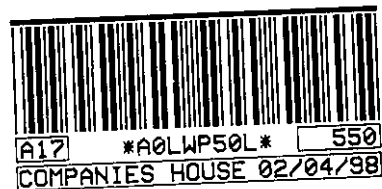


Life Assurance Holding
Corporation Limited

Report and Accounts

31 December 1997

RE-SCAN



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06/4/98

LIFE ASSURANCE HOLDING CORPORATION LIMITED

Company No. 2970583

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1997

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

CHAIRMAN'S REVIEW

Life Assurance Holding Corporation Limited ("LAHC") was founded at the end of 1994, in association with New York Life, St James's Place Capital plc and other institutions to play an active role in the restructuring of the UK life assurance industry by acquiring and merging life assurance companies and portfolios. Its principal subsidiary undertaking, Windsor Life Assurance Company Limited was the Company's first acquisition and is the vehicle used for subsequent acquisitions.

A Track Record of Successful Acquisitions

In a successful record to date, following the initial acquisition of Windsor Life, LAHC has made the following business acquisitions :

- February 1995: Crown Financial Management Limited, which had £600 million under management, over 200,000 policies in force and premium income of £54 million in 1994.
- January 1996: The UK branch business of over 9,000 policies of Lifetime Assurance.
- October 1996: Combined Life Assurance Company Limited which had assets under management of over £140million and approximately 50,000 policies in force.
- January 1998: The Aegon Group of Companies which had assets under management of some £190 million and approximately 76,000 policies in force.
- March 1998: Gan (UK) PLC Group of Companies which had assets under management of £2,228 million, approximately 750,000 policies in force and a budgeted 1997 gross premium income of £331 million.

Company Overview

The customer base within the LAHC Group numbers some 300,000 clients and its principal trading subsidiary manages some 400,000 plans on the clients behalf. In the year to 31 December 1997, LAHC received gross premium income of £140 million and managed total assets of £2,200 million.

Following the completion of the Gan acquisition the Group will have over £5,000 million of assets under management, and over 1,100,000 policies in force. This increase in funds under management shows a growth rate of 172% per annum since the Group was founded in 1994.

Outlook

Growth via strategic acquisition is at the forefront of LAHC's business strategies. In an industry affected by past pensions mis-selling, factors such as sound management, reputable shareholders and size have become important attributes in retaining customer loyalty. This loyalty on retaining acquired customers is particularly important for LAHC as the Company does not promote growth through actively pursuing new business opportunities but rather relies on acquisitions. Competition in the life assurance industry has been heightened as a result of the new regulatory environment which favours larger players, so that reaching a critical mass and having a low cost base have become increasingly important to the continued success of the business.

We believe that strategic opportunities remain within the UK life industry for a company geared to growth through acquisitions. There are no plans at the present for the development, or acquisition, of a new business capability.

Operating Review

Group results

The consolidated group profit for the year before dividend was £9,109,000 (1996 - £30,474,000) a satisfactory result for a year that did not include an acquisition. The 1996 profit before dividends included £22,874,000 derived from the acquisition of the UK blocks of business of Combined Life Assurance Company Limited and Lifetime Assurance Company Limited.

Included within the group profit is the surplus arising on the activity of Windsor Life Assurance Company Limited. The results of Windsor Life are reflected in the Technical Account on page 15. A summary of these is given below:

	1997 £million	1996 £million
Net premiums	136.3	145.6
Investment income and realised gains	88.3	148.3
Unrealised gains on investments	211.4	54.3
Net income	436.0	348.2
Net claims	165.6	155.6
Net operating expenses	32.2	33.1

Both premiums and claims have increased because Combined Life activity was only reflected for 1 month in 1996. The increase in premiums has been offset by a reduction of £12m in net premiums from Preserve and Profit bonds and a reduction in inwards reinsurance premiums of £4m. Investment income and realised and unrealised gains increased by £97m during the year mainly due to the strong market performances in the UK, Europe and North America. Net operating management expenses are consistent with the prior year.

Taxation

The overall effective rate for the year was 26%. This tax charge is the aggregate of policyholder (20% and 25%) and shareholder (31.5%) taxation. As such the overall rate depends on the shareholder's proportion of taxable profits. This should be maintainable for our next financial year as the effect of the reduction in UK Corporation Tax rates during the year is fully applied. However the effective tax rates are significantly affected by the tax consequences of transfers to the long-term fund.

Dividends

The cost of the dividends proposed in respect of the financial year was £10million. £7.5million was paid on 30 January 1998. This dividend maintained the level distributed in 1996. This was however achieved by appropriating some of the reserves from the previous year.

Accounting standards

The group's accounting policies fully reflect the requirements of the Accounting Standards Board. The annual report and accounts this year reflect the changes in the disclosure requirements of the new Financial Reporting Standard FRS1 revised (Cash Flow Statements).

LIFE ASSURANCE HOLDING CORPORATION LIMITED

BOARD OF DIRECTORS BIOGRAPHIES

The present directors of the company are :

Sir Mark Weinberg - Chairman * *

Aged 66, is a non-executive director and Chairman of the Company, he was appointed to the Board on the formation of the Company in December 1994. He is also Chairman of St James's Place Capital plc and J Rothschild Assurance Holdings plc.

Richard M Kernan * + *

Aged 57, is a non-executive director of the Company who joined the board in January 1995. He is also a director of New York Life Insurance company, USA.

Jonathan C C Meggs *

Aged 37, is a non-executive director of the Company who joined the board in December 1994 on formation of the Company. He is a Partner of Chase Capital Partners and also a Director of DP Mann Holdings Ltd and Kabel Media GmbH.

Derek N D Netherton *

Aged 53, is a non-executive director of the Company who joined the board in September 1997. He is also a non-executive director of St James's Place Capital, Next and Plantation & General Investments. He was formerly a director of J Henry Schroder & Co Limited.

Mike C Ramsay * □

Aged 53, is a non-executive director of the Company who joined the board in September 1995. He was formerly Managing Director of TSB Life & Pensions.

Norman M M Riddell * +

Aged 50, is a non-executive director of the Company who joined the board in January 1995. He is the chairman of Norman Riddell & Associates Limited, an independent firm of business consultants. He was previously the Chief Executive of INVESCO Europe Limited and a Director of AMVESCAP plc.

John Wybrew - Managing Director *

Aged 55, is an executive director of the Company and also the Managing Director appointed to the Board on the formation of the Company in December 1994. He is also Chairman and Managing Director of Windsor Life Assurance Company Limited, with whom he has enjoyed 3 periods of employment. Previously he has been employed as President of John Hancock Life Insurance Co in Singapore.

Anthony Loehnis * □ + *

Aged 62, is a non-executive director of the Company who joined the board in December 1994 on formation of the Company. He is also a director of St James's Place Capital plc and J Rothschild Assurance Holdings plc.

William H Mowat * * □

Aged 58, is a non-executive director of the Company who joined the board in December 1994 on formation of the Company. He is a director of New York Life (UK) Limited.

Michael Nocera *

Aged 52, is a non-executive director of the Company who joined the board in February 1996. He is President and Chief Operating Officer of New York Life International, Inc.

Norman Reid

Aged 49, is an executive Director of the Company and is also the Company Secretary. He is also a director of Windsor Life Assurance Company Limited, which he joined in 1988. He joined the board of the Company on its formation in 1994 and heads the acquisition team.

Key :-

□ Member of Audit Committee

* Member of Acquisitions Committee

+ - Member of Remuneration and Compensation Committee

* - Non-Executive Director

LIFE ASSURANCE HOLDING CORPORATION LIMITED

COMPANY INFORMATION

Secretary

Norman H Reid

Registered Office

Windsor House,
Telford Centre,
Shropshire,
TF3 4NB

Solicitors

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS

Wragge & Co
15 Colmore Row
Birmingham
B3 2AS

Bankers

Midland Bank plc
27-32 Poultry
London
EC2P 2BX

Auditors

Price Waterhouse
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

LIFE ASSURANCE HOLDING CORPORATION LIMITED

STATEMENT OF CORPORATE GOVERNANCE

The Directors consider that the Group has complied throughout the year with all the provisions of the Code of Best Practice established by the Cadbury Committee and Section A of the Best Practice provisions annexed to the Stock Exchange Listing Rules, which affect the composition of the Board and its committees, with the exceptions of Sections 2.3 and 2.4. The appointment of Non-Executive Directors, as covered by Sections 2.3 and 2.4, is governed within the Company by clause 2.4 of the Shareholders Deed which gives shareholders the right to appoint a specific number of Directors, depending on their percentage shareholding.

Directors

The Directors, whose names are shown on page 5, meet as a Board quarterly throughout the year. The Board is comprised of a non-executive Chairman, two executive directors and eight non-executive directors. The Board is fully responsible for the control of the Group, with certain matters being specifically reserved for its approval, including long term plans, major items of capital expenditure and other matters as regulated by the Shareholders Deed. Certain specific matters are delegated to committees of the Board.

