LIFE ASSURANCE HOLDING CORPORATION LIMITED

Company No. 2970583

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

CHAIRMAN'S REVIEW

1998 has in all respects been a very successful year for Life Assurance Holding Corporation Limited ("LAHC"). Following the completion of the acquisition of Aegon Life Assurance Company (UK) Limited ("Aegon") in January the Company completed its largest acquisition to date, that of Targetchief plc and its subsidiary undertakings ("GAN") which included GAN Life & Pensions plc in March.

LAHC was incorporated in September 1994, in association with New York Life and St James's Place Capital plc. The four current principal shareholders, following a capital restructure in 1998 to facilitate the GAN acquisition, are New York Life, St James's Place Capital plc, Chase Capital Partners and Prudential Assurance (the UK's largest institutional investor). LAHC, with the support of these and our other institutional shareholders, continues to play an active role in the restructuring of the UK life assurance industry by acquiring and merging life assurance companies and portfolios. Through its principal subsidiary undertaking, Windsor Life Assurance Company Limited ("Windsor Life"), LAHC is engaged in the acquisition and management of life assurance, pensions, permanent health and annuity portfolios with a primary emphasis on the controlled run off of acquired policies until their maturity.

A Continued 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:	Targetchief plc Group of Companies ("GAN") which had assets under management of £2,550 million and approximately 750,000 policies in force.

Company Overview

As has been stated above, LAHC acquired Aegon in January 1998 and GAN in March 1998. Aegon, GAN and Windsor Life were operated as separate companies throughout 1998, until a successful transfer of the long term insurance business of Aegon and GAN to Windsor Life was agreed under Schedule 2C of the Insurance Companies Act 1982, with an effective date of 30 November 1998.

The group now has over 1,100,000 policies in force, and in the year to 31 December 1998, has received gross premium income of £303 million and managed total assets of £5 billion.

The Aegon business was administered throughout 1998 by Scottish Equitable plc under an Administration Agreement. The conversion of this business completed on 31 December 1998, and from 1 January 1999 the Administration Agreement was terminated and the business administered from the Telford office. Throughout 1999, Windsor Life will concentrate on the conversion of the business data of Gan, although it is anticipated that this project will not be completed until the year 2000.

Outlook

There continues to be a considerable amount of activity in the life insurance sector and 1998 has seen several major mergers and acquisitions within the industry. LAHC is committed to playing a part in this process and to seek further acquisition opportunities as and when they arise. To that end, the shareholders have asked Morgan Stanley Dean Witter to undertake a strategic review of the organisation, and in particular to address themselves to the capital base of the organisation. The intention is to ensure that the Company is adequately resourced and appropriately positioned to continue with its strategy of growth through acquisition and to play a major role in the development of the industry going forward.

Windsor House

In January 1998, Windsor House (the Group Head Office) was purchased by the Non-Profit Sub Fund of Windsor Life. Following that purchase, an extension of the Head Office, known as "Phase 2 of Windsor House", was undertaken. Occupation of this phase of the building is expected in April 1999. The decision to build Phase 3 was agreed by the Group, and building has commenced.

Operating Review

Group results

The consolidated group profit for the year before dividend was £77,329,000 (1997 - £9,109,000). These results reflect the acquisitions of the GAN and Aegon groups of companies.

Included within the group profit is the surplus arising on the activity of Windsor Life. The results of Windsor Life are reflected in the Technical Account on page 16. A summary of the LAHC group results are given below:

	1998 £'million	1997 £'million
Net premiums	252.7	136.3
Investment income and realised gains	462.8	88.3
Unrealised (losses)/gains on investments	(89.9)	211.4
Other technical income	202.8	37.9
Net income	828.4	473.8
Net claims	358.1	164.0
Net operating expenses	98.5	31.8

Results for 1998 have been affected by the acquisition of the GAN and Aegon businesses.

