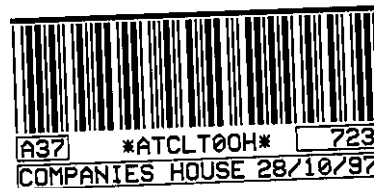


2970583

Life Assurance
Holding
Corporation
Limited

Report & Accounts

31 December 1996



LIFE ASSURANCE HOLDING CORPORATION LIMITED

Company No. 2970583

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1996

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

Directors and Company Information

Directors as at 31 December 1996:

Sir Mark Weinberg - Chairman
J L Wybrew - Managing Director
N H Reid
D F Connon
R M Kernan (USA)
A D Loehnis
J C C Meggs
W H Mowat (USA)
M Nocera (USA)
M C Ramsay
N M M Riddell

Secretary
N H Reid

Registered Office
Windsor House, Telford Centre, Shropshire, TF3 4NB

Solicitors
Herbert Smith, London
Wragge & Co, Birmingham

Bankers
Midland Bank plc

Auditors
Price Waterhouse

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

The Directors present their report for the year to 31 December 1996.

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.

On 29 February 1996 the Company negotiated a £135 million loan facility which under a debenture deed is secured on all the net shareholder assets of the Company by means of fixed and floating charges.

With effect from 15 March 1996 the Irish courts approved the transfer of part of the UK branch business of Lifetime Assurance Company Limited. The transferred business was life and pensions business and the total liabilities were calculated at £66 million. In 1995 this business had been reassured with the group and the transfer therefore had no effect on the funds under management during 1996.

In addition with effect from 30 November 1996 the High Court approved the transfer of the UK long-term business of Combined Life Assurance Company Limited. The transferred business was life and pensions and the total liabilities transferred were calculated at £140 million. This acquisition has increased funds under management by £140 million and regular premium income by £1.1 million.

Issue of shares

At an Extraordinary General Meeting (EGM) held on 4 September 1996 the authorised share capital of the company was increased to £1 million by the creation of 60,000,000 1p Deferred shares. A further EGM was held on 4 December 1996 where the authorised share capital was increased to £6 million by the creation of 500,000,000 1p Deferred shares

On 4 December 1996 the Company issued 2,400,000 ordinary 1p shares for a cash consideration of £10 per share. This was achieved by redesignating 2,400,000 undesignated shares as ordinary 1p shares. The issue of shares and the subscriptions to this issue were as follows:

| Shares issued: | Number of shares | Shares £'000 | Premium £'000 | Total £'000 |
|------------------------|---------------------|-----------------|------------------|----------------|
| Equity shares | | | | |
| - Ordinary 1p A shares | 750,000 | 7 | 7,493 | 7,500 |
| - Ordinary 1p B shares | 750,000 | 7 | 7,493 | 7,500 |
| - Ordinary 1p C shares | 660,000 | 7 | 6,593 | 6,600 |
| - Ordinary 1p D shares | 240,000 | 3 | 2,397 | 2,400 |
| Total shares issued | <u>2,400,000</u> | <u>24</u> | <u>23,976</u> | <u>24,000</u> |

Results, dividends and transfers to reserves

The results for the year are set out on pages 8 and 9. The Directors paid an interim dividend of £7.5 million on 31 January 1997 and propose a final dividend of £2.5 million. The balance of £20,474,000 remaining on the group profit and loss account, including profits of the life company on an embedded value basis, has been retained as reserves.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

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

The following Directors served during the period:

Sir Mark Weinberg - Chairman

J L Wybrew - Managing Director *

N H Reid *

A D Loehnis

W H Mowat (USA)

J C C Meggs

R M Kernan (USA)

N M M Riddell

M C Ramsay

D F Connon

M Nocera (USA)

C P Gibson

(appointed 12 February 1996)

(appointed 12 February 1996)

(resigned 18 January 1996)

* Executive Directors

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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

Employees

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.

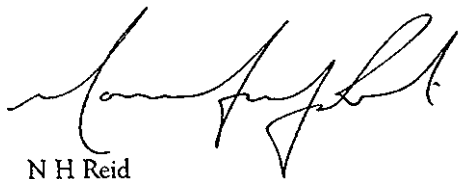
Political and charitable donations

The group paid £4,000 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 will be submitted at the annual general meeting.

On behalf of the Board of Directors



N H Reid
Secretary
12 March 1997

LIFE ASSURANCE HOLDING CORPORATION 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 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 judgments 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

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996**

| Technical Account - Long-term Business | | 15 months to 31 December | |
|--|-------|--------------------------------|------------------|
| | Notes | Total 1996 £'000 | 1995 £'000 |
| Earned premiums, net of reinsurance: | | | |
| Gross premiums written | 1 | 149,142 | 218,384 |
| Outward reinsurance premiums | | (3,520) | (4,660) |
| | | <u>145,622</u> | <u>213,724</u> |
| Investment income | 5 | 148,908 | 146,565 |
| Unrealised gains on investments | 5 | 54,256 | 137,085 |
| Other technical income, net of reinsurance | 6 | 117,740 | 12,632 |
| | | <u>466,526</u> | <u>510,006</u> |
| Net income in period | | | |
| Claims incurred, net of reinsurance: | | | |
| Claims paid - | | | |
| - gross amount | | (220,646) | (162,304) |
| - reinsurers' share | | 65,212 | 28,924 |
| Net claims paid | | <u>(155,434)</u> | <u>(133,380)</u> |
| Change in the provision for claims- | | | |
| - gross amount | | (747) | (2,492) |
| - reinsurers' share | | 173 | 48 |
| Net change in claims provision | | <u>(574)</u> | <u>(2,444)</u> |
| Net claims cost in period | | <u>(156,008)</u> | <u>(135,824)</u> |
| Change in other technical provisions, net of reinsurance: | | | |
| Long-term business provision, net of reinsurance - | | | |
| - gross amount | 23 | 1,919 | (49,765) |
| - reinsurers' share | 23 | (43,727) | (22,850) |
| Other technical provisions, net of reinsurance - | | | |
| Technical provisions for linked liabilities | | (223,627) | (214,049) |
| Net change in other technical provisions in period | | <u>(265,435)</u> | <u>(286,664)</u> |
| Net operating expenses | 7 | (32,936) | (50,389) |
| Investment expenses and charges | 5 | (814) | (1,225) |
| Tax attributable to the long-term business | 14 | (6,016) | (3,373) |
| Transfers from the fund for future appropriations | 23 | 8,275 | 9,544 |
| Transfer to non-technical account (page 9) | | - | (29,649) |
| | | <u>13,592</u> | <u>12,426</u> |
| Balance on the technical account - long-term business | | | |

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996

Non-Technical Account

| | | 1996 | 15 months to 31 December 1995 |
|---|-------|---------|-------------------------------------|
| | Notes | £'000 | £'000 |
| Balance on the technical account - long-term business (page 8) | | 13,592 | 12,426 |
| Tax credit attributable to balance on the long-term business technical account | 14 | 6,694 | 6,120 |
| Shareholders' pre-tax profit from long-term business | | 20,286 | 18,546 |
| Transfer from Technical account (page 8) | | - | 29,649 |
| Investment income | 5 | 2,158 | 1,866 |
| Unrealised gains on investments | 5 | 12 | - |
| Schedule 2C transfer | 2 | 22,874 | - |
| Other charges | | (8,969) | (11,534) |
| Profit on ordinary activities before taxation | | 36,361 | 38,527 |
| Tax on profit on ordinary activities | 14 | (5,887) | (6,112) |
| Profit for the financial year | | 30,474 | 32,415 |
| Dividend proposed | 15 | 10,000 | - |
| Retained profit for the financial year | 21 | 20,474 | 32,415 |

All of the amounts above are in respect of continuing operations. Disclosures in respect of the acquisition made during the year are in the notes.