Remuneration/Compensation Committee

The Remuneration/Compensation Committee, which normally meets twice a year, is comprised of three non-executive Directors and is chaired by Mr N Riddell. Its responsibility is to review and determine the remuneration of all Directors and of the Directors of the subsidiary companies. The Report of the Committee is shown on pages 9 to 11. The constitution and operation of the Committee is in compliance with Section B of the best practice provisions annexed to The London Stock Exchange listing rules.

Acquisitions Committee

The Acquisitions Committee, as constituted by the Memorandum and Articles meets on an ad hoc basis to review all acquisition opportunities for the Company. Membership consists of 4 non-executive and one executive director. All decisions of the Committee are ratified at the following board meeting.

Audit & Controls Committee

The Audit & Controls Committee, which meets at least four times a year, comprises three non-executive Directors, with Mr W H Mowat as Chairman. The Group Finance Director, the Finance Director of the Company's principal subsidiary, Compliance and Audit Manager, and the Company's Auditors attend as required. It is the responsibility of the Audit Committee to review the Annual Accounts, the external and internal audit, internal controls and corporate governance throughout the Group and to make recommendations on these matters as appropriate.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

STATEMENT OF CORPORATE GOVERNANCE (continued)

Internal Financial Controls

The Directors are responsible for, and have reviewed the effectiveness of, the systems of internal financial control throughout the Group. The systems of internal financial controls are designed to provide reasonable, although not absolute, assurance against material misstatement or loss. Companies within the Group operate on a five year strategic plan and a one year budget basis, with appropriate revision of forecasts throughout the year, covering all aspects of financial performance.

Regular monthly reports, which are monitored against budget and forecasts, are prepared for the principal operating subsidiary, Windsor Life Assurance Company Limited ('Windsor Life'). The Group executive Directors meet with the management of Windsor Life, both informally and at regular formal meetings, to review financial and operational performance and future plans and prospects.

The Group adopts conservative accounting policies which are applied throughout the Group. All subsidiary Companies are required to adhere to specified internal control procedures. An internal audit function is responsible for advising the Board, through the Audit Committee, and relevant levels of management on the quality of the financial systems and controls.

Going Concern

After making appropriate enquiries, the Directors consider that the Group as a whole and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Accounts continue to be prepared on the going concern basis.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

REPORT OF THE REMUNERATION COMMITTEE

On behalf of the Board, the Remuneration Committee (the 'Committee') presents its report to shareholders.

In carrying out its role and formulating its policy, the Committee has complied throughout the year with the provisions of Section A of the best practise provisions as set out in the Stock Exchange Listing Rules and has also given full consideration to Section B of the best practice provisions, "Remuneration Policy, Service Contracts and Compensation".

The Committee comprises the non-executive directors, Mr Norman Riddell, Mr Anthony Loehnis and Mr Richard Kernan. The Committee consults with the Managing Director, Mr John Wybrew, and with the Group Finance Director and Company Secretary, Mr Norman Reid, on a regular basis, except as regards the remuneration of these two directors.

The Committee has, within its terms of reference, the requirement to determine both the remuneration packages for the Directors of LAHC and the overall policy for all direct reports to the Managing Director of LAHC, such reports to include the Directors of Windsor Life Assurance Company Limited.

Remuneration Policy - Executive Directors

The Committee has, as its overall aim, the need to offer competitive remuneration packages which are attractive in the market place and capable of retaining and motivating the right calibre of executives.

The Company's policy in relation to contracts of service for executive board directors is to offer what the market place requires, yet which is in the best interests of shareholders and employees alike. No executive director has a contract of service of greater than twelve months duration.

Remuneration Package

The remuneration package of the executive directors comprises four components: basic salary and benefits, annual performance related bonus, long term incentives and pensions.

i Basic salary and benefits

Salaries are determined by the Committee taking into account the performance of the individual and competitive forces in the market place. Principal benefits include the use of a motor car, fuel and medical expenses insurance.

ii Annual performance related bonus

The annual bonus for executive directors is partly based on Company performance and partly on individual objectives against annual plan. The maximum potential bonus for executive directors for 1997 was in a range of 15% to 45% of basic salary. The Committee retains the right to exercise an overview with regard to the quality of achievement and to ensure, with regard to individual objectives, that those objectives are sufficiently stretching and demanding.

iii Long term incentives

The Committee considers that it is appropriate at this time, in order to meet the medium term aims of the shareholders, to retain the flexibility of being able to include long term incentive arrangements within the remuneration package of the executive directors.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

(a) Long term incentive scheme

A three year bonus plan is in place covering the period from the 1 January 1997 to the 31 December 1999. The purpose of this plan is to encourage executives to think longer term and to develop an affinity with the growth in the Company beyond the normal one year horizon. This benefits both shareholders and management. Benefits under this plan do not vest on an annual basis; participants do not have an entitlement until the end of the scheme period.

Under the scheme, executive directors of the Company and its principal subsidiary share in a pool representing a maximum of 10% of the increase in the embedded value of the Company over the period from 1 January 1997 to 31 December 1999, in excess of a hurdle rate set at 12% per annum compounded. If the adjusted increase in embedded value does not exceed 12% per annum compounded, no payment will be made. For the purposes of this calculation, values will be adjusted for dividend payments and capital injections. 33.33% of payments arising under this scheme will be paid in March 2000, 33.33% will be paid in March 2001 and the remaining 33.33% becoming payable in early 2002.

(b) Allocation of E shares

The Company wishes to motivate executive directors of the Company to add value to the Company through a direct relationship between their remuneration and the increase in shareholder value of the Company. To that end the Articles of Association of the Company provide for an allocation of shares in the Company on the earlier of a listing or sale of the Company, and 31 December 1999.

The determination of the amount of shares falling to be allocated is done on the basis of a formula, contained in the Articles, reflecting the increase in the embedded value of the Company from the 31 December 1994 to the date of allocation. The individual allocation to participating executives is done by the Remuneration Committee of the Company. To date, rights to participate in such an allocation have been granted to Mr J Wybrow and Mr N Reid in the ratio of two to one. However, the Remuneration Committee may in its discretion approve other executives to participate in this scheme.

iv Pensions

Pension and life assurance arrangements are consistent with those provided by other leading companies. The Windsor Pension and Life Assurance Scheme is a non-contributory defined benefit scheme. The aim is to provide executive directors at age 65 with a pension of two-thirds of final pensionable salary after forty years service; retained benefits from previous employment are taken into account. The arrangements include dependants' pensions and four times salary cover for death in service. Pensions in payment and deferred pensions are increased by 5% per annum or the increase in the Retail Prices Index, whichever is the lower figure. Pensionable salary does not include annual bonuses, long term incentive scheme payments, or other benefits in kind.

In certain instances executive directors are subject to the Inland Revenue cap (currently £84,000) which limits the amount of salary which may be treated as pensionable. The Company has given undertakings to the directors affected which is designed to bring their overall benefits up to the level that would have applied had the cap not been in place, by means of either a funded or an unfunded arrangement.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

REPORT OF THE REMUNERATION COMMITTEE (continued)

The Company contribution rate to the Scheme is 15.6% of pensionable salary but no contributions were made during 1997 in the light of the actuary's advice that none was required, and it is not expected that contributions will recommence before 1999.

Remuneration Policy - Non-Executive Directors

The remuneration of non-executive directors consists of fees for services in connection with Board and Board Committee Meetings and, where relevant, for devoting additional time and expertise for the benefit of the Company. Certain of the non-executive directors of the Company do not receive any fees for their services.

Remuneration Policy - Executive Directors

The remuneration of the directors of the Company is shown in the table below. Accrued pension for the highest paid director as at 31 December 1997 is £7,350. The accrued commutable lump sum as at 31 December 1997 is £16,537. The transfer value of the fund at that date was £101,260. The company has also contributed £18,591 to a Funded Unapproved Retirement Benefit Scheme because Mr Wybrew's pensions contributions are subject to an earnings cap of £84,000. Mr Reid, the other executive director, has accrued pensions of £14,213 and the commutable lump sum is £51,428. The transfer value of his fund at that date was £168,110.

The transfer values indicated above are not payable to the individuals concerned.

The emoluments of the two executive Directors are borne entirely by the principal subsidiary undertaking, Windsor Life Assurance Company Limited.

Remuneration Table

	Salary & fees £'000	Benefits £'000	Annual bonus £'000	Total Emolu- ments 1997 £'000	Total Emolu- ments 1996 £'000	Amount vested 1997 £'000	Amount vested 1996 £'000	Paid or credited 1997 £'000	Paid or credited 1996 £'000
<i>Executive</i>									
JL Wybrew (Highest paid director)	180	16	68	264	251	0	1,938	31	27
NH Reid	86	5	21	112	114	0	968	13	12
<i>Non-executive</i>									
Sir Mark Weinberg	0	0	0	0	0	0	0	0	0
DF Connon	0	0	0	0	0	0	0	0	0
CP Gibson	0	0	0	0	0	0	0	0	0
RM Keman	0	0	0	0	0	0	0	0	0
AD Loehnis	0	0	0	0	0	0	0	0	0
JCC Meggs	4	0	0	4	0	0	0	0	0
WH Mowat	0	0	0	0	0	0	0	0	0
DND Netherton	0	0	0	0	0	0	0	0	0
M Nocera	0	0	0	0	0	0	0	0	0
MRamsay	15	0	0	15	15	0	0	0	0
NRiddell	6	0	0	6	0	0	0	0	0
	291	21	89	401	380	0	2,906	44	39

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The Directors present their report for the year to 31 December 1997.