Taxation

The tax charge is the aggregate of policyholder (20% to 23%) and shareholder (31%) taxation.

Dividends

The dividends proposed and paid in respect of the financial year were £Nil (1997 - £7.5million).

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 FRS 10 (Goodwill and Intangible Assets) and FRS 11 (Impairment of Fixed Assets and Goodwill). The Group has also implemented the revised Statement of Recommended Practice - Accounting for Insurance Business issued in December 1998.

1.1.1.1 BOARD OF DIRECTORS BIOGRAPHIES

The present directors of the Company are :

Sir Mark Weinberg – Chairman * ° +
Aged 67, 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.

Howard Atkins □ *
Aged 47, is a non-executive director of the Company who joined the board in March 1998. He is also Executive Vice President and Chief Financial Officer of New York Life Insurance Company, USA.

Richard M Kernan * + °
Aged 58, 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.

Derek N D Netherton * □
Aged 54, 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 plc, Next plc and Plantation & General Investments. He was formerly a director of J Henry Schroder & Co Limited.

Norman Reid
Aged 51, is an executive Director of the Company and is also the Company Secretary. He is also a director of Windsor Life, which he joined in 1988. He joined the board of the Company on its formation in 1994 and heads the acquisition team.

John Wybrew – Managing Director °
Aged 56, 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, with whom he has enjoyed 3 periods of employment. Previously he has been employed as President of John Hancock Life Insurance Co in Singapore.

Nigel Frudd ° *
Aged 39, is a non-executive director of the Company who joined the board in June 1998. He is also Senior Legal Adviser to the Prudential Corporation plc.

Jonathan C C Meggs * °
Aged 38, is a non-executive director of the Company who joined the board in December 1994 on the formation of the Company. He is a Partner of Chase Capital Partners and also a Director of DP Mann Holdings Ltd, Matel S.A. and Barings Communications Equity Limited.

Mike C Ramsay * □
Aged 54, is a non-executive director of the Company who joined the board in September 1995. He was formerly Managing Director of TSB Life & Pensions Limited.

Norman M M Riddell * +
Aged 51, is a non-executive director of the Company who joined the board in January 1995. He is Chairman and/or director of a number of public companies and 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.

Other directors who have served within the year ended 31 December 1998 are :-

Mr Anthony Loehnis □+°*	Resigned 5 May 1998
Mr William Mowat □°*	Resigned 5 May 1998
Mr Michael Nocera	Resigned 5 May 1998
Mr Jonathan Bloomer	Resigned 1 June 1998

Key :-
□ Member of Audit & Controls 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

Bankers

Midland Bank plc
27-32 Poultry
London
EC2P 2BX

Auditors

PricewaterhouseCoopers
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 Committee on Corporate Governance and Amendment 12 to the Stock Exchange Listing Rules (the "Code"). The sections below note the Group compliance with the Code and highlight any exceptions.

Part A - 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 seven non-executive directors, there is also a position for a non-executive director which is currently vacant. 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, who operate within approved Terms of Reference which are reviewed regularly. The Board has adopted a procedure whereby all directors can obtain independent legal and other professional advice.

The Board has direct access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

The Board considers that the majority of its directors are not independent as a result of their appointment under the provisions of the Shareholders' Deed. The only directors considered to be truly independent are Mr M Ramsay and Mr N Riddell as they are not employed by any of the shareholders. The role of the Chairman and Chief Executive within the Company is separate and identifiable.

A procedure has been adopted to deal with training requirements identified for members of the Board.

The balance of skills and experience of the Board members is considered to be appropriate for the Company. Please refer to the Board of Directors biographies as shown on page 5.

The Board is supplied with information in relation to each area for discussion at its meeting. This is provided the week before the meetings and directors are free to request any further information, as they deem appropriate.

The Terms of Reference of the Remuneration Committee have been extended during the year to incorporate the requirements of the Code with regard to the approval of nominations for individuals to serve at Board level.