The Retained profit after taxation includes a loss before dividends of £2,835,000 (1995 - £4,390,000) which has been dealt with in the accounts of the Company. The loss 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 accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1996

| | 1996 £'000 | 15 months to 31 December 1995 £'000 |
|---|-----------------|--|
| Reported profit on ordinary activities before tax | 36,361 | 38,527 |
| Unrealised movement on the shareholders share of the long term business in force | (414) | (12,632) |
| Unrealised gains recognised in the year | (12) | - |
| | <hr/> | <hr/> |
| Historical cost profit on activities before tax | 35,935 ===== | 25,895 ===== |
| | | |
| Historical cost profit for the period retained after tax | 20,048 ===== | 19,783 ===== |

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 1996

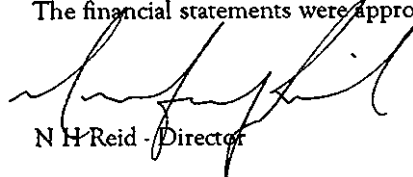
| | | 1996 | 1995 |
|--|-------|------------------|------------------------|
| | Notes | £'000 | (as restated) £'000 |
| ASSETS | | | |
| Investments | | | |
| Land and buildings | 16a | 28,890 | 28,149 |
| Other financial investments | 16b | 690,761 | 646,034 |
| Deposits with ceding undertakings | | 22 | 28 |
| Total investments | | <u>719,673</u> | <u>674,211</u> |
| Assets held to cover linked liabilities | 17 | 1,300,493 | 1,077,039 |
| Reinsurers' share of technical provisions | | | |
| Long-term business provision | 23 | 52,052 | 113,779 |
| Technical provisions for unit-linked liabilities | 23 | 476 | 476 |
| Total reinsurers' share | | <u>52,528</u> | <u>114,255</u> |
| Debtors | | | |
| Debtors arising out of direct insurance operations | | | |
| - policyholders | | 1,458 | 713 |
| - intermediaries | | 6 | - |
| Debtors arising out of reinsurance operations | | 1,610 | 1,418 |
| Amounts due from shares to be issued | 20 | 20,000 | 10,000 |
| Other debtors | | 21,276 | 25,831 |
| Total debtors | | <u>44,350</u> | <u>37,962</u> |
| Other assets | | | |
| Tangible assets | 18 | 1,510 | 1,214 |
| Cash at bank and in hand | | 2,438 | 60,799 |
| Own shares | 3b | 4 | 5 |
| Total other assets | | <u>3,952</u> | <u>62,018</u> |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 13,512 | 11,799 |
| Deferred acquisition costs | | 9,878 | 12,734 |
| Shareholders' interest in the | | | |
| long-term business in force | 22 | 107,178 | 83,194 |
| Other prepayments and accrued income | 4 | 2,568 | 703 |
| Total prepayments and accrued income | | <u>133,136</u> | <u>108,430</u> |
| Total assets | | <u>2,254,132</u> | <u>2,073,915</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1996 (continued)

| | | 1996 | 1995 |
|--|-------|------------------|------------------------|
| | Notes | £'000 | (as restated) £'000 |
| LIABILITIES | | | |
| Capital and reserves | | | |
| Called up share capital | 19 | 194 | 170 |
| Share premium | 20a | 23,976 | - |
| Capital reserves | 20a | 2,536 | 536 |
| Other reserves | 20a | 53,555 | 63,555 |
| Shares to be issued | 20a | 20,000 | 10,000 |
| Profit and loss account | 21 | 52,889 | 32,415 |
| | | <hr/> | <hr/> |
| Shareholders' funds (including non-equity interests) | 31 | 153,150 | 106,676 |
| Fund for future appropriations | 23 | 62,963 | 71,238 |
| Technical provisions | | | |
| Long-term business provision | 24 | 642,412 | 644,331 |
| Claims outstanding | | 1,367 | 845 |
| Technical provisions for linked liabilities | 23 | 1,283,032 | 1,059,405 |
| Deposits received from reinsurers | | 38,616 | 91,519 |
| Provisions for other risks and charges | | | |
| Provisions for pensions and similar obligations | 13 | 43 | - |
| Other provisions | 26 | 36,521 | 34,660 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 11,085 | 9,636 |
| Creditors arising out of reinsurance operations | | 1,801 | 1,946 |
| Amounts owed to credit institutions | 28 | 1,412 | 41,084 |
| Other creditors | | | |
| including taxation and social security | 27 | 21,730 | 12,575 |
| | | <hr/> | <hr/> |
| Total liabilities | | <u>2,254,132</u> | <u>2,073,915</u> |

The financial statements were approved by the Board of Directors on 12 March 1997.


N H Reid - Director

The notes on pages 15 to 44 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 1996

| | | 1996 | 1995 (as restated) |
|---|-------|----------------|-----------------------|
| | Notes | £'000 | £'000 |
| Fixed Assets: | | | |
| Investments | 3 | 112,650 | 112,651 |
| Current Assets: | | | |
| Debtors - | | | |
| Amounts owed by shareholder under indemnity | | 20,000 | 10,000 |
| Amounts owed by group undertakings | | - | 42,650 |
| Amounts owed by related undertakings | | - | 709 |
| Other debtors | | 699 | - |
| Prepayments and accrued income | 4 | 2,091 | - |
| Investments | | 27,558 | - |
| Cash at bank and in hand | | - | 164 |
| | | <u>50,348</u> | <u>53,523</u> |
| Creditors: Amounts falling due within one year | | | |
| Bank loans and overdrafts | 28 | (912) | (34,000) |
| Amounts owed to group undertakings | | (454) | - |
| Other creditors (including taxation and social security) | 27 | (11,191) | (1,987) |
| | | <u>-</u> | <u>-</u> |
| Net current assets | | <u>37,791</u> | <u>17,536</u> |
| Total assets less current liabilities | | 150,441 | 130,187 |
| Provision for liabilities and charges | 26 | (24,940) | (15,851) |
| | | <u>-</u> | <u>-</u> |
| NET ASSETS | | <u>125,501</u> | <u>114,336</u> |
| Financed by: | | | |
| Capital and reserves - | | | |
| Called up share capital | 19 | 194 | 170 |
| Share premium account | 20b | 23,976 | - |
| Other reserves | 20b | 53,555 | 63,555 |
| Shares to be issued | 20b | 20,000 | 10,000 |
| Profit and loss account | 21 | 27,776 | 40,611 |
| | | <u>-</u> | <u>-</u> |
| SHAREHOLDERS' FUNDS (including non-equity interests) | 31 | <u>125,501</u> | <u>114,336</u> |

The financial statements were approved by the Board of Directors on 12 March 1997.