Principal activity and review of the business

The principal activity of the Company is to act as the parent undertaking of a group conducting ordinary long-term insurance business in the United Kingdom, namely life assurance, pensions, permanent health and annuities.

Issue of shares

In accordance with the Articles of Association the Company issued at various dates in the year 86,194,486 1p Deferred shares at par for £862,000. These were issued under the warranty guarantees. The details are shown in note 15.

Results, dividends and transfers to reserves

The results for the year are set out on pages 15 and 16. The Directors propose a final dividend of £10 million. The balance of £1,609,000 on the group Profit and Loss account, including profits of the life Company on an embedded value basis, has been retained as reserves.

Post balance sheet events

On 16 January 1998 the With-profit sub fund of Windsor Life Assurance Company Limited purchased for £1.8 million the freehold of the site on which Windsor House, the group's head office is situated. The acquisition included the assumption of the finance lease on the building and the reversionary interest when the lease expires.

On 29 January 1998 LAHC acquired control of the whole of the issued share capital of Aegon Financial Services Group (UK) plc. Funds under management are approximately £190 million. The administration will remain temporarily with Scottish Equitable plc under the terms of a Services and Administration Agreement.

On 11 March 1998 LAHC acquired control of the majority of the UK operations of Gan (UK) PLC. The Group of Companies acquired had assets under management of £2,228 million, approximately 750,000 policies in force and a budgeted 1997 gross premium income of £331 million.

Future Prospects

The Directors view the future of the group with confidence. The Directors expect that the Company's strategy of acquiring other life companies, or accepting the transfer of other life funds will, in conjunction with controlled organic growth, lead to a significant enhancement in shareholder and policyholder value.

Regulatory Matters

The Securities and Investments Board has reported on its industry-wide investigation into the selling of pension transfers and opt-outs. The Group has received indemnities in respect of costs it might incur as a consequence of any such mis-selling. The benefit of these indemnities is reflected in these accounts.

Directors' interests

Under paragraph 2 of Schedule 13 Companies Act 1985 each of the Executive Directors of the Company is deemed to be interested in the shares held by the LAHC Employee Share Trust.

Directors' and officers' liability insurance

During the year the Company maintained liability insurance cover for its Directors and those Directors and officers of its subsidiary undertakings as permitted by section 310 (3) of the Companies Act 1985.

Creditors Payment Policy

It is the Group's policy to pay suppliers promptly and it fully supports the Government's initiative to encourage and promote the practice.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (continued)

Employee involvement

During the year the Group continued its policy of seeking to inform and involve employees on matters which concern them and in the achievement of its business goals. The Group has a comprehensive system for consultation and communication involving regular meetings between management and employees, team briefings and the issue of various bulletins and a staff handbook.

Employment of disabled persons

It is the Group's policy to give the same consideration to disabled persons as to others in respect of applications for employment, continuation of employment, training, career development and promotion - having regard to their particular aptitudes and abilities.

Millennium and European Monetary Union

All group companies are aware of the implications of the Millennium issue and European Monetary Union, both for information systems and other operational aspects. Management is responsible for ensuring that any necessary systems modifications and other initiatives are planned and completed within the time available and this process is underway. The group expects to spend approximately £2.5 million on testing systems to prove Millennium compliance. In the context of ongoing systems development, it is not anticipated that significant incremental expenditure will be incurred on changes to ensure compliance with the necessary requirements.

Political and charitable donations

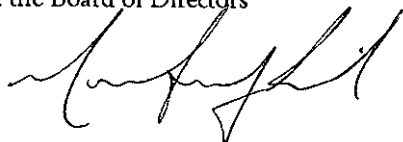
The group paid £20,000 to charitable organisations during the year.

Auditors

Price Waterhouse have expressed their willingness to continue in office and accordingly a resolution to propose their re-appointment and remuneration will be submitted at the annual general meeting.

On behalf of the Board of Directors

N H Reid
Secretary



12 March 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement should be read in conjunction with the auditor's report set out on page 14, the Corporate Governance statement on page 7 and the Remuneration Committee report on pages 9 to 11, with a view to distinguishing for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

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 group and the Company and of the profit or loss of the group 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 Company will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF LIFE ASSURANCE HOLDING CORPORATION LIMITED

We have audited the financial statements on pages 15 to 47 which have been prepared under the accounting policies set out on pages 22 to 25.

Respective responsibilities of directors and auditors

As described on page 13 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.

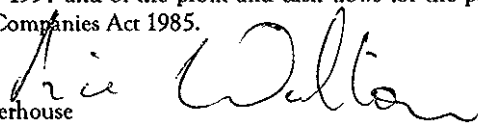
Basis of opinion

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 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 affairs of the Company and the group as at 31 December 1997 and of the profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse
Chartered Accountants & Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

12 March 1998

REPORT BY THE AUDITORS TO THE DIRECTORS OF LIFE ASSURANCE HOLDINGS CORPORATION LIMITED ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed your statements on pages 7 and 8 concerning the group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

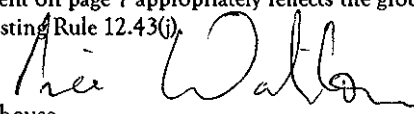
Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or corporate governance procedures not on the ability of the group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on page 8 and on going concern on page 8, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 7 appropriately reflects the group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).


Price Waterhouse
Chartered Accountants
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

12 March 1998

LIFE ASSURANCE HOLDING CORPORATION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997**

Technical Account - Long-term Business

	Notes	1997 £'000	1996 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	1	139,379	149,142
Outward reinsurance premiums		(3,112)	(3,520)
		<u>136,267</u>	<u>145,622</u>
Investment income	2	88,254	148,908
Unrealised gains on investments	2	211,355	54,256
Other technical income, net of reinsurance	3	-	117,740
		<u>435,876</u>	<u>466,526</u>
Net income in period			
Claims incurred, net of reinsurance:			
Claims paid -			
- gross amount		(208,182)	(220,646)
- reinsurers' share		42,545	65,212
Net claims paid		<u>(165,637)</u>	<u>(155,434)</u>
Change in the provision for claims-			
- gross amount		1,354	(747)
- reinsurers' share		313	173
Net change in claims provision		<u>1,667</u>	<u>(574)</u>
Net claims cost in period		<u>(163,970)</u>	<u>(156,008)</u>
Change in other technical provisions, net of reinsurance:			
Long-term business provision, net of reinsurance -			
- gross amount	19	(35,628)	1,919
- reinsurers' share	19	(41,350)	(43,727)
Other technical provisions, net of reinsurance -			
Technical provisions for linked liabilities	19	(120,620)	(223,627)
Net change in other technical provisions in period		<u>(197,598)</u>	<u>(265,435)</u>
Net operating expenses	4	(31,873)	(32,936)
Investment expenses and charges	2	(935)	(814)
Other technical charges	3	(68)	-
Tax attributable to the long-term business	10	(7,832)	(6,016)
Transfers from the fund for future appropriations	19	(26,088)	8,275
		<u>7,512</u>	<u>13,592</u>
Balance on the technical account - long-term business			

The notes on pages 22 to 47 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

Non-technical Account

	Notes	1997 £'000	1996 £'000
Balance on the technical account - long-term business (page 15)		7,512	13,592
Tax credit attributable to balance on the long-term business technical account	10	3,455	6,694
Shareholders' pre-tax profit from long-term business		10,967	20,286
Investment income	2	2,984	2,158
Unrealised gains on investments	2	90	12
Schedule 2C transfer		-	22,874
Other charges		(2,167)	(8,969)
Profit on ordinary activities before taxation		11,874	36,361
Tax on profit on ordinary activities	10	(2,765)	(5,887)
Profit for the financial year	29	9,109	30,474
Dividend proposed	11	(7,500)	(10,000)
Retained profit for the financial year	17	1,609	20,474

All of the amounts above are in respect of continuing operations.

The Retained profit after taxation includes a profit before dividends payable of £11,644,000 (1996 - £(2,835,000)) which has been dealt with in the accounts of the Company.

The profit for the financial year includes all recognised gains and losses for the year.

There are no recognised gains or losses for the year other than the profit on ordinary activities shown above.