The Company do not comply with the re-election requirements of the Code on rotation of directors as this is governed by the terms of the Shareholders' Deed.

Remuneration & Nominations Committee

The Remuneration & Nominations 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 terms of reference have been extended to allow the Committee to review nominations for positions on the Board. The Report of the Committee is shown on pages 9 to 11. The constitution and operation of the Committee is in compliance with Part B of the Code.

Acquisitions Committee

The Acquisitions Committee, as constituted by the Memorandum and Articles meets on an ad hoc basis to review all acquisition, sale and re-organisation opportunities for the Group. 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 M Ramsay as Chairman (following the resignation of the previous Chairman, Mr W H Mowat on 5 May 1998). The Group Finance Director, the Finance Director of the Company's principal subsidiary, the Compliance Officer and Audit Manager, and the Company's Auditors attend as required. It is the responsibility of the Audit & Controls Committee to review the Annual Accounts, the results of the scope of external and internal audit, the cost effectiveness, independence and objectivity of the auditors, internal controls, risk management and corporate governance throughout the Group and to make recommendations on these matters as appropriate.

STATEMENT OF CORPORATE GOVERNANCE - (continued)

Part B - Directors' Remuneration

Reference should be made to the Remuneration Committee Report shown on pages 9 to 11.

A review of the employment market is made when reviewing the pay packages of the directors and senior management within the Group. The Committee is aware of comparatives with competitors and elsewhere within the Group when making their decision.

Performance related elements of pay for the executive directors are significant with the intention of aligning the directors' interests with those of the shareholders. The terms of this element of pay are as laid down by the Shareholders Deed.

Part C - Relationship with Shareholders

As a private Company, LAHC is very close to its shareholders. The Annual General Meeting is used as a forum for discussion with the minority shareholders. The larger shareholders are represented at Board level.

Part D - Accountability & Audit

Internal Controls

The Directors are responsible for, and under old guidance, 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 for the period up to the Schedule 2C effective date of 30 November 1998, GAN reported in exactly the same way as 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 appropriate 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 & Controls Committee, and relevant levels of management on the quality of the financial systems and controls.

Audit

The Board can confirm that the role and performance of the external auditors has been reviewed by the Audit & Controls Committee, along with their fees, and these are all considered to be satisfactory.

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 B of the Code 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, Sir Mark Weinberg (who replaced Mr Anthony Loehnis on his resignation on 5 May 1998) 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 with regard to 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 and fellow subsidiary companies.

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 the Company's performance and partly on individual objectives against annual plan. The maximum potential bonus for executive directors for 1998 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.

(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.

iii Long term incentives (continued)

(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 Wybrew and Mr N Reid in the ratio of two to one. However, the Remuneration Committee may in its discretion approve other executive directors 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 £87,600) 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.

The Company contribution rate to the Scheme is 15.6% of pensionable salary but no contributions were made during 1998 in the light of the actuary's advice that none were required. On the same actuary's advice, contributions will commence at the rate of 15.6% with effect from 1 January 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, but expenses are re-imbursed as appropriate.

Remuneration - 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 1998 is £9,125. The accrued commutable lump sum as at 31 December 1998 is £20,531. The transfer value of the fund at that date was £139,300. 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 £87,600. Mr Reid, the other executive director, has accrued pensions of £18,194 and the commutable lump sum is £40,937. The transfer value of his fund at that date was £217,920.

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.