N H Reid - Director

The notes on pages 15 to 44 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

SHAREHOLDERS' CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1996

| | | 1996 | 15 months to 31 December 1995 |
|--|-------|----------|-------------------------------------|
| | Notes | £'000 | £'000 |
| Operating activities | | | |
| Net cash inflow from operating activities | 32a | 14,867 | 29,703 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,906 | 1,136 |
| Interest paid | | (340) | (1,404) |
| | | <hr/> | <hr/> |
| Net cash outflow from returns on investments and servicing of finance | | 1,566 | (268) |
| | | <hr/> | <hr/> |
| Taxation | | | |
| Corporation tax paid | | - | - |
| Investing activities | | | |
| Purchase of subsidiary undertakings | 32e | - | (6,864) |
| Purchase of Combined Life business | | (5,570) | - |
| Sale of investments | | - | 2,311 |
| Purchase of investments | | (47,047) | - |
| Purchase of fixed assets | | - | (28) |
| Sale of fixed assets | | - | 15 |
| | | <hr/> | <hr/> |
| Net cash outflow from investing activities | | (52,617) | (4,566) |
| | | <hr/> | <hr/> |
| Net cash inflow/(outflow) before financing | | (36,184) | 24,869 |
| Financing | | | |
| Issue of share capital (net of formation expenses) | | 24,000 | 225 |
| New secured loan | | - | 33,000 |
| Repayments of amount borrowed | | (34,800) | (400) |
| Capital element of finance lease rental payments | | - | (702) |
| | | <hr/> | <hr/> |
| Net cash (outflow)/inflow from financing | 32f | (10,800) | 32,123 |
| | | <hr/> | <hr/> |
| (Decrease)/increase in cash and cash equivalents | 32b | (46,984) | 56,992 |
| | | <hr/> | <hr/> |

The accounting policies and notes on page 15 to 44 form an integral 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 to 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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

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.

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. 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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Investments (continued)

(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.

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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

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 |

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 scheme costs are charged to profit and loss in order to spread the costs evenly over the estimated service lives of the employees.

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) will be 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.

Presentation Note - all the Technical Account and Non-technical Account comparative figures in the notes are headed 1995 but refer to the period from 22 September 1994 to 31 December 1995. They are marked with an asterix.

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:

| | 1996 £'000 | 1995* £'000 |
|------------------------|----------------|----------------|
| Direct assurance | 131,377 | 140,601 |
| Reassurance inwards | 17,765 | 77,783 |
| Gross premiums written | <u>149,142</u> | <u>218,384</u> |

£63,459,000 of the 1995 reassurance inwards premiums relates to Lifetime UK business. In 1996 this business was transferred to the Group and is, in 1996, included in direct assurance from the date the transfer was approved by the Irish courts.

| | | <u>Gross direct premiums written</u> | | | |
|------------------------------------|--|--------------------------------------|---------------|------------------------|---------------|
| | | <u>Regular premiums</u> | | <u>Single premiums</u> | |
| | | 1996 | 1995* | 1996 | 1995* |
| | | £'000 | £'000 | £'000 | £'000 |
| Non-participating: | | | | | |
| Annuity | | - | - | 10,545 | 16,230 |
| Life | | 5,626 | 6,051 | - | - |
| Pensions | | 1,898 | 1,910 | 7,805 | 5,301 |
| Permanent Health | | 329 | 215 | - | - |
| | | <u>7,853</u> | <u>8,176</u> | <u>18,350</u> | <u>21,531</u> |
| Participating: | | | | | |
| Life | | 7,422 | 7,622 | 18,722 | 23,990 |
| Pensions | | 1,281 | 1,313 | - | - |
| | | <u>8,703</u> | <u>8,935</u> | <u>18,722</u> | <u>23,990</u> |
| Linked: | | | | | |
| Life | | 31,654 | 29,687 | 2 | 949 |
| Pensions | | 22,728 | 23,357 | 23,050 | 23,637 |
| Permanent Health | | 315 | 339 | - | - |
| | | <u>54,697</u> | <u>53,383</u> | <u>23,052</u> | <u>24,586</u> |
| Total direct gross premiums | | <u>71,253</u> | <u>70,494</u> | <u>60,124</u> | <u>70,107</u> |
| Comprising: | | | | | |
| Individual business | | 71,253 | 66,548 | 59,748 | 66,447 |
| Group contracts | | - | 3,946 | 376 | 3,660 |
| | | <u>71,253</u> | <u>70,494</u> | <u>60,124</u> | <u>70,107</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

| | 1996 | 1995* |
|-----------------------|---------------|---------------|
| | £'000 | £'000 |
| UK | 1,137 | 63,459 |
| Europe (excluding UK) | 1,284 | 1,104 |
| USA | 15,344 | 13,220 |
| | <u>17,765</u> | <u>77,783</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 11 includes £2,066,584,000 (1995 - £1,957,289,000) 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 1996 was £61,865,000 (1995* - £24,434,000.)

2. Transfers of insurance funds

The UK long-term assurance business funds of Lifetime Assurance Company Limited was transferred to the Company under section 13 of the 1909 Assurance Act of the United Kingdom of Great Britain and Ireland (as it then was) and article 35 of the 1994 European Communities (Life Assurance) framework regulation of Ireland on 15 March 1996.

The long-term assurance business fund of Combined Life Assurance Company Limited was transferred to the Company under Schedule 2C to the Insurance Companies Act 1982 on 30 November 1996.

| | Book value at acquisition | Reval- uation | Accounting policies | Fair value |
|--|------------------------------|------------------|------------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Policyholder assets | 139,892 | - | - | 139,892 |
| Policyholder liabilities | (139,892) | - | - | (139,892) |
| Value of in force policies | 23,570 | - | - | 23,570 |
| Liabilities assumed by Non-profit sub fund | (16,000) | (2,000) | - | (18,000) |
| | <u>7,570</u> | <u>(2,000)</u> | <u>-</u> | <u>5,570</u> |
| Price paid | | | | <u>5,570</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

3. 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 1996 | 97,646 | 15,000 | 112,646 | 5 | 112,651 |
| Amortisation | - | - | - | (1) | (1) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 December 1996 | 97,646 | 15,000 | 112,646 | 4 | 112,650 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

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.

