fund for future appropriations	17		4,526		4,794
Technical provisions					
Long term business provision	18	31,042		29,930	
Claims outstanding	18	69		48	
		<hr/>		<hr/>	
			31,111		29,978
Technical provisions for linked liabilities	18		104,426		58,250
Provision for other risks and charges	19		7,649		6,731
Creditors due within one year					
Creditors arising out of direct insurance operations		2,468		1,777	
Other creditors including taxation and social security	20	2,485		1,090	
		<hr/>		<hr/>	
			4,953		2,867
Accruals and deferred income			189		189
Total liabilities			159,106		107,277
		<hr/>		<hr/>	

These financial statements were approved by the board of directors on 29 September 2003 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, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers.

The Company has not prepared consolidated financial statements for the year ended 30 June 2003 since it is a wholly owned subsidiary of Vereinigte Haftpflichtversicherung V.a.G., which prepares consolidated financial statements.

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 except as noted below. The company has adopted FRS 19 'Deferred tax' in these financial statements. The comparative figures have been restated accordingly where material.

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:

	2003 £000	2002 £000
Periodic premiums	2,426	1,984
Single premiums	74,372	52,956
	<u>76,798</u>	<u>54,940</u>
Premiums from non-participating contracts	22,624	18,756
Premiums from participating contracts	116	124
Premiums from investment linked contracts	54,058	36,060
	<u>76,798</u>	<u>54,940</u>
Premiums from life business	22,540	19,671
Premiums from pension business	54,213	35,242
Premiums from permanent health business	45	27
	<u>76,798</u>	<u>54,940</u>
United Kingdom	59,161	40,464
Germany	14,170	10,791
Finland	38	1
Italy	3,429	3,684
	<u>76,798</u>	<u>54,940</u>

Commissions expensed in respect of direct insurance amounted to £12,377,843 (2002: £8,956,730).

Criterion Life Assurance Limited

Notes (continued)

3 Gross premiums earned (continued)

Annualised new business premiums can be analysed as follows:

	2003	2002
	£000	£000
Individual premiums	53,888	53,375
Periodic premiums	521	419
Single premiums	53,367	52,956
	53,888	53,375
Premiums from investment linked contracts	49,688	34,896
Premiums from life business	4,183	18,469
Premiums from pension business	49,688	34,896
Premiums from permanent health business	17	10
	53,888	53,375

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	
	2003 £000	2002 £000	2003 £000	2002 £000
Income from other investments				
Land and buildings	85	85	-	-
Other investments	4,218	2,876	237	360
Net (losses)/gains on the realisation of investments	163	(937)	(20)	(104)
	<u>4,466</u>	<u>2,024</u>	<u>217</u>	<u>256</u>

5 Expenses of Management

Management expenses are incurred by a fellow subsidiary undertaking, Criterion Financial Services Limited, and charged to the Company on the basis of an allocation by reference to the type of costs incurred. The administrative expenses include auditors' remuneration in respect of audit work of £139,851 (2002: £36,000), and auditors' remuneration in respect of non-audit work of £Nil (2002: £29,375). The audit cost includes £18,000 which relates to prior year audit work.

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

	2003 £000	2002 £000
Interest payable	16	14
Acquisition costs	100	210
Commission	12,378	8,957
Administrative expenses	2,236	1,105
Business development expenses	67	601
Other operating expenses	520	239
Movement in excess expense provisions	1,807	679
Movement in provision for pensions and endowments review costs	(212)	(198)
Movement in other provisions	(450)	-
	<u>16,462</u>	<u>11,607</u>

6 Remuneration of directors

Directors' emoluments excluding pension contributions, totalled £24,500(2002: £22,144).

Criterion Life Assurance Limited

Notes (continued)

7 Taxation

Analysis of charge in period

	2003 £000	2002 £000
Profit/(loss) on ordinary activities before tax	1,784	(719)
Current tax at 30% (2002: 30%)	<u>535</u>	<u>-</u>
<i>Effects of:</i>		
Utilisation of tax losses	(535)	-
Adjustments to tax charge in respect of previous periods	(40)	38
Release of provision for deferred tax	(227)	-
Tax on profit on ordinary activities	<u>(267)</u>	<u>38</u>

There are significant unrelieved tax losses; no deferred tax asset has been ascribed to them as, following the sale of the Company, it can be regarded as less likely than not that there will be suitable taxable profits to offset.

8 Dividends

The amount recommended for distribution by way of dividend is £Nil (2002: Nil).

9 Land and buildings

The directors have included the land and buildings which is for the Company's own use, at a valuation of £855,000 (2002: £855,000). Its original cost was £640,266 (2002: £640,266).

10 Investments in group undertakings and participating interests

	Market value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Shares in group undertaking	<u>847</u>	<u>847</u>	<u>106</u>	<u>106</u>

Criterion Life Assurance Limited's remaining subsidiary undertaking at 30 June 2003 is Internet Life Assurance Company Limited which is wholly owned by the Company, and registered in England and Wales.