The notes on pages 22 to 47 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £'000	1996 £'000
Reported profit on ordinary activities before tax	11,874	36,361
Unrealised movement on the shareholders share of the long-term business in force	68	(414)
Unrealised gains recognised in the year	(90)	(12)
Historical cost profit on activities before tax	11,852	35,935
Historical cost profit for the year retained after tax	1,587	20,048

The inclusion of unrealised gains and losses in the Profit and Loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
ASSETS			
Investments			
Land and buildings	12a	38,814	28,890
Other financial investments	12b	726,711	690,761
Deposits with ceding undertakings		-	22
		<u>765,525</u>	<u>719,673</u>
Total investments			
Assets held to cover linked liabilities	13	1,425,050	1,300,493
Reinsurers' share of technical provisions			
Long-term business provision	19	10,702	52,052
Technical provisions for unit-linked liabilities	19	-	476
		<u>10,702</u>	<u>52,528</u>
Total reinsurers' share			
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		969	1,458
- intermediaries		-	6
Debtors arising out of reinsurance operations		1,468	1,610
Amounts due from shares to be issued		21,105	20,000
Other debtors		18,616	21,276
		<u>42,158</u>	<u>44,350</u>
Total debtors			
Other assets			
Tangible assets	14	2,040	1,510
Cash at bank and in hand		16,527	2,438
Own shares	22b	3	4
		<u>18,570</u>	<u>3,952</u>
Total other assets			
Prepayments and accrued income			
Accrued interest and rent		9,511	13,512
Deferred acquisition costs		8,402	9,878
Shareholders' interest in the			
long-term business in force	18	107,110	107,178
Other prepayments and accrued income	23	1,870	2,568
		<u>126,893</u>	<u>133,136</u>
Total prepayments and accrued income			
Total assets		<u>2,388,898</u>	<u>2,254,132</u>

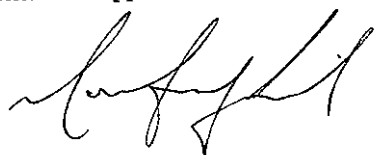
LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1997 (continued)

	Notes	1997 £'000	1996 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	15	1,056	194
Share premium	16a	23,976	23,976
Capital reserves	16a	2,536	2,536
Other reserves	16a	51,493	53,555
Shares to be issued	16a	21,200	20,000
Profit and loss account	17	54,498	52,889
Shareholders' funds (including non-equity interests)	29	154,759	153,150
Fund for future appropriations	19	89,051	62,963
Technical provisions			
Long-term business provision	19	678,040	642,412
Claims outstanding		1,367	1,367
Technical provisions for linked liabilities	19	1,403,176	1,283,032
Deposits received from reinsurers		63	38,616
Provisions for other risks and charges			
Provisions for pensions and similar obligations	9	907	43
Other provisions	24	33,978	36,521
Creditors			
Creditors arising out of direct insurance operations		10,269	11,085
Creditors arising out of reinsurance operations		1,688	1,801
Amounts owed to credit institutions	26	.	1,412
Other creditors			
including taxation and social security	25	15,600	21,730
Total liabilities		2,388,898	2,254,132

The financial statements were approved by the Board of Directors on 12 March 1998.

N H Reid - Director



The notes on pages 22 to 47 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
Fixed Assets:			
Investments	22	112,649	112,650
Current Assets:			
Debtors -			
Amounts owed by shareholder under indemnity		21,105	20,000
Amounts owed by group undertakings		12,347	-
Amounts owed by related undertakings		95	-
Other debtors		2,571	699
Prepayments and accrued income	23	1,393	2,091
Investments		12,037	27,558
Cash at bank and in hand		318	-
		<u>49,866</u>	<u>50,348</u>
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	26	-	(912)
Amounts owed to group undertakings		-	(454)
Other creditors			
(including taxation and social security)	25	(8,464)	(11,191)
		<u> </u>	<u> </u>
Net current assets		41,402	37,791
		<u> </u>	<u> </u>
Total assets less current liabilities		154,051	150,441
Provision for liabilities and charges	24	(24,406)	(24,940)
		<u> </u>	<u> </u>
NET ASSETS		129,645	125,501
		<u>=====</u>	<u>=====</u>
Financed by:			
Capital and reserves -			
Called up share capital	15	1,056	194
Share premium account	16b	23,976	23,976
Other reserves	16b	51,493	53,555
Shares to be issued	16b	21,200	20,000
Profit and loss account	17	31,920	27,776
		<u> </u>	<u> </u>
SHAREHOLDERS' FUNDS			
(including non-equity interests)	29	129,645	125,501
		<u>=====</u>	<u>=====</u>

The financial statements were approved by the Board of Directors on 12 March 1998.

N H Reid - Director

The notes on pages 22 to 47 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
<u>Net Cash Inflow/(Outflow) from operating activities</u>	30a	(10,215)	14,867
<u>Returns on Investments and Servicing of Finance</u>			
Interest Received		3,084	1,906
Interest Paid		(26)	(340)
		<u>3,058</u>	<u>1,566</u>
<u>Taxation</u>			
Corporation Tax Paid		-	-
<u>Acquisitions and Disposals</u>			
Purchase of Combined Life business		-	(5,570)
		(10,000)	-
<u>Equity Dividends Paid</u>			
<u>Financing</u>			
Issue of Share Capital		862	24,000
Repayments of Borrowings		-	(34,800)
		<u> </u>	<u> </u>
Increase/(Decrease) in cash	30b	(16,295)	63
		<u> </u>	<u> </u>
<u>Portfolio Investments</u>			
The net cash inflows/(outflows) were invested as follows:			
Decrease in cash holdings		(502)	(55,552)
Purchases		700	55,615
Purchase of government securities			
Sales		(16,493)	-
Sale of government securities		<u> </u>	<u> </u>
		(16,295)	63
Net investment of cashflows		<u> </u>	<u> </u>

The notes on pages 22 to 47 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES

Basis of presentation

Except as detailed below, the financial statements have been prepared in accordance with the provisions of Section 254 of the Companies Act 1985 and Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, which cover the disclosures applicable to groups which include insurance companies.

The financial statements have been prepared in accordance with applicable accounting standards and with the guidance issued by the Association of British Insurers ('ABI') in December 1995 (as amended). Compliance with Statement of Standard Accounting Practice ('SSAP') 19 - Accounting for Investment Properties requires departures from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to investments below.

Profit recognition

The value of the shareholders' share of the long-term business in force (which, for the purpose of profit recognition, includes single premium policies) represents the shareholders' interest in the present value of surpluses expected to emerge in the future from business currently in force, together with the shareholders' interest in future premium income receipts from the existing in-force business. In determining this value assumptions relating to future cash flows (mortality, lapses, charges and expenses) are determined by the Directors based on experience of the types of long-term insurance products written by the group. Gross investment returns assumed vary depending upon the type of asset to which they relate and future profits are discounted after provision has been made for taxation. This valuation is determined in consultation with independent actuaries on an annual basis.

The shareholders' interest in the long-term business in force is included as an asset within prepayments and accrued income. The after tax movement in value of the long-term business in force reflected in the profit and loss account is transferred to a non-distributable reserve. This increase is treated as non-distributable until it emerges as part of the surplus arising during subsequent years and an appropriate transfer from the long-term business fund is made.

Consolidated profit and loss details

All transactions are incorporated in the consolidated profit and loss account from the date of acquisition of subsidiary undertakings or block of business or the commencement of the reporting period, whichever is the later.

Premiums

Premiums, consideration for annuities and reinsurance premiums are accounted for when due for payment.

Claims

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Bonuses

Bonuses charged to the technical account for long-term business in a given period comprise:

- new reversionary bonuses declared in respect of that period which are provided within the calculation of the long-term business provision
- terminal bonuses paid out to policyholders on maturity.

Terminal bonuses are included in the cost of claims.

Investments

(i) Investment valuations

Listed investments are included in the balance sheet at mid-market value and unlisted investments, mortgages and loans at Directors' valuation. Land and buildings are valued at open market value as determined by independent professional advisers at least every three years. In the intervening years these valuations are updated by the Directors with the assistance of independent professional advice as necessary.

Under the Companies Act 1985 land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19 that no depreciation should be provided in respect of such investments. The Directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

(ii) Investment income and expenses

Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits where available. Interest, rents and expenses are accounted for on an accruals basis.

Long-term fund investment income and expenses are dealt with through the technical account, whilst shareholder fund investment income and expenses are dealt with through the Non-technical account.

(iii) Investment gains

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

Unrealised gains and losses on long-term fund investments are dealt with through the technical account. Unrealised gains and losses on shareholder fund investments are dealt with through the Non-technical account.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Long-term business provision

The long-term business provision is determined by the Appointed Actuary following his annual investigation of the long-term business and is calculated initially on a statutory solvency basis of Windsor Life Assurance Company Limited to comply with the reporting requirements under the Insurance Companies Act 1982. The calculation uses the net premium valuation method and, as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses by means of a reduction in the valuation rate of interest. The valuation has been modified by adding back the deferral of acquisition costs implicit within the valuation method for certain contracts.

Allocation of surpluses and the fund for future appropriations

Surpluses arising from participating, non-participating and linked long-term business, as a result of the annual actuarial valuations of the Group's assets and liabilities, are appropriated by the Directors:

- to participating policyholders by way of bonuses and
- to shareholders by way of transfers to the Non-technical account.