Subsidiary undertakings

a) 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)

3. Fixed asset investments (continued)

b) Own shares

| | Total £'000 |
|------------------------------------|----------------|
| Cost brought forward | 6 |
| Depreciation: | |
| As at 1 January 1996 | (1) |
| Charge for year | (1) |
| | ----- |
| As at 31 December 1996 | (2) |
| | ----- |
| Net book value at 31 December 1996 | 4 |
| | ===== |
| Net book value at 31 December 1995 | 5 |
| | ===== |

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.

4. Prepayments and accrued income

Prepayments and accrued income are due as follows:

| | Group 1996 £'000 | Company 1996 £'000 | Group 1995 £'000 | Company 1995 £'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Current assets - within 12 months | 1,128 | 651 | 703 | . |
| Amount relating to periods commencing after one year | 1,440 | 1,440 | . | . |
| | ===== | ===== | ===== | ===== |
| | 2,568 | 2,091 | 703 | . |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

5. Investment return summary

a) Long-term insurance business

| | 1996 £'000 | 1995* £'000 |
|--|----------------|----------------|
| Investment income: | | |
| Income from land and buildings | 5,037 | 3,514 |
| Income from other investments | 80,384 | 70,645 |
| Gains on the realisation of investments | 63,487 | 72,406 |
| | <u>148,908</u> | <u>146,565</u> |
| Investment expenses and charges: | | |
| Investment management expenses, including interest | (814) | (1,225) |
| Net unrealised gains on investments | 54,256 | 137,085 |
| Net investment return included in the long-term business technical account | <u>202,350</u> | <u>282,425</u> |

b) Shareholders' interest

| | 1996 £'000 | 1995* £'000 |
|---|----------------|----------------|
| Investment income: | | |
| Income from investments | 2,161 | 1,741 |
| (Losses)/gains on the realisation of investments | (3) | 125 |
| | <u>2,158</u> | <u>1,866</u> |
| Net unrealised gains on investments | 12 | . |
| Net investment return included in the non-technical account | <u>2,170</u> | <u>1,866</u> |
| Total investment return | <u>204,520</u> | <u>284,291</u> |

6. Other Technical Income

| | 1996 £'000 | 1995* £'000 |
|---|----------------|----------------|
| Other technical income comprises: | | |
| Movement on shareholders' interest in long-term business in force | 414 | 12,632 |
| Schedule 2C transfers (see note 2) | 117,326 | . |
| | <u>117,740</u> | <u>12,632</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Net operating expenses - Technical account

| | 1996 £'000 | 1995* £'000 |
|--|---------------|----------------|
| Acquisition costs | 1,014 | 4,090 |
| Change in deferred acquisition costs | 2,293 | 3,171 |
| Administrative expenses | 19,044 | 34,551 |
| Reinsurance commissions and profit participation | 10,585 | 8,577 |
| | <u>32,936</u> | <u>50,389</u> |
| | 1996 £'000 | 1995* £'000 |

Net operating expenses are after charging:

Auditors' remuneration and expenses (inclusive of VAT)

| | | |
|------------------|-------|-------|
| - Audit work | 249 | 376 |
| - Non-audit work | 276 | 287 |
| Commissions | 1,721 | 6,513 |

In addition to the audit remuneration above the group charged, in the Non-technical account, £50,000 (1995 - £53,000) for audit fees and £16,000 (1995 - nil) for non-audit work.

8. Analysis of Continuing Operations and Acquisitions

| | <u>Continuing Operations</u> | | | 15 months to 31 December 1995 £'000 |
|---|------------------------------|-------------------------------|------------------------|---|
| | Ongoing 1996 £'000 | Acquisitions 1996 £'000 | Total 1996 £'000 | |
| Earned premiums, net of reinsurance | 144,353 | 1,269 | 145,622 | 213,724 |
| Investment income | 147,711 | 1,197 | 148,908 | 146,565 |
| Unrealised gains on investments | 58,141 | (3,885) | 54,256 | 137,085 |
| Other technical income, net of reinsurance | - | 117,326 | 117,326 | 12,632 |
| Net income in period | <u>350,205</u> | <u>115,907</u> | <u>466,112</u> | <u>510,006</u> |
| Claims incurred, net of reinsurance | (155,437) | (571) | (156,008) | (135,824) |
| Change in other technical provisions, net of reinsurance | <u>(118,342)</u> | <u>(161,423)</u> | <u>(279,765)</u> | <u>(286,664)</u> |

9. Interest payable

| | 1996 £'000 | 1995* £'000 |
|---|---------------|----------------|
| Interest payable on bank loans and overdrafts | | |
| - Technical account | 175 | 232 |
| - Non-technical account | 719 | 2,362 |
| Interest payable on finance lease - Non-technical account | - | 3 |
| | <u>=====</u> | <u>=====</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

10. Operating lease rentals - Technical account

| | 1996 £'000 | 1995* £'000 |
|--|---------------|----------------|
| Operating lease rental charges in the period were: | | |
| Plant and machinery | - | 12 |
| Other leases | 60 | 4,093 |
| | <u>60</u> | <u>4,105</u> |

In addition operating lease rentals of £566,000 (1995 - £nil) have been charged against the property leases provision.

11. Staff costs

| | 1996 £'000 | 1995* £'000 |
|------------------------|---------------|----------------|
| Wages and salaries | 10,976 | 7,471 |
| Social security costs | 898 | 624 |
| Regular pensions costs | 748 | 625 |
| Other pension costs | 27 | 8 |
| | <u>12,649</u> | <u>8,728</u> |

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

| | | |
|-----------------------------|------------|------------|
| Administration | 278 | 336 |
| Investment | 1 | 1 |
| Integration and development | 83 | 61 |
| | <u>362</u> | <u>398</u> |

12. Directors' emoluments

The aggregate emoluments of the Directors including pension scheme contributions were as follows:

| | 1996 £'000 | 1995* £'000 |
|----------------------------|---------------|----------------|
| Fees | 15 | 4 |
| Emoluments | 365 | 351 |
| Long-term incentive scheme | 2,906 | - |
| | <u>3,286</u> | <u>355</u> |

Emoluments (excluding pension scheme contributions):

| | | |
|-----------------------|-------|-----|
| Chairman | Nil | Nil |
| Highest paid Director | 2,170 | 231 |

The fees were payable to a third party for the services of a Director of the Company.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

12. Directors' emoluments (continued)

The individual emoluments (excluding pension contributions) of all the Directors fell within the following ranges:

| £ | 1996 Number | 1995* Number |
|-----------------------|----------------|-----------------|
| Nil | 9 | 14 |
| 1 - 5,000 | - | 1 |
| 15,001-20,000 | 1 | - |
| 95,001 - 100,000 | - | 1 |
| 230,001 - 235,000 | - | 1 |
| 1,085,001 - 1,090,000 | 1 | - |
| 2,170,001 - 2,175,000 | 1 | - |

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

13. Pension provisions

The group operates a funded defined benefit scheme the assets of which are held in separate, trustee administered funds. On 17 January 1996 the Windsor Group Pension and Life Assurance Scheme (1994) was merged with the Crown Life Group Pension Scheme and re-named the Windsor Pension and Life Assurance Scheme.