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REPORT OF THE REMUNERATION COMMITTEE (continued)

Remuneration Table

	Emoluments, excluding pension contributions					Pension contributions	
	Salary & fees £'000	Benefits £'000	Bonus £'000	**Total Emoluments 1998 £'000**	Total Emoluments 1997 £'000	**Paid or credited 1998 £'000**	Paid or credited 1997 £'000
Executive							
J L Wybrew (Highest paid director)	200	16	105	**321**	264	**14**	31
N H Reid	94	16	34	**144**	112	**14**	13
Non-executive							
Sir Mark Weinberg	0	0	0	**0**	0	**0**	0
H Atkins	0	0	0	**0**	0	**0**	0
N Frudd	0	0	0	**0**	0	**0**	0
R M Kernan	0	0	0	**0**	0	**0**	0
J C C Meggs	15	0	0	**15**	4	**0**	0
D N D Netherton	0	0	0	**0**	0	**0**	0
M Ramsay	16	0	0	**16**	15	**0**	0
N Riddell	15	0	0	**15**	6	**0**	0
	340	32	139	**511**	401	**28**	44

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors present their report for the year to 31 December 1998.

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.

A & B Stock issue and conversion to shares.

On 11 March 1998, the Company issued loan stock of a value of £100 million to existing shareholders of the Company by way of a Deed Poll constituting subordinated unsecured non-interest bearing convertible A stock 1998 and subordinated unsecured non-interest bearing convertible B stock 1998. This issue was governed by the terms of the Shareholders' Deed and the Subscription Deed.

On 13 July 1998, Condition 2.1 of Schedule 2 of the Deed Poll was met, and accordingly the subordinated unsecured non-interest bearing convertible A stock 1998 was converted into fully paid New Ordinary Shares. A total of 6,461,655 ordinary shares of the Company were issued from this conversion for a cash subscription of £60,000,000.

The subordinated unsecured non-interest bearing convertible B stock 1998 is still in issue (although no amounts have yet been contributed) and will be converted if Condition 3.1 of Schedule 2 of the Deed Poll is met. The expiry date of the stock is 31 December 2003.

Other issues of shares

In accordance with the Articles of Association the Company issued at various dates in the year 829,995,000 1p Deferred shares at par for £8,299,950. These were issued under the warranty guarantees. The details are shown in note 19.

On 11 March 1998 the 1,000,000 ordinary D shares were reclassified as 1,000,000 ordinary C shares at their original cost.

Post balance sheet events

There have been no post balance sheet events.

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 lead to a significant enhancement in shareholder and policyholder value.

Regulatory Matters

The Financial Services Authority is supervising an industry-wide investigation into the selling of pension transfers and opt-outs. The Group is investigating potential cases of mis-selling and offering compensation where this is found to be appropriate. The Group has provided in full in its long-term business provision for the anticipated costs of making such compensation. In certain cases the Company has received indemnities against such costs. Where amounts are due under indemnity in respect of such costs these are shown as receivable assets.

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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

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. The Group's average creditor payment period at 31 December 1998 was 31 days.(1997: 31 days).

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 testing

Many computer systems express dates using only the last 2 digits of the year. These systems require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread disruption. The operation of our business depends not only on our own computer systems, but also to some degree on those of certain other parties. There is therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

The group has established a millennium compliance project under the sponsorship of the Company Chief Executive. A programme of analysis and testing has been put in place to ensure the compliance of all the companies internal systems and gain assurance on the compliance of external systems from third party suppliers. The programme has proceeded according to plan and comprehensive testing will continue throughout 1999. The group has spent approximately £2.9 million on this project to date and expects to spend approximately £2.3 million in 1999.

Economic Monetary Union

The group has put in place the necessary systems to ensure that, to the extent that the euro affects its investments or its policy related business, it can conduct the transactions required.

The group is currently reviewing its systems to assess the impact of the future adoption of the euro by the United Kingdom. It is not anticipated that the total financial cost of preparation for the introduction of the euro will be material to the Company.

Political and charitable donations

The group paid £14,000 to charitable organisations during the year.

Auditors

Our auditors, Price Waterhouse merged with Coopers & Lybrand on 1 July 1998, following which Price Waterhouse resigned and the directors appointed the new firm, PricewaterhouseCoopers as auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

On behalf of the Board of Directors

N H Reid
Secretary

22 March 1999

LIFE ASSURANCE HOLDING CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement should be read in conjunction with the Auditor's Report set out on page 15, the Corporate Governance statement on pages 7 and 8 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.