The amount of appropriated surplus released to the Non-technical account is determined by the Directors in accordance with the Articles of Association and currently the Directors are allocating 1/9th of the bonus declared and paid in the period to the non-profit sub-fund which is then available for subsequent transfer to the shareholders. Any un-appropriated surplus in the with-profit sub-fund is carried forward in the fund for future appropriations.

Deferred acquisition costs

The costs of acquiring new insurance contracts and the renewal of existing contracts which are incurred during a financial period but which relate to a subsequent financial year are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and are determined explicitly, in respect of non-linked business, by means of an actuarial adjustment applied to the net premium valuation of the long-term business provision. Deferred acquisition costs in respect of linked business are determined explicitly.

The rate of amortisation of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force.

Tangible assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives. The principal rates per annum used for this purpose are as follows:

	%
Motor vehicles and computer equipment	33.33
Fixtures, fittings and office equipment	20.00

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Taxation

Tax is charged on all profit or loss and income earned to date, less reliefs.

Deferred tax is provided only where a liability is expected to arise in the foreseeable future. Under this policy, no provision is made for tax which would become payable if investments were realised at the values shown, other than in respect of linked business.

Deferred tax arising on timing differences of the long-term business fund, other than in respect of deferred acquisition costs, is allowed for at appropriate discounted rates within the calculation of the long-term business provision and the technical provision for linked liabilities. Deferred tax in respect of deferred acquisition costs is similarly discounted but separately disclosed under provisions for other risks and charges.

Foreign currencies

Assets and liabilities in overseas currencies are included in the accounts on the basis of rates of exchange ruling at the period end. Exchange gains or losses arising during the period are reflected in the profit and loss account. Transactions during the period are translated at the rate ruling at that time.

Pension scheme

Pension arrangements for the majority of staff are operated through a defined benefit scheme. Such costs are charged to profit and loss in order to spread the costs evenly over the estimated service lives of the employees. Some staff are members of externally administered money purchase schemes. The charge to the Profit and Loss account in respect of these schemes is the amount payable to the pension scheme in the accounting period.

Operating leases

Rentals payable under operating leases in use are charged to the profit and loss account as incurred over the lease term. For empty or sub-let properties any shortfall, between projected rent expense and income, is provided for in full at appropriate discounted rates.

Goodwill

Goodwill arising on consolidation and on purchase (representing the excess of the value of the consideration given over the fair value of the net assets acquired) is written off against reserves on acquisition. Where the fair value of the net assets acquired exceeds the consideration given (negative goodwill) the balance is credited to a capital reserve.

Warranty and indemnity claims

Any claims on the group for which warranties or indemnities exist are not expensed but held as receivables until the amount is settled. Provisions are established for any related liabilities to the extent they are not recoverable in cash or for which no actuarial reserves exist.

Deferred Shares

Share to be issued under the warranty and indemnities arising on the acquisition of Windsor Life have been established as a Reserve in Shareholders' equity. When the value of the indemnity is received from the parent undertaking the Shares To Be Issued Reserve is reduced and the Issued Share Capital is created.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

1. Segmental analysis

In the Directors' opinion the group operates in a single business segment of long-term insurance business of which the direct business is conducted in the United Kingdom.

(a) Gross premiums written

Gross premium income is made up of:

	1997 £'000	1996 £'000
Direct assurance	125,648	131,377
Reassurance inwards	13,731	17,765
Gross premiums written	<u>139,379</u>	<u>149,142</u>

Gross direct premiums written

	Regular premiums		Single premiums	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Non-participating:				
Annuity	-	-	6,663	10,545
Life	5,141	5,626	-	-
Pensions	1,624	1,898	8,106	7,805
Permanent Health	114	329	-	-
	<u>6,879</u>	<u>7,853</u>	<u>14,769</u>	<u>18,350</u>
Participating:				
Life	7,430	7,422	6,835	18,722
Pensions	1,058	1,281	-	-
	<u>8,488</u>	<u>8,703</u>	<u>6,835</u>	<u>18,722</u>
Linked:				
Life	34,613	31,654	-	2
Pensions	25,469	22,728	28,262	23,050
Permanent Health	333	315	-	-
	<u>60,415</u>	<u>54,697</u>	<u>28,262</u>	<u>23,052</u>
Total direct gross premiums	<u>75,782</u>	<u>71,253</u>	<u>49,866</u>	<u>60,124</u>
Comprising:				
Individual business	75,782	71,253	49,866	59,748
Group contracts	-	-	-	376
	<u>75,782</u>	<u>71,253</u>	<u>49,866</u>	<u>60,124</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

(b) New business classifications

In classifying new business premiums the following basis of recognition is adopted:

- new recurrent single premium contracts, including DSS rebates on certain pensions products, are included in single new business premiums.
- increments under existing group pension schemes are classified as new business premiums.
- pensions vested into annuity contracts during the year are included in new pension single premium business at the annuity purchase price.
- products substituted due to the exercise of standard contract terms are not included in the new business statistics where identifiable.

Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.

(c) Geographical analysis of gross inwards reinsurance premiums

	1997	1996
	£'000	£'000
UK	-	1,137
Europe (excluding UK)	713	1,284
USA	13,018	15,344
	<u>13,731</u>	<u>17,765</u>

Total direct premiums arising from abroad were less than 5% of the total gross direct premiums.

(d) Assets attributable to the long-term business fund

The total assets shown on page 18 includes £2,217,346,000 (1996 - £2,066,584,000) attributable to the long-term business fund.

(e) Reinsurance balance

The reinsurance receivable in respect of the long-term business for the year ended 31 December 1997 was £39,125,000 (1996 - £61,865,000.)

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

2. Investment return summary

a) Long-term insurance business

	1997 £'000	1996 £'000
Investment income:		
Income from land and buildings	4,756	5,037
Income from other investments	82,334	80,384
Gains on the realisation of investments	1,164	63,487
	<u>88,254</u>	<u>148,908</u>

Investment expenses and charges:

Investment management expenses, including interest	(935)	(814)
Net unrealised gains on investments	211,355	54,256

Net investment return included in the long-term business technical account

	<u>298,674</u>	<u>202,350</u>
--	----------------	----------------

b) Shareholders' interest

	1997 £'000	1996 £'000
Investment income:		
Income from investments	2,927	2,161
(Losses)/gains on the realisation of investments	57	(3)
	<u>2,984</u>	<u>2,158</u>
Net unrealised gains on investments	90	12

Net investment return included in the Non-technical account

	<u>3,074</u>	<u>2,170</u>
--	--------------	--------------

Total investment return

	<u>301,748</u>	<u>204,520</u>
--	----------------	----------------

c) Tax credits

Dividends received prior to 2 July 1997 are accounted for inclusive of the related tax credit. Following the changes in the Finance Act (No 2) 1997 which abolished recovery of the related tax credit, investment income is recorded as the net amount receivable.

3. Other Technical Income/Charges

	1997 £'000	1996 £'000
Other technical income comprises:		
Movement on shareholders' interest in long-term business in force	-	414
Schedule 2C transfers	-	117,326
	<u>-</u>	<u>117,740</u>
Other technical charges comprises:		
Movement on shareholders' interest in long-term business in force	(68)	-

The Schedule 2C transfers reflect the authorised transfers of the UK long-term assurance business funds of Lifetime Assurance Company Limited and Combined Life Assurance Company Limited during 1996.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Net operating expenses - Technical account

	1997 £'000	1996 £'000
Acquisition costs	1,240	1,014
Change in deferred acquisition costs	1,129	2,293
Administrative expenses	20,523	19,044
Reinsurance commissions and profit participation	8,981	10,585
	<u>31,873</u>	<u>32,936</u>

	1997 £'000	1996 £'000
Net operating expenses are after charging:		
Auditors' remuneration and expenses (inclusive of VAT)		
- Audit work	200	249
- Non-audit work	128	276
Commissions	1,734	1,721

In addition to the audit remuneration noted above the Non-technical account includes charges for auditors remuneration of £ 42,000 (1996 - £50,000) for audit fees and £20,000 (1996 - £16,000) for non-audit work.

5. Interest payable	1997 £'000	1996 £'000
Interest payable on bank loans and overdrafts		
- Technical account	143	175
- Non-technical account	-	719
	<u>143</u>	<u>894</u>

6. Lease charges - Technical account	1997 £'000	1996 £'000
Operating lease rental charges	200	60
	<u>200</u>	<u>60</u>

In addition operating lease rentals of £735,000 (1996 - £566,000) have been charged against the property leases provision. Also £1,824,000 (1996 - £2,616,000) has been charged in the Non-technical account.

7. Staff costs	1997 £'000	1996 £'000
Wages and salaries	6,474	10,976
Social security costs	468	898
Regular pensions scheme costs	867	748
Other pensions costs	151	27
	<u>7,960</u>	<u>12,649</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Staff costs (continued)

The average number of employees (including Directors) during the period was as follows:

	1997	1996
	No.	No.
Administration	268	278
Investment	2	1
Integration and development	105	83
Average number of persons employed in the year	<u>375</u>	<u>362</u>

At 31 December 1997 there were outstanding loans of £16,000 to 6 employees.