The regular pension cost for the year was £748,000 (1995 - £625,000). This charge reflects an increase in the estimated contribution rate from 13% to 15.4% and a full year charge for the Crown operations transferred during 1995.

The accounting of the two schemes was merged in the prior year. The prepayment is as follows:

| | 1996 £'000 | 1995 £'000 |
|--|---------------|---------------|
| Balance brought forward | 705 | - |
| Fair value of net surplus acquired on acquisition of Crown | - | 1,330 |
| Pension scheme deferred contributions in period | (748) | (625) |
| | <hr/> | <hr/> |
| Balance carried forward | (43) | 705 |
| | <hr/> | <hr/> |

In 1995 the asset was included in other prepayments and accrued income.

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 rate was 109%. This surplus has resulted in the Group enjoying a contributions holiday which will be amortised over the remaining service lives of the employees. It was assumed that the annual investment return would be 9% and annual salary growth 7%. No contributions were outstanding at 31 December 1996.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

| | | | |
|-----|---|---------------------------|----------------|
| 14. | Taxation | 1996 £'000 | 1995* £'000 |
| | Long-term business technical account: | | |
| | UK corporation tax at 33% (1995: 33%) | (7,438) | (5,354) |
| | Movement in deferred tax | - | 3,836 |
| | Tax on franked investment income | (2,694) | (2,821) |
| | Prior year adjustments | 4,740 | 1,101 |
| | Group relief | (624) | - |
| | Foreign tax | - | (135) |
| | | <hr/> | <hr/> |
| | | (6,016) | (3,373) |
| | | <hr/> | <hr/> |
| | Non-technical account: | | |
| | Notional tax credit attributable to shareholder balance on long-term business at 33% | (6,694) | (6,120) |
| | Prior year adjustment | 183 | 8 |
| | Group relief | 624 | - |
| | | <hr/> | <hr/> |
| | | (5,887) | (6,112) |
| | | <hr/> | <hr/> |
| 15. | Dividends | 1996 | 1995* |
| | On ordinary shares: | | |
| | Interim (paid 31 January 1997) | 7,500 | - |
| | Proposed (payable 1 April 1997) | 2,500 | - |
| | | <hr/> | <hr/> |
| | Total dividends | 10,000 | - |
| | | <hr/> | <hr/> |
| 16. | Investments | | |
| | (a) Land and buildings | | |
| | | Current value £'000 | Cost £'000 |
| | Freehold land and buildings: | | |
| | At 1 January 1996 | 28,149 | 25,975 |
| | Additions | 2,210 | 2,210 |
| | Disposals | (1,640) | (1,144) |
| | Surplus on revaluation | 171 | - |
| | | <hr/> | <hr/> |
| | At 31 December 1996 | 28,890 | 27,041 |
| | | <hr/> | <hr/> |

Land and buildings were valued at 31 December 1994 on an open market existing use basis by a firm of independent Chartered Surveyors. The current valuation is based on the Directors opinion after taking appropriate external advice.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

16. Investments (continued)

b) Other financial investments

| | Current value 1996 £'000 | Current value 1995 £'000 | Cost 1996 £'000 | Cost 1995 £'000 |
|--|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Listed investments: | | | | |
| Shares and other variable yield securities and units in unit trusts | 235,115 | 281,305 | 191,141 | 209,834 |
| Debt securities and other fixed income securities | 443,037 | 325,829 | 443,028 | 309,324 |
| | <u>678,152</u> | <u>607,134</u> | <u>634,169</u> | <u>519,158</u> |
| Unlisted investments: | | | | |
| Loans secured by mortgages | 10 | 10 | 10 | 10 |
| Other loans (secured on policies) | 3,699 | 3,804 | 3,699 | 3,804 |
| Deposits with credit institutions | 8,900 | 35,086 | 8,900 | 35,086 |
| | <u>12,609</u> | <u>38,900</u> | <u>12,609</u> | <u>38,900</u> |
| Total other financial investments | <u>690,761</u> | <u>646,034</u> | <u>646,778</u> | <u>558,058</u> |

17. Assets held to cover linked liabilities

| | Current value 1996 £'000 | Current value 1995 £'000 | Cost 1996 £'000 | Cost 1995 £'000 |
|---|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Assets held to cover linked liabilities | <u>1,300,493</u> | <u>1,077,039</u> | <u>1,145,980</u> | <u>975,080</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 deliberately prudent policy for linked business.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

18. 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 1996 | 526 | 5,589 | 737 | 67 | 6,919 |
| Additions | 306 | 817 | 10 | - | 1,133 |
| Disposals | (266) | (351) | - | - | (617) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1996 | 566 | 6,055 | 747 | 67 | 7,435 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation: | | | | | |
| At 1 January 1996 | (176) | (4,847) | (673) | (9) | (5,705) |
| Provided in the year | (125) | (559) | (32) | (1) | (717) |
| Disposals | 139 | 358 | - | - | 497 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1996 | (162) | (5,048) | (705) | (10) | (5,925) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value: | | | | | |
| At 31 December 1996 | 404 | 1,007 | 42 | 57 | 1,510 |
| | === | ==== | === | === | ===== |
| At 31 December 1995 | 350 | 742 | 64 | 58 | 1,214 |
| | === | ==== | === | === | ===== |

(b) Company

No tangible assets are owned by the Company.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19. Share Capital
a) Authorised share capital

| | 1996 | | 1995 | |
|--|-------------|-------|------------|-------|
| | Number | £'000 | Number | £'000 |
| Equity share capital: | | | | |
| Ordinary 1p | | | | |
| A shares | 3,125,000 | 31 | 2,375,000 | 24 |
| B shares | 3,125,000 | 31 | 2,375,000 | 24 |
| C shares | 2,750,000 | 28 | 2,090,000 | 20 |
| D shares | 1,000,000 | 10 | 760,000 | 8 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total ordinary share capital | 10,000,000 | 100 | 10,000,000 | 100 |
| Un-designated 1p | 20,625,000 | 206 | 23,025,000 | 230 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total equity share capital | 30,625,000 | 306 | 7,600,000 | 306 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,375,000 | 44 | 4,375,000 | 44 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,375,000 | 44 | 4,375,000 | 44 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Convertible redeemable 'E' preference 1p | 625,000 | 6 | 625,000 | 6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Deferred shares 1p | 560,000,000 | 5,600 | | .. |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Non-equity share capital | 569,375,000 | 5,694 | 9,375,000 | 94 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total share capital | 600,000,000 | 6,000 | 40,000,000 | 400 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19. Share Capital