Criterion Life Assurance Limited

Notes (continued)

11 Other financial investments

	Market value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Shares and other variable-yield securities and units in unit trusts	23,246	22,310	22,787	21,786
Debt securities and other fixed-income securities	19,639	17,298	19,385	17,268
Loans secured by mortgages	153	173	153	173
Loans secured by insurance policies	607	756	626	772
Loan to parent undertaking	-	-	-	-
Deposits with credit institutions	1,888	2,088	1,888	2,088
	<u>45,533</u>	<u>42,625</u>	<u>44,839</u>	<u>42,087</u>
Included in the above were investments:				
Listed on the UK Stock Exchange	42,885	39,608	42,172	39,054
	<u>42,885</u>	<u>39,608</u>	<u>42,172</u>	<u>39,054</u>

12 Assets held to cover linked liabilities

The historic cost of investments included at market value in assets held to cover linked liabilities was £122,914,000 (2002: £62,074,000)

13 Debtors arising out of direct insurance operations

	2003 £000	2002 £000
Amounts due from policyholders	1,996	1,484
Amounts due from reinsurers	-	3
Amounts due from Inland Revenue	-	23
	<u>1,996</u>	<u>1,510</u>

Criterion Life Assurance Limited

Notes (continued)

14 Other debtors

	2003 £000	2002 £000
Sales for subsequent settlement	2	-
Amount due from parent undertaking	-	98
Taxation	375	360
Other debtors	1,680	9
	<u>2,057</u>	<u>467</u>

15 Called up share capital

	2003 £000	2002 £000
Authorised		
10,000,000 ordinary shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
3,325,000 ordinary shares of £1 each	3,325	3,325
	<u>3,325</u>	<u>3,325</u>

16 Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of the year	291	852	1,143
Retained profit for the year	-	1,784	1,784
At end of the year	<u>291</u>	<u>2,636</u>	<u>2,927</u>

17 Fund for future appropriations

	2003 £000	2002 £000
At beginning of the year	4,794	5,301
Transfer to technical account – long term business	(268)	(507)
At end of the year	<u>4,526</u>	<u>4,794</u>

Criterion Life Assurance Limited

Notes (continued)

18 Technical provisions

	Claims outstanding	Long term business provision	Technical provisions for linked liabilities
	£000	£000	£000
Gross amount			
At beginning of the year	48	29,930	58,250
Movement in the provision	21	1,112	46,176
At end of the year	69	31,042	104,426
Reinsurers' share			
At beginning of the year	-	(1,670)	-
Movement in the provision	-	(973)	-
At end of the year	-	(2,643)	-
Net technical provisions			
At beginning of the year	48	28,260	58,250
Net movement to the long term business technical account excluding bonuses	21	139	46,176
At end of the year	69	28,399	104,426

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

(a) Rates of interest	2003	2002
Assurances		
With profit	3.44%	3.44%
Without profit	4.00%	5.00%
Deferred Annuities		
With profit	3.20%	4.00%
Without profit	4.00%	5.00%
Annuities		
Without profit	4.00%	5.00%

Criterion Life Assurance Limited

Notes (continued)

18 Technical provisions (continued)

(b) Mortality tables

Life assurance business	non-linked linked	A67/70 ultimate A67/70 ultimate
General annuity business	100% of IM92/IF92 (Calendar year = 2020) for immediate annuities and 90% for deferred annuities	
Pensions business	assurances annuities	A67/70 ultimate 100% of PMA92/PFA92 (Calendar year = 2020) for immediate annuities and 90% for deferred annuities

19 Provision for other risks and charges

	Other provisions £000	Deferred taxation provision £000	Mortality & Expense provisions £000	Pensions & Endowment provisions £000	Total £000
At beginning of year	450	227	5,377	677	6,731
Released during year	(450)	(227)	1,807	(212)	918
At end of year	-	-	7,184	465	7,649

20 Other creditors including taxation and social security

	2003 £000	2002 £000
Amount due to fellow subsidiary undertaking	16	-
Amounts due to parent undertaking	19	-
Amounts due to subsidiary undertaking	847	847
Other creditors	1,603	243
	<u>2,485</u>	<u>1,090</u>

21 Long term fund

At 30 June 2003, 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 £146,093,000 (2002: £98,748,000).

Criterion Life Assurance Limited

Notes (continued)

22 Contingent liabilities – endowments and pension transfers and opt outs

Provisions have been made in respect of endowment policies and for the rectification and review costs of pension transfers and opt outs from occupational schemes, which are included in the provision for other risks and charges. The number of policyholders who should be compensated and the amount of compensation payable cannot currently be accurately determined. Accordingly, the provisions might prove insufficient or excessive when the positions are finally determined.

23 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 the ultimate parent undertaking which 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.