8. Directors' emoluments

Details of the Director's emoluments are set out in the Report of the Remuneration Committee on pages 9 to 11.

9. Pension provisions

The group operates a funded defined benefit scheme the assets of which are held in separate, Trustee-administered funds.

The regular pension cost for the year was £867,000 (1996 - £748,000). The difference is due to changes in the notional contribution rates.

The prepayment is as follows:

	1997	1996
	£'000	£'000
Balance brought forward	43	(705)
Pension scheme deferred contributions in period	867	748
Net amortisation in period	(3)	-
Balance carried forward	<u>907</u>	<u>43</u>

The last actuarial valuation of the Windsor Pension and Life Assurance Scheme (the newly merged scheme) was an interim assessment by a qualified independent actuary as at 1 January 1996. At that date the market value of the merged assets of £43,403,000 was in excess of the actuarial value of the merged liabilities on an attained age method. The funding level was 109%. This surplus has resulted in the Group enjoying a contribution holiday which for accounting purposes will be amortised over the remaining service lives of the employees, resulting in prepaid contributions to £907,000 (1996 £43,000). It was assumed that the annual investment return would be 9% and annual salary growth 7%. No contributions were outstanding at 31 December 1997.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

10. Taxation

	1997 £'000	1996 £'000
Long-term business technical account:		
UK corporation tax at 31.5% (1996: 33%)	(4,189)	(7,438)
Tax on franked investment income prior to 2 July 1997	(1,501)	(2,694)
Prior year adjustments	(476)	4,740
Group relief	(1,666)	(624)
	<u>(7,832)</u>	<u>(6,016)</u>
	=====	=====
Non-technical account:		
Tax credit attributable to balance on long-term business technical account at 31.5% (1996: 33%)	(3,455)	(6,694)
Prior year item	(976)	183
Group relief	1,666	624
	<u>(2,765)</u>	<u>(5,887)</u>
	=====	=====

11. Dividends

	1997 £'000	1996 £'000
On ordinary shares - Interim	7,500	7,500
- Proposed	-	2,500
Total dividends	<u>7,500</u>	<u>10,000</u>
	=====	=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

12. Investments

	Current value £'000	Cost £'000
(a) Land and buildings		
Freehold land and buildings:		
At 1 January 1997	28,890	27,041
Additions	9,415	9,415
Surplus on revaluation	509	-
At 31 December 1997	<u>38,814</u>	<u>36,456</u>

Land and buildings were valued at 31 December 1997 on an open market existing use basis by a firm of independent Chartered Surveyors.

b) Other financial investments

	Current value 1997 £'000	Current value 1996 £'000	Cost 1997 £'000	Cost 1996 £'000
Listed investments:				
Shares and other variable yield securities and units in unit trusts	280,119	235,115	206,549	191,141
Debt securities and other fixed income securities	442,548	443,037	398,176	443,028
	<u>722,667</u>	<u>678,152</u>	<u>604,725</u>	<u>634,169</u>
Unlisted investments:				
Loans secured by mortgages	6	10	6	10
Other loans (secured on policies)	3,038	3,699	3,038	3,699
Deposits with credit institutions	1,000	8,900	1,000	8,900
	<u>4,044</u>	<u>12,609</u>	<u>4,044</u>	<u>12,609</u>
Total other financial investments	<u>726,711</u>	<u>690,761</u>	<u>608,769</u>	<u>646,778</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

13. Assets held to cover linked liabilities

	Current value 1997 £'000	Current value 1996 £'000	Cost 1997 £'000	Cost 1996 £'000
Assets held to cover linked liabilities	<u>1,425,050</u>	<u>1,300,493</u>	<u>1,119,057</u>	<u>1,145,980</u>

The group carries some surplus in the linked funds which represents the excess of linked assets over liabilities to the related linked policyholders as a deliberate prudent policy.

14. Tangible assets

(a) Group

	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Leasehold improvements £'000	Total £'000
Cost:					
At 1 January 1997	566	6,055	747	67	7,435
Additions	186	1,165	64	0	1,415
Disposals	(165)	(1,503)	0	0	(1,668)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1997	587	5,717	811	67	7,182
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation:					
At 1 January 1997	(162)	(5,048)	(705)	(10)	(5,925)
Provided in the year	(134)	(638)	(27)	(1)	(800)
Disposals	80	1,503	-	-	1,583
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1997	(216)	(4,183)	(732)	(11)	(5,142)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value:					
At 31 December 1997	<u>371</u>	<u>1,534</u>	<u>79</u>	<u>56</u>	<u>2,040</u>
At 31 December 1996	<u>404</u>	<u>1,007</u>	<u>42</u>	<u>57</u>	<u>1,510</u>

(b) Company

No tangible assets are owned by the Company.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Share Capital
a) Authorised share capital

	1997		1996	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,125,000	31	3,125,000	31
B shares	3,125,000	31	3,125,000	31
C shares	2,750,000	28	2,750,000	28
D shares	1,000,000	10	1,000,000	10
Total ordinary share capital	10,000,000	100	10,000,000	100
Un-designated 1p	20,625,000	206	20,625,000	206
Total equity share capital	30,625,000	306	30,625,000	306
Non-equity share capital:				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	4,375,000	44	4,375,000	44
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	4,375,000	44	4,375,000	44
Convertible redeemable 'E' preference 1p	625,000	6	625,000	6
Deferred shares 1p	560,000,000	5,600	560,000,000	5,600
Total Non-equity share capital	569,375,000	5,694	569,375,000	5,694
Total share capital	600,000,000	6,000	600,000,000	6,000

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Share Capital (continued)

b) Allotted, issued and fully paid share capital

	1997		1996	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,125,000	31	3,125,000	31
B shares	3,125,000	31	3,125,000	31
C shares	2,750,000	28	2,750,000	28
D shares	1,000,000	10	1,000,000	10
Total ordinary share capital	10,000,000	100	10,000,000	100
Un-designated 1p	-	-	-	-
Total equity share capital	10,000,000	100	10,000,000	100
Non-equity share capital:				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	4,375,000	44	4,375,000	44
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	4,375,000	44	4,375,000	44
Convertible redeemable 'E' preference 1p	625,000	6	625,000	6
Deferred shares 1p	86,194,486	862	-	-
Total Non-equity share capital	95,569,486	956	9,375,000	94
Total share capital	105,569,486	1,056	19,375,000	194

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Share capital (continued)

c) Authorised and issued share capital - movements in year

	1997		1996	
	£'000 Authorised	£'000 Issued	£000 Authorised	£'000 Issued
Balance brought forward	6,000	194	400	170
Created /Issued in year	-	862	5,600	24
Balance carried forward	<u>6,000</u>	<u>1,056</u>	<u>6,000</u>	<u>194</u>

During the year 86,194,486 deferred 1p shares were issued under the warranty guarantee clause at par for cash as follows:

	Number	£'000
26 February 1997	65,749,271	658
11 March 1997	6,347,787	63
30 May 1997	5,907,447	59
1 August 1997	2,250,637	23
3 September 1997	2,189,016	22
17 October 1997	6,667	-
8 December 1997	3,743,661	37
Total deferred shares issued	<u>86,194,486</u>	<u>862</u>

d) Principal rights of the non equity Convertible Redeemable shares

		<u>Convertible Redeemable Preference Shares</u>		
		1st series	2nd series	'E'
Redemption	- Earliest date	1 January 1996	1 January 1996	1 January 1996
	- Latest date	No limit	4 January 2000	No limit
	- Premium payable on redemption	Nil	Nil	Nil
Conversion	- Earliest date	1st series conversion event	Issue of 2nd series conversion notice	1st series conversion event
	- Latest date	-	31 December 2001	31 December 1999

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Share capital (continued)

d) Principal rights of the non equity Convertible Redeemable shares (continued)

Conversion to ordinary shares will be made on the occurrence of a First Series Conversion Event or the giving of a Second Series Conversion Notice as appropriate. A First Series Conversion Event means either a listing or an agreement for the sale of the whole of the ordinary share capital of the Company. A Second Series Conversion Notice can be given after the second anniversary of listing but not later than 31 December 2001. Conversion to Ordinary shares will be based on the net asset value at the time of the 1st conversion event or quoted price at the time of the 2nd series conversion notice. Any shares not converting to Ordinary shares will become Deferred shares. All conversions will be on a one for one share exchange. The conversion of Convertible Redeemable 'E' Preference shares will be into 'E' shares and Deferred shares. Conversion will occur on 31 December 1999 unless valid notice is given to defer it until 31 December 2000.