b) Allotted, issued and fully paid share capital

| | 1996 | | 1995 | |
|--|-------------|-------------|-------------|-------------|
| | Number | £'000 | Number | £'000 |
| Equity share capital: | | | | |
| Ordinary 1p | | | | |
| A shares | 3,125,000 | 31 | 2,375,000 | 24 |
| B shares | 3,125,000 | 31 | 2,375,000 | 24 |
| C shares | 2,750,000 | 28 | 2,090,000 | 20 |
| D shares | 1,000,000 | 10 | 760,000 | 8 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total ordinary share capital | 10,000,000 | 100 | 7,600,000 | 76 |
| Un-designated 1p | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total equity share capital | 10,000,000 | 100 | 7,600,000 | 76 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,375,000 | 44 | 4,375,000 | 44 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,375,000 | 44 | 4,375,000 | 44 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Convertible redeemable 'E' preference 1p | 625,000 | 6 | 625,000 | 6 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Deferred shares 1p | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Non-equity share capital | 9,375,000 | 94 | 9,375,000 | 94 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Total share capital | 19,375,000 | 194 | 16,975,000 | 170 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19. Share capital (continued)

c) Authorised and issued share capital - movements in year

| | 1996 | | 1995 | |
|-------------------------|--------------|------------|------------|------------|
| | £'000 | £'000 | £000 | £'000 |
| | Authorised | Issued | Authorised | Issued |
| Balance brought forward | 400 | 170 | - | - |
| Created /Issued in year | 5,600 | 24 | 400 | 170 |
| Balance carried forward | <u>6,000</u> | <u>194</u> | <u>400</u> | <u>170</u> |

On the 4 September 1996 an Extraordinary General Meeting ('EGM') approved an increase in the authorised share capital by the creation of 60 million non-equity 1p Deferred shares. On 4 December 1996 an EGM approved the creation of a further 500 million non-equity 1p Deferred shares.

On 4 December 1996 the Directors re-designated 2.4 million undesignated 1p shares in the authorised equity share capital as follows:

| | Number | £'000 |
|-------------------------------|------------------|-----------|
| Ordinary 1p A shares | 750,000 | 8 |
| Ordinary 1p B shares | 750,000 | 8 |
| Ordinary 1p C shares | 660,000 | 6 |
| Ordinary 1p D shares | 240,000 | 2 |
| Total ordinary shares created | <u>2,400,000</u> | <u>24</u> |

On 4 December 1996 2,400,000 ordinary 1p shares were allotted, issued and fully paid at a premium of £9.99 per share.

| | £'000 |
|---------------------|---------------|
| Nominal value | 24 |
| Premium on issue | 23,976 |
| Total consideration | <u>24,000</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)

19. 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)

20. Reserves

The company has restated its 1995 Balance Sheet following a reconsideration of the acquisition accounting for Windsor Life Assurance Company Limited. The original provisions held by the subsidiary undertaking at the time of the acquisition were considered sufficient in the light of the guarantees given by the vendor. Current experience now indicates that a further substantial provision may be required. The nature of the guarantees given means the vendor will subscribe for Deferred shares (see note 19e) equivalent to the amount that has been paid to third parties. The value of the guarantee has been reflected in the accounts by the creation of a Reserve for shares to be issued.

The amount originally credited to the share premium account has been re-classified to Other Reserve in accordance with s131 of the Companies Act 1985. Any provisions assumed at the time of the acquisition have been written off directly to this reserve.

a) Group

| | Share Premium account £'000 | Capital reserve £'000 | Other reserves £'000 | Shares to be issued reserve £'000 | Total reserves £'000 |
|---|--------------------------------------|-----------------------------|----------------------------|---|----------------------------|
| At 1 January 1996 (as restated) | - | 536 | 63,555 | 10,000 | 74,091 |
| Premium on issue of shares | 23,976 | - | - | - | 23,976 |
| Release of legal provisions (established at acquisition) | - | 2,000 | - | - | 2,000 |
| Increase in indemnity provision | - | - | (10,000) | 10,000 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 1996 | <u>23,976</u> | <u>2,536</u> | <u>53,555</u> | <u>20,000</u> | <u>100,067</u> |

At 31 December 1995 the £536,000 transferred to Capital Reserves included amounts for legal cases existing at the time of acquisition. An element of this provision has proved to be unnecessary and £2,000,000 has been released increasing the Capital Reserve to £2,536,000 (see note 26a).

b) Company

| | Share Premium account £'000 | Other reserves £'000 | Shares to be issued reserve £'000 |
|---------------------------------|--------------------------------------|----------------------------|---|
| At 1 January 1996 (as restated) | - | 63,555 | 10,000 |
| Premium on issue of shares | 23,976 | - | - |
| Increase in indemnity provision | - | (10,000) | 10,000 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 1996 | <u>23,976</u> | <u>53,555</u> | <u>20,000</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

21. Profit and loss account

| |Group..... | | Company |
|--|--|--------------------------------------|------------------------|
| | Non distributable reserve £'000 | Profit & loss account £'000 | 1996 Total £'000 |
| | | | 1996 £'000 |
| Balance at 1 January 1996 | 12,426 | 19,989 | 32,415 |
| Retained profit/(loss) for the year/period | - | 20,474 | 20,474 |
| Transfer from profit and loss account | 414 | (414) | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 1996 | 12,840 | 40,049 | 52,889 |
| | <hr/> | <hr/> | <hr/> |

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

| | 1996 £'000 | 1995 £'000 |
|----------------------------|---------------|---------------|
| Balance brought forward | 83,194 | - |
| Balance at acquisition | | |
| - Windsor | - | 59,498 |
| - Crown | - | 11,064 |
| - Combined Life | 23,570 | - |
| Increase during the period | | |
| Grossed up for taxation | 620 | 18,854 |
| Taxation | (206) | (6,222) |
| Net of taxation | 414 | 12,632 |
| | <hr/> | <hr/> |
| Balance carried forward | 107,178 | 83,194 |
| | <hr/> | <hr/> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