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

We have audited the financial statements on pages 16 to 55 which have been prepared under the accounting policies set out on pages 23 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 14 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We also, at the request of the directors (because the Company applies the Stock Exchange Listing Rules as if it is a listed Company), review whether the statement on pages 7 and 8 reflects the Company's compliance with those provisions of the Combined Code specified by the Stock Exchange for review by auditors of listed companies, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group at 31 December 1998 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

22 March 1999

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

Technical Account - Long-term Business

	Notes	1998 £'000	1997 £'000 (as restated)
Earned premiums, net of reinsurance:			
Gross premiums written - acquisitions		185,228	-
- other continuing operations		117,767	139,379
	1	302,995	139,379
Outward reinsurance premiums	14	(50,268)	(3,112)
		252,727	136,267
Investment income	3	462,813	88,254
Unrealised (losses)/gains on investments	3	(89,868)	211,355
Other technical income, net of reinsurance	4	202,748	37,900
Net income in year		828,420	473,776
Claims incurred, net of reinsurance:			
Claims paid -			
- gross amount		(447,437)	(208,182)
- reinsurers' share		100,378	42,545
Net claims paid		(347,059)	(165,637)
Change in the provision for claims-			
- gross amount		(8,043)	1,354
- reinsurers' share		(3,016)	313
Net change in claims provision		(11,059)	1,667
Net claims cost		(358,118)	(163,970)
Change in other technical provisions, net of reinsurance:			
Long-term business provision, net of reinsurance -			
- gross amount	23	(23,509)	(73,528)
- reinsurers' share	23	(79,309)	(41,350)
		(102,818)	(114,878)
Other technical provisions, net of reinsurance – Technical provisions for linked liabilities	23	(132,388)	(120,620)
Net change in other technical provisions in period		(235,206)	(235,498)
Net operating expenses	6a	(98,506)	(31,873)
Investment expenses and charges	3	(4,352)	(935)
Other technical charges	4	-	(68)
Tax attributable to the long-term business	12	(26,627)	(7,832)
Transfers in/(from) the fund for future appropriations	23	4,847	(26,088)
Balance on the technical account - long-term business		**110,458**	**7,512**

All of the amounts above are in respect of continuing operations.
The accounting policies and notes on pages 23 to 55 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

Non-technical Account

	Notes	1998 £'000	1997 £'000
Balance on the technical account - long-term business (page 16)		110,458	7,512
Tax credit attributable to balance on the long-term business technical account	12	49,626	3,455
Shareholders' pre-tax profit from long-term business		160,084	10,967
Investment income	3	8,480	2,984
Unrealised (losses)/gains on investments	3	(835)	90
Other charges	6b	(46,349)	(2,167)
Profit on ordinary activities before taxation		121,380	11,874
Profit attributable to acquisitions		104,219	-
Profit attributable to other continuing operations		17,161	11,874
Tax on profit on ordinary activities	12	(44,051)	(2,765)
Profit for the financial year	36	77,329	9,109
Dividend	13	-	(7,500)
Retained profit for the financial year	21	77,329	1,609

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

As permitted by Section 230 of Companies Act 1985, the profit and loss account of the Company has not been disclosed in these financial statements. The Company's loss after taxation was £7,674,000 (1997 - profit £11,644,000).

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 accounting policies and notes on pages 23 to 55 form part of these financial statements.