Redemption in all cases is at the option of the Company. The redemption amount will be the amount paid up on the shares held.

e) Principal rights of the non equity Deferred shares

		<u>Deferred Shares arising from:</u>		
		Warranty recovery	Conversion	Warranty guarantee.
Redemption	- Earliest date	30 days after recovery from 3rd party	At any time	31 May 2002
	- Latest date	None	None	None
	- Premium payable on redemption	Nil	Nil	Nil

Deferred shares issued under the warranty recovery clause of the Windsor Life acquisition agreement are issued at the request of New York Life (UK) Limited as bonus Deferred shares and are redeemable at par immediately. Redemption in all other cases is at the option of the Company. This will be at par, other than for the Deferred shares issued under the warranty guarantee which will be redeemable for £1 in total

f) Rights attributable to all non equity shares (other than Deferred shares)

Dividends

-The shares have no rights to dividends

Return of capital

-The shares rank equally with the ordinary shares for return of capital but have no right to participate in the profits of the Company

Voting

-The shares carry voting rights in relation to resolutions to wind up the Company, reduce the capital or vary or abrogate their rights.

g) Rights attributable to Deferred Shares

Dividends

- Entitled, before any dividend on any other class of shares, to a fixed, cumulative, preferential annual dividend at the rate of 0.00001% per annum on the nominal capital credited as paid up.

Return of capital

- Entitled, on a return of capital on winding up only, to repayment of the amount paid up on such shares.

Voting

- No rights.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

16. Reserves
a) Group

	Share Premium account £'000	Capital reserve £'000	Other reserves £'000	Shares to be issued reserve £'000	Total reserves £'000
At 1 January 1997	23,976	2,536	53,555	20,000	100,067
Increase in indemnity provision	.	.	(2,062)	2,062	.
Shares issued	.	.	.	(862)	(862)
Balance at 31 December 1997	<u>23,976</u>	<u>2,536</u>	<u>51,493</u>	<u>21,200</u>	<u>99,205</u>

b) Company

	Share Premium account £'000	Other reserves £'000	Shares to be issued reserve £'000
At 1 January 1997	23,976	53,555	20,000
Increase in indemnity provision	.	(2,062)	2,062
Shares issued	.	.	(862)
Balance at 31 December 1997	<u>23,976</u>	<u>51,493</u>	<u>21,200</u>

17. Profit and loss account

	Non distributable reserve £'000	Group Profit & loss account £'000	Company 1997 Total £'000	Company 1997 £'000
Balance at 1 January 1997	12,840	40,049	52,889	27,776
Retained profit for the year	.	1,609	1,609	4,144
Transfer from profit and loss account	(68)	68	.	.
Balance at 31 December 1997	<u>12,772</u>	<u>41,726</u>	<u>54,498</u>	<u>31,920</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

18. Shareholders' interest in the long-term business in force

	1997 £'000	1996 £'000
Balance brought forward	107,178	83,194
Balance at acquisition		
- Combined Life	-	23,570
Increase/(decrease) during the period		
Grossed up for taxation	(68)	620
Taxation	-	(206)
Net of taxation	(68)	414
Balance carried forward	107,110	107,178

The shareholders' interest in the long-term business in force has been calculated on the basis of the following principal assumptions:

General assumptions:	1997	1996		
Inflation - RPI	3.25% pa	4.25% pa		
- expense	4.25% pa	5.25% pa		
Discount rate	10.5% pa	12% pa		
Tax rates (average) - shareholders	30%	31%		
- policyholders	22%	22%		
Specific assumptions:	1997	1997	1996	1996
	Life	Pensions	Life	Pensions
	<u>business</u>	<u>business</u>	<u>business</u>	<u>business</u>
Mortality	65%	65%	80%	80% A67/70
	A67/70 Sel	A67/70 Ultimate	A67/70 Sel	Ultimate
	+ 33% R6A AIDS		+ 33% R6A AIDS	
Yield on non-linked fund				
(before tax and investment management expenses)				
- non-profit	6.25% pa	6.25% pa	7.75% pa	7.75% pa
- with-profit	7.89% pa	7.89% pa	9.4% pa	9.4% pa
Growth in unit values				
(before tax and management charges)			9.5%	9.5%
Lapse rate - year 1	17.5	20} 90%	17.5	20} 90%
- year 2	12	20} PUP;	12	20} PUP;
- thereafter	7.5	15} 10% lapse	7.5	15} 10% lapse
Renewal expenses per annum (pa)	£27.00	£40.50	£26.50	£39.75

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19. Policyholder liabilities and fund for future appropriations

	Long-term business provision £'000	Outstanding claims £'000	Technical provision for linked liabilities £'000	Fund for future appropriations £'000
Balance at 1 January 1997	590,360	1,367	1,282,556	62,963
Movement for the year	76,978	-	120,620	26,088
Balance at 31 December 1997	<u>667,338</u>	<u>1,367</u>	<u>1,403,176</u>	<u>89,051</u>
Made up of:				
Gross provision liability	678,040	1,367	1,403,176	89,051
Recoverable from reinsurers	(10,702)	-	-	-
Net total 31 December 1997	<u>667,338</u>	<u>1,367</u>	<u>1,403,176</u>	<u>89,051</u>
Gross provision liability	642,412	1,367	1,283,032	62,963
Recoverable from reinsurers	(52,052)	-	(476)	-
Net total 31 December 1996	<u>590,360</u>	<u>1,367</u>	<u>1,282,556</u>	<u>62,963</u>

20. Long-term business provision

The long-term business provision has been determined by Mr N J Rutter, the Appointed Actuary of Windsor Life Assurance Company Limited and a Fellow of the Institute of Actuaries, using the net premium valuation method.

(i) The principal assumptions underlying the calculation were as follows:

Class of business	Mortality	Interest rates 1997	Interest rates 1996
Life			
- participating	A67/70(2) Ultimate	2.5%	2.75%
- non-participating	A67/70(2) Ultimate	4.5%	4.5%
Pensions			
- participating	A67/70(2) Ultimate	3.0%	3.5%
- non-participating	A67/70(2) Ultimate	6.0%	6.0%
- annuities in payment	IM80/IF80 c=2010 x -2	6.0%	7.0%

For linked business a long-term provision is held in addition to the linked provision. This is calculated using a cash flow projection method, the main underlying assumptions are:

	1997	1996
<u>Per policy expenses</u>		
Regular premium pension	£57.82	£54.55
Single premium pension	£22.02	£20.75
Regular premium life	£45.47	£42.90
Single premium life	£17.94	£16.90
Expense inflation	6%	6%
Mortality	A67/70(2) Ultimate	A67/70(2) Ultimate

For 1997, the annuity in payment mortality assumption was reduced to 85% A67/70(2) Ultimate for non-linked business. An additional allowance for AIDS mortality was included using 33% of basis R6A, as recommended by the Government Actuary's Department.

(ii) Deferred tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

21. Total bonuses attributable to the accounting period

The total of bonuses attributable to the accounting period, being amounts representing an allocation of surplus for the period, were £29,187,000 (1996 - £25,241,000). This includes terminal bonuses reported as part of claims incurred and reversionary bonuses included as part of the changes in the long-term business provision.

22. Fixed asset investments

The Company's investments are made up of:

	Shares in subsidiary undertakings £'000	Loan to subsidiary undertaking £'000	Sub total £'000	Own Shares £'000	Total £'000
As at 1 January 1997	97,646	15,000	112,646	4	112,650
Amortisation	-	-	-	(1)	(1)
As at 31 December 1997	97,646	15,000	112,646	3	112,649

In the opinion of the Directors the values of the subsidiary undertakings are not less than the amount at which the asset is shown in the balance sheet.

a) Subsidiary undertakings

The subsidiaries of the Company are all registered in England and Wales and 100% of their ordinary share capital is owned by the group:

<u>Company</u>	<u>Principal activity</u>
Windsor Life Assurance Company Limited*	Long-term insurance
Gresham Life Assurance Society Limited	Long-term insurance
LAHC Employee Trust Limited*	Trustees to LAHC Employee Share Trust
C Financial Management Limited*	Intermediate holding Company
C Investment Management Services Limited	Dormant
C Life Assurance Company Limited	Dormant
C Life Pensions Limited	Dormant
CLPT Limited	Dormant
C Computer Services Limited	Dormant
Homeview Data Services Limited	Dormant
CFP Limited	Dormant
CLMS Limited	Dormant
CLAR Limited	Dormant

*directly held by the Company

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

22. Fixed asset investments (continued)

b) Own shares

	Total £'000
Cost brought forward	6
Depreciation:	
As at 1 January 1997	(2)
Charge for year	(1)

As at 31 December 1997	(3)

Net book value at 31 December 1997	3
	=====
Net book value at 31 December 1996	4
	=====

LAHC Employee Trust Limited ('LAHCET') acts as Trustee to the LAHC Employee Share Trust. The Company issued 625,000 Convertible Redeemable 'E' Preference shares to LAHCET at par. The funds for this share purchase were provided by the Company. LAHCET is holding these shares on trust for those employees who participate in the Company's Employee Incentive Scheme.

On conversion of the preference shares the Trustee will transfer the new ordinary shares to whoever are the beneficiaries at that time in accordance with the predetermined formula set out in the Employee Incentive Scheme.