22. Shareholders' interest in the long-term business in force (continued)

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

| General assumptions: | 1996 | 1995 | | |
|---|-----------------|-----------------|-----------------|-----------------|
| Inflation - RPI | 4.25% pa | 4.25% pa | | |
| - expense | 5.25% pa | 5.25% pa | | |
| Discount rate | 12% pa | 12% pa | | |
| Tax rates (average) - shareholders | 31% | 29% | | |
| - policyholders | 20% | 21% | | |
| Specific assumptions: | 1996 | 1996 | 1995 | 1995 |
| | Life | Pensions | Life | Pensions |
| | <u>business</u> | <u>business</u> | <u>business</u> | <u>business</u> |
| Mortality | 80% | 80% A67/70 | 80% | 80% |
| | A67/70 Sel | Ultimate | A67/70 Sel | A67/70 |
| | + 33% R6A aids | | + R6A aids | Ultimate |
| Yield on non-linked fund | | | | |
| (before tax and investment management expenses) | | | | |
| - non-profit | 7.75% pa | 7.75% pa | 7.75% pa | 7.75% pa |
| - with profit | 9.4% pa | 9.4% pa | 9.4% pa | 9.4% pa |
| Growth in unit values | | | | |
| (before tax and management charges) | 9.5% | 9.5% | 9.4% | 9.4% |
| Lapse rate - year 1 | 17.5 | 20} 90% | 17.5 | 20} 75% |
| - year 2 | 12 | 20} PUP; | 12 | 20} PUP; |
| - thereafter | 7.5 | 15} 10% lapse | 7.5 | 15} 25% lapse |
| Renewal expenses per annum (pa) | £26.50 | £39.75 | £30.60 | £45.90 |

23. 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 1996 | 530,552 | 845 | 1,058,929 | 71,238 |
| Movement for the year | 41,808 | 522 | 83,735 | (8,275) |
| Transfer from Combined Life Assurance Company | - | - | 139,892 | - |
| Liabilities assumed (note 2) | 18,000 | - | - | - |
| Balance at 31 December 1996 | <u>590,360</u> | <u>1,367</u> | <u>1,282,556</u> | <u>62,963</u> |
| Made up of: | | | | |
| 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> |
| Gross provision liability | 644,331 | 845 | 1,059,405 | 71,238 |
| Recoverable from reinsurers | (113,779) | - | (476) | - |
| Net total 31 December 1995 | <u>530,552</u> | <u>845</u> | <u>1,058,929</u> | <u>71,238</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

24. Long-term business provision

The long-term business provision has been determined by Mr N J Rutter, the Appointed Actuary of the Life Company 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 | Interest rates |
|-------------------|------------------------|--------------------|----------------|----------------|
| | | | 1996 | 1995 |
| Life | - participating | A67/70(2) Ultimate | 2.75% | 2.75% |
| | - non-participating | A67/70(2) Ultimate | 4.5% | 4.5% |
| Pensions | - participating | A67/70(2) Ultimate | 3.5% | 3.5% |
| | - non-participating | A67/70(2) Ultimate | 6.0% | 6.0% |
| | - annuities in payment | IM80/IF80 c=2010 | 7.0% | 6.5% |

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:

| | 1996 | 1995 |
|----------------------------|--------------------|--------------------|
| <u>Per policy expenses</u> | | |
| Regular premium pension | £54.55 | £55.95 |
| Single premium pension | £20.75 | £21.30 |
| Regular premium life | £42.90 | £44.00 |
| Single premium life | £16.90 | £17.35 |
| Expense inflation | 6% | 6% |
| Mortality | A67/70(2) Ultimate | A67/70(2) Ultimate |

For 1996 the annuity in payment mortality assumption was reduced by deducting 2 years from the age. For 1995 an allowance is included for AIDS using projection R6A (amended so as not to reduce after the peak addition) of the Institute of Actuaries Working Party Bulletin No. 5. For 1996 the AIDS assumption was reduced to 33% of R6A in accordance with the Recommended AIDS Reserving Policy issued by the Government Actuary's Department on 29 October 1996.

(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.

25. 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 £25,241,000 (1995 - £20,706,000). 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.

In accordance with the Amendments to the ABI Guidance on Accounting for Insurance Business issued on 22 January 1997 the presentation of the bonuses has been changed. The comparative figures in the Profit and Loss account have been combined as follows:

| | £'000 |
|--|----------|
| As originally presented separately: | |
| Long-term business provision - gross amount | (38,955) |
| Bonuses net of reinsurance | (10,810) |
| | ----- |
| Restated - Long-term business provision - gross amount | 49,765 |
| | ===== |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

26. Provisions for other risks and charges

| | (As restated) | | | |
|--|------------------------|--------------------------|------------------------|--------------------------|
| | Group 1996 £'000 | Company 1996 £'000 | Group 1995 £'000 | Company 1995 £'000 |
| Provision for taxation | | | | |
| - deferred tax on Deferred Acquisition Costs | 2,190 | - | 2,754 | - |
| Other provisions | 14,331 | 4,940 | 21,906 | 5,851 |
| Indemnified costs | 20,000 | 20,000 | 10,000 | 10,000 |
| | <u>36,521</u> | <u>24,940</u> | <u>34,660</u> | <u>15,851</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 1996 (as restated) | 4,311 | 17,595 | 2,754 | 10,000 | 34,660 |
| Released in year | (2,000) | (966) | - | - | (2,966) |
| Established in year | - | 1,893 | 129 | 10,000 | 12,022 |
| Utilised in year | (1,641) | (4,861) | (693) | - | (7,195) |
| | <u>670</u> | <u>13,661</u> | <u>2,190</u> | <u>20,000</u> | <u>36,521</u> |

b) The company

| | Property leases £'000 | Indem- nified £'000 | Total £'000 |
|---------------------------------|-----------------------------|---------------------------|----------------|
| At 1 January 1996 (as restated) | 5,851 | 10,000 | 15,851 |
| Released in year | (485) | - | (485) |
| Established in year | 527 | 10,000 | 10,527 |
| Utilised in year | (953) | - | (953) |
| | <u>4,940</u> | <u>20,000</u> | <u>24,940</u> |

Indemnified costs include all liabilities assumed on the acquisition of Windsor Life Assurance 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)

27. Creditors

| | Group 1996 £'000 | Company 1996 £'000 | Group 1995 £'000 | Company 1995 £'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Due to related undertakings | 6,250 | 6,250 | - | - |
| Other creditors (including taxation and social security) | 15,480 | 4,941 | 12,575 | 1,987 |
| | <u>21,730</u> | <u>11,191</u> | <u>12,575</u> | <u>1,987</u> |

28. Amounts owed to credit institutions

| | Group 1996 £'000 | Company 1996 £'000 | Group 1995 £'000 | Company 1995 £'000 |
|---------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Bank borrowings (secured) | 500 | - | 800 | - |
| Bank overdrafts | 912 | 912 | 6,284 | - |
| Debenture loan (secured) | - | - | 34,000 | 34,000 |
| | <u>1,412</u> | <u>912</u> | <u>41,084</u> | <u>34,000</u> |

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

The debenture loan was repayable on demand. Interest was at LIBOR + 0.7% and was payable quarterly. The loan was secured by a first fixed charge over the Company's net assets. In addition it had a first floating charge over all of the Company's remaining present and future undertakings and assets.