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1998

Accounting for investment gains by insurance companies, in accordance with the ABI SORP and generally accepted accounting principles, is not considered to give rise to differences from the historic cost convention. As there are no material differences between the results for the current year and the previous year as described in the profit and loss account and the results on an historic cost basis, no note on the historic cost profit and loss for the year is given.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	1998 £'000	1997 £'000 (as restated)
ASSETS			
Intangible assets			
Goodwill		362	-
Negative goodwill		(2,768)	-
	15	(2,406)	-
Investments			
Land and buildings	16a	50,185	38,814
Other financial investments	16b	1,071,432	726,711
Total investments		1,121,617	765,525
Shareholders' interest in the long-term business in force	22	513,032	107,110
Assets held to cover linked liabilities	17	4,141,805	1,425,050
Reinsurers' share of technical provisions			
Long-term business provision	23	24,910	10,702
Technical provisions for unit-linked liabilities	23	45,066	-
Total reinsurers' share		69,976	10,702
Debtors			
Debtors arising out of direct insurance operations - policyholders		1,971	969
Debtors arising out of reinsurance operations		6,759	1,468
Amounts due from shares to be issued		45,270	34,405
Other debtors	28a	210,617	38,616
Total debtors		264,618	75,458
Other assets			
Tangible assets	18	8,954	2,040
Cash at bank and in hand		107,032	16,527
Own shares	26b	2	3
Total other assets		115,988	18,570
Prepayments and accrued income			
Accrued interest and rent		15,784	9,511
Deferred acquisition costs		8,335	8,402
Other prepayments and accrued income	28b	5,543	1,870
Total prepayments and accrued income		29,662	19,783
Total assets		6,254,294	2,422,198

The accounting policies and notes on pages 23 to 55 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1998 (continued)

	Notes	1998 £'000	1997 £'000 (as restated)
LIABILITIES			
Capital and reserves			
Called up share capital	19	9,420	1,056
Share premium	20	83,911	23,976
Other reserves	20	19,165	38,193
Shares to be issued	20	45,229	34,500
Profit and loss account			
- distributable	21	20,234	41,726
- non-distributable	21	114,129	15,308
Shareholders' funds	36	292,088	154,759
Equity shareholders' funds		237,603	132,603
Non-equity shareholders' funds		54,485	22,156
Fund for future appropriations	23	86,329	89,051
Technical provisions			
Long-term business provision	23	1,117,451	732,540
Claims outstanding	23	2,880	1,367
Technical provisions for linked liabilities	23	4,122,959	1,403,176
Provisions for other risks and charges			
Provisions for pensions and similar obligations	11	1,780	907
Other provisions	29a	70,766	14,812
Deposits received from reinsurers	35	98,514	63
Creditors			
Creditors arising out of direct insurance operations		18,611	10,269
Creditors arising out of reinsurance operations		26,082	1,688
Amounts owed to credit institutions	30	369,863	-
Other creditors including taxation and social security	31	46,971	13,566
Total liabilities		6,254,294	2,422,198

The details of the restatement of the comparative balances are given in note 41.

The financial statements were approved by the Board of Directors on 22 March 1999.

N H Reid - Director

The accounting policies and notes on pages 23 to 55 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	1998 £'000	1997 £'000 (as restated)
Fixed Assets:			
Investments	26	494,466	112,649
Current Assets:			
Debtors -			
Amounts owed by group undertakings	27a	542,655	-
Amounts unclaimed under shareholder indemnity	27b	44,345	34,405
Amounts owed by related undertakings	27b	926	95
Other debtors	28a	121,571	22,571
Prepayments and accrued income	28b	5,538	1,393
Investments		-	12,037
Cash at bank and in hand		6,032	318
		721,067	70,819
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	32b	(10,000)	-
Other creditors (including taxation and social security)	31	(166,185)	(48,583)
Net current assets		544,878	22,236
Total assets less current liabilities		1,039,344	154,051
Provision for liabilities and charges	29	(43,799)	(5,240)
Creditors greater than one year - Long term loans	32b	(813,574)	-
NET ASSETS		181,971	129,645
Financed by:			
Capital and reserves -			
Called up share capital	19	9,420	1,056
Share premium account	20	83,911	23,976
Other reserves	20	19,165	38,193
Shares to be issued	20	45,229	34,500
Profit and loss account	21	24,246	31,920
SHAREHOLDERS' FUNDS (including non-equity interests)	36	181,971	129,645

Equity shareholders' funds	127,486	107,489
Non-equity shareholders' funds	54,485	22,156
	181,971	129,645

The financial statements were approved by the Board of Directors on 22 March 1999.