The preference shares have been recognised as an asset by the Company and the cost is being written off to the profit and loss account over the period to conversion, being 5 years.

23. Other prepayments and accrued income

Prepayments and accrued income are due as follows:

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Current assets - within 12 months	885	408	1,128	651
Amount relating to periods commencing after one year	985	985	1,440	1,440
	=====	=====	=====	=====
	1,870	1,393	2,568	2,091

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

24. Provisions for other risks and charges

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Provision for taxation				
- deferred tax on Deferred Acquisition Costs	1,843	-	2,190	-
Other provisions	12,969	5,240	14,331	4,940
Indemnified costs	19,166	19,166	20,000	20,000
	<u>33,978</u>	<u>24,406</u>	<u>36,521</u>	<u>24,940</u>

The movement in the provisions is as follows:

a) Group

	Other £'000	Property leases £'000	Deferred tax £'000	Indem- nified £'000	Total £'000
At 1 January 1997	670	13,661	2,190	20,000	36,521
Released in year	-	(316)	-	(210)	(526)
Established in year	145	1,497	3	3,190	4,835
Utilised in year	(129)	(2,559)	(350)	(3,814)	(6,852)
	<u>686</u>	<u>12,283</u>	<u>1,843</u>	<u>19,166</u>	<u>33,978</u>

b) The Company

	Property leases £'000	Indem- nified £'000	Total £'000
At 1 January 1997	4,940	20,000	24,940
Released in year	-	(210)	(210)
Established in year	902	3,190	4,092
Utilised in year	(602)	(3,814)	(4,416)
	<u>5,240</u>	<u>19,166</u>	<u>24,406</u>

Indemnified costs include all liabilities assumed on the acquisition of Windsor Life for which guarantees exist from the vendor to inject funds by means of subscribing for Deferred shares. Such costs include certain legal cases and compensation to third parties arising from pension mis-selling. The 'Other' provision includes amounts for legal cases.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

25. Creditors

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Due to related undertakings	4,688	4,688	6,250	6,250
Other creditors (including taxation and social security)	10,912	3,776	15,480	4,941
	<u>15,600</u>	<u>8,464</u>	<u>21,730</u>	<u>11,191</u>

26. Amounts owed to credit institutions

	Group 1997 £'000	Company 1997 £'000	Group 1996 £'000	Company 1996 £'000
Bank borrowings (secured)	-	-	500	-
Bank overdrafts	-	-	912	912
	<u>-</u>	<u>-</u>	<u>1,412</u>	<u>912</u>

Bank borrowings were repayable within one year or on demand and were chargeable at various rates from 0.75% to 3% per annum above base rate. They were secured as a first charge on specific properties held in investments.

27. Operating lease commitments

Annual commitments in respect of non-cancellable leases of the Group are as follows:

	Land and Buildings 1997 £'000	Other 1997 £'000	Land and Buildings 1996 £'000	Other 1996 £'000
Operating leases which expire:				
- within one year	57	191	30	178
- between one and five years	122	45	147	131
- after five years	2,825	-	3,914	-
	<u>3,004</u>	<u>236</u>	<u>4,091</u>	<u>309</u>

28. Financial and capital commitment

Commitments for capital expenditure not provided for in the accounts are as follows:

	1997 £'000	1996 £'000
Authorised and not contracted	nil	nil
Authorised but not yet contracted	nil	nil

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

29. Reconciliation of Movement in Shareholders' Funds

	Group 1997 £'000	Company 1997 £'000
Profit for the financial year	9,109	11,644
Dividends	(7,500)	(7,500)
	1,609	4,144
New capital subscribed (net of costs)	862	862
Release of reserve for issue of new shares	(862)	(862)
	1,609	4,144
Opening shareholders' funds	153,150	125,501
Closing Shareholders' Funds	154,759	129,645
Made up of:		
Equity interests	132,603	107,489
Non-equity interests	22,156	22,156
Total Shareholders' Funds	154,759	129,645

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

30. Notes to the Shareholders' cash flow statement

a) Reconciliation of operating profit to net cashflow

	1997 £'000	1996 £'000
Operating profit before tax after interest	11,874	36,361
Investment income charged to operating profit	(3,074)	(2,170)
Tax on long term business technical account	(3,455)	(6,694)
(Increase)/decrease in debtors and prepayments	490	(1,425)
Profit on long term business	(7,512)	(13,592)
Increase/(decrease) in creditors and other provisions	(8,606)	2,801
Movement in embedded value	68	(414)
Net cashflow from operating activities	<u>(10,215)</u>	<u>14,867</u>

b) Movement in opening and closing portfolio investments

	At 1 Jan 1997 £'000	Cash Flow £'000	At 31 Dec 1997 £'000
Cash and deposits	2,852	(1,914)	938
Bank overdrafts	(1,412)	1,412	-
Current asset investments	<u>55,615</u>	<u>(15,793)</u>	<u>39,822</u>
Total	<u>57,055</u>	<u>(16,295)</u>	<u>40,760</u>

c) Reconciliation of balances of portfolio investments
to amounts shown in the balance sheet

	Share holders' funds 1997 £'000	Long-term business funds 1997 £'000	Total 1997 £'000
Cash and deposits	938	15,589	16,527
Bank overdrafts	-	-	-
Other financial investments	<u>39,822</u>	<u>686,889</u>	<u>726,711</u>
Total	<u>40,760</u>	<u>702,478</u>	<u>743,238</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

31. Related party transactions

The Company is ultimately influenced by New York Life (a mutual Company, registered in the State of New York, USA, with no shareholders) and St James's Place Capital plc (a public limited Company with no controlling interest) who together hold a majority interest in the Company.

The Company has made use of the exemption from reporting on the transactions with its subsidiary undertakings.

During the year the Group has conducted the following material transactions with related parties:

- a) £1.8million of pensions were paid on behalf of the Windsor Pension & Life Assurance Scheme for later reimbursement. This facility is conducted at no cost to the Scheme. At 31 December 1997 the balance outstanding was £nil. (1996 - £11,000)
- b) the Group's pension scheme partly invested in the Windsor Life Managed Fund throughout the year. At 31 December 1997 this was valued at £20million (1996 - £18million).
- c) the Group occupies Windsor House which was rented from New York Life (UK) Limited one of the Company's shareholders at a rent of £693,000 per annum. The land and property lease were acquired by Windsor Life Assurance Company Limited in January 1998 for £1.8 million.

32. Regulatory Matters

The Securities and Investment Board has requested an industry-wide investigation into the conduct of business where pensions have been transferred between schemes.

Life Assurance Holding Corporation Limited ('LAHC') has received an indemnity from the former parent undertaking of Windsor Life Assurance Company Limited ('WLA') in respect of the mis-selling of premium transfers and opt-outs existing at the time of the acquisition by LAHC. Under this the latter has guaranteed to contribute funds to LAHC of an amount equivalent to the costs incurred in investigating and/or compensating policyholders

LAHC has received a similar indemnity from the previous parent undertaking of Crown Life Pensions Limited. The Group has relied on these indemnities in determining the appropriate level of provision required.

WLA assumed all liabilities in excess of £30 million arising from the unit-linked and term assurance business transferred from Combined Life Assurance Company Limited ('CLAC'). Up to this limit the vendor, CLAC will indemnify WLA for a substantial portion of the costs incurred in excess of £16 million. This indemnity has been relied on in determining the level of provision required.

The Treasury have released a consultation document regarding non-priority cases, the impact of this release is yet to be fully reviewed.

33. Contingent Liabilities

The Company has signed a loan facility for £135m with a consortium of banks led by Chase Manhattan Bank NA under which it is committed to pay non-utilisation fees to the extent that the facility is not used before 28 February 1999. The total fees payable in annual instalments not provided for in these financial statements is £1,277,000.

The loan facility exists under a debenture deed which is secured on all the net shareholder assets of the Company by means of fixed and floating charges.

FOR INFORMATION ONLY

LIFE ASSURANCE HOLDING CORPORATION LIMITED - the Company only

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 1 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
Management re-charges		693	693
Expenses		(2,353)	(1,555)
Operating profit/(loss) - continuing operations		(1,660)	(862)
Other interest receivable (net of discount unwind)		960	(45)
Other income		91	147
Provision against investment in/due from subsidiary undertaking		(3,100)	(1,748)
Interest payable		(3)	(787)
Loss on ordinary activities before taxation		(3,712)	(3,295)
Taxation - Group relief received		(356)	460
		(3,356)	(2,835)
Dividends received from subsidiary undertakings		15,000	-
RETAINED PROFIT/(LOSS) PRE-DIVIDENDS		11,644	(2,835)
Dividends proposed to shareholders	15	(7,500)	(10,000)
Net profit/(loss) retained for the period	21	4,144	(12,835)

All transactions arise from continuing operations.

All gains and losses are recognised in the Profit and Loss Account.

This statement is not presented as part of the annual report of LAHC. The pre-dividend total is however reported on the Non-technical account - page 9.