29. Operating lease commitments

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

| | Land and Buildings 1996 £'000 | Other 1996 £'000 | Land and Buildings 1995 £'000 | Other 1995 £'000 |
|--------------------------------|--|------------------------|--|------------------------|
| Operating leases which expire: | | | | |
| - within one year | 30 | 178 | 20 | 49 |
| - between one and five years | 147 | 131 | 737 | - |
| - after five years | 3,914 | - | 5,526 | - |
| | <u>4,091</u> | <u>309</u> | <u>6,283</u> | <u>49</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

30. Financial and capital commitment

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

| | 1996 £'000 | 1995 £'000 |
|-----------------------------------|---------------|---------------|
| Authorised and not contracted | nil | nil |
| Authorised but not yet contracted | nil | nil |

31. Reconciliation of Movement in Shareholders' Funds

| | Group 1996 £'000 | Company 1996 £'000 | Group 1995 (as restated) £'000 | Company 1995 (as restated) £'000 |
|---|------------------------|--------------------------|---|---|
| Profit/(loss) for the financial year/period | 20,474 | (12,835) | 32,415 | 40,611 |
| Capital reserve arising on acquisition | 2,000 | - | 2,116 | - |
| Goodwill written off | - | - | (1,580) | - |
| New capital subscribed (net of costs) | 24,000 | 24,000 | 73,725 | 73,725 |
| | <u>46,474</u> | <u>11,165</u> | <u>106,676</u> | <u>114,336</u> |
| Opening shareholders' funds | 106,676 | 114,336 | - | - |
| | <u>153,150</u> | <u>125,501</u> | <u>106,676</u> | <u>114,336</u> |
| Closing Shareholders' Funds | 153,150 | 125,501 | 106,676 | 114,336 |
| Made up of: | | | | |
| Equity interests | 133,056 | 105,407 | 96,582 | 104,242 |
| Non-equity interests | 20,094 | 20,094 | 10,094 | 10,094 |
| | <u>153,150</u> | <u>125,501</u> | <u>106,676</u> | <u>114,336</u> |
| Total Shareholders' Funds | 153,150 | 125,501 | 106,676 | 114,336 |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

32. Notes to the Shareholders' cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities.

| | 1996 £'000 | 1995 £'000 |
|---|---------------|---------------|
| Balance on the long-term business Technical Account | 13,593 | 12,426 |
| Schedule 2C income | 22,874 | - |
| Transfer from Technical Account | - | 29,649 |
| Operating income/expenses in the Non-Technical Account | | |
| - investment income | - | 605 |
| - expenses and charges | (8,969) | (8,908) |
| Increase in Shareholders' interest in long-term business in force | (414) | (12,632) |
| Depreciation | - | 1,359 |
| Profit on disposal of fixed assets | - | (15) |
| (Increase)/decrease in other debtors and prepayments and accrued income | (15,018) | 960 |
| Increase in other creditors and provisions | 2,801 | 6,259 |
| Net cash inflow from operating activities | <u>14,867</u> | <u>29,703</u> |

b) Analysis of changes in cash and cash equivalents during the period

| | 1996 £'000 | 1995 £'000 |
|---|---------------|---------------|
| Balance brought forward | 56,992 | - |
| Cash and deposits less than 3 months maturity | - | 57,319 |
| Amounts owed to credit institutions less than 3 months maturity | - | (327) |
| Cash outflow during the period | (46,984) | - |
| Total cash and cash equivalents | <u>10,008</u> | <u>56,992</u> |

c) Reconciliation of balances of cash and cash equivalents to amounts shown in the balance sheet

| | Shareholders funds less than 3 months maturity 1996 £m | Shareholders funds greater than 3 months maturity 1996 £m | Included in other financial investments 1996 £m | Long-term business funds 1996 £m | Total 1996 £m |
|-------------------|--|---|--|--|---------------------|
| Cash and deposits | 11,421 | 47,047 | (55,615) | (415) | 2,438 |
| Bank overdrafts | (1,412) | - | - | - | (1,412) |
| | <u>10,009</u> | <u>47,047</u> | <u>(55,615)</u> | <u>(415)</u> | <u>1,026</u> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

32. Notes to the Shareholders' cash flow statement (continued)

| | |
|---|--------------------------------|
| d) Acquisition of subsidiary undertakings | (As restated) 1995 £'000 |
| Net assets acquired: | |
| Value of in-force policies | 70,562 |
| Investments | 1,480,744 |
| Debtors | 214,741 |
| Cash and deposits | 26,202 |
| Other assets | 4,610 |
| Technical provisions | (1,513,428) |
| Creditors and accruals | (152,344) |
| Other provisions | (17,247) |
| | <hr/> |
| Capital reserve | 113,840 (536) |
| | <hr/> |
| Consideration | 113,304 |
| | <hr/> |
| Satisfied by: | |
| Shares allotted (as restated) | 63,500 |
| Deferred consideration | 1,500 |
| Assumed liabilities (as restated) | 15,140 |
| Cash | 33,164 |
| | <hr/> |
| | 113,304 |
| | <hr/> |

The subsidiary undertakings acquired during 1995 contributed £31,600,000 to the Group's net operating cash flows, received £1,047,000 in respect of net returns on investments and servicing of finance, received £2,303,000 from investing activities and utilised £1,102,000 for financing.

e) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

| | |
|---|---------------|
| | 1995 £'000 |
| Cash consideration | 33,164 |
| Payment of first tranche of deferred consideration | 500 |
| Cash and cash equivalents acquired attributable to shareholders comprising: | |
| - cash and deposits | (27,026) |
| - bank overdrafts | 226 |
| | <hr/> |
| | 6,864 |
| | <hr/> |

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (Continued)

32. Notes to the shareholders' cash flow statement (continued)

f) Analysis of changes in financing during the period

| | Share capital (including premium) £'000 | Loans and finance lease obligations £'000 |
|--------------------------------------|--|--|
| Balance at 31 December 1995 | 73,725 | 34,800 |
| Reclassification of reserves | (73,555) | - |
| Shares issued for cash consideration | 24,000 | - |
| Repayment of loans | - | (34,800) |
| | <hr/> | <hr/> |
| Balance at 31 December 1996 | 24,170 | - |
| | <hr/> | <hr/> |

33. 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:

- £1.8 million 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 1996 the balance outstanding was £11,000.
- the Group's pension scheme invested £18 million in the Windsor Life Managed Fund throughout the year.
- the Group occupies Windsor House which is rented from New York Life (UK) Limited one of the company's shareholders at a rent of £693,000 per annum. The rent was fully paid as at 31 December 1996.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (Continued)

34. 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 upon 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 upon in determining the level of provision required.

35. Contingent Liabilities

The Company has signed a loan facility for £135m with a consortium of banks lead 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 £1,282,000.

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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

Auditors' report to the Shareholders of Life Assurance Holding Corporation Limited

We have audited the financial statements on pages 8 to 44 which have been prepared under the accounting policies set out on pages 15 to 18.

Respective responsibilities of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 1996 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
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

12 March 1997