N H Reid - Director

The accounting policies and notes on pages 23 to 55 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £'000	1997 £'000
Net Cash Outflow from Operating Activities	37a	(86,108)	(10,215)
Net Returns on Investments and Servicing of Finance			
Interest Received		3,512	3,084
Interest Paid		(16,746)	(26)
Loan arrangement fee		(4,397)	-
		(17,631)	3,058
Net Capital Expenditure			
Payments to acquire companies		(85)	-
Receipts from the sale of fixed assets		51	-
		(34)	-
Taxation			
Corporation Tax Paid		(122)	-
Acquisitions and Disposals			
Acquisition of companies		(295,570)	-
Cash and portfolios acquired with companies		59,759	-
Disposal of GAN PEP Managers		8,300	-
		(227,511)	-
Equity Dividends Paid		(7,500)	(10,000)
Financing			
Issue of share capital		68,300	862
Loans taken out		260,000	-
Repayments of Borrowings		(3,000)	-
		325,300	862
Decrease in Cash	37d	(13,606)	(16,295)

Portfolio Investments

	Notes	1998 £'000	1997 £'000
The net cash outflows were divested as follows:			
Decrease in cash holdings		(3,614)	(502)
Cash holdings acquired	37b	15,794	-
		12,180	(502)
Portfolios acquired		43,965	-
Movement in variable rate cash deposits		(57,913)	-
Purchase of portfolio investments (variable rate):			
- Government securities		30,155	700
- Other securities		10,644	-
Sales of portfolio investments (variable rate):			
- Government securities		(48,622)	(16,493)
- Other securities		(4,015)	-
Net Cash Outflow		(13,606)	(16,295)

The accounting policies and notes on pages 23 to 55 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with the provisions of Section 255a of the Companies Act 1985 and the special provisions relating to the insurance companies of schedule 9A to the Companies Act 1985 and with the Association of British Insurers' statement of recommended practice on accounting for Insurance Business ("ABI SORP") dated December 1998. The balance sheet of the Company has been prepared in accordance with Section 226 of and schedule 4 to the Companies Act 1985.

The financial statements have been prepared in accordance with applicable accounting standards. 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.

Changes in accounting policies

Following implementation of FRS 10 Goodwill and Intangible assets, goodwill is capitalised in the balance sheet and amortised over its useful life. As permitted under the transitional arrangements of FRS 10, goodwill previously written off to reserves has not been restated. The effects of this change in accounting policy are enclosed in note 15.

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) force is included in the balance sheet as an asset. It 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 the 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.

On acquisition of a portfolio of long-term insurance contracts the net present value of the shareholders' interest in the expected after tax cashflows of the in-force business is capitalised on the basis of the assumptions made at the date of acquisition. The asset carried is amortised systematically in accordance with the shape of the surplus likely to emerge at the time of acquisition and the discount is unwound on a systematic basis. The net balance is charged/credited to the profit and loss account.

Subsequent to an acquisition the asset is revalued on a basis of current assumptions. This valuation is determined in consultation with independent actuaries on an annual basis. The movement in value of the long-term business in force is charged/credited to the profit and loss account in Other technical income/charges. The amount reflected in the profit and loss account is transferred to a non-distributable reserve. This increase remains as non-distributable until it emerges as part of the surplus arising during subsequent years.

Basis of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 December for each year. The results of the subsidiary undertakings acquired during the year are included in the consolidated results from the date of acquisition. On acquisition of a subsidiary undertaking all of its assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Premiums

Premiums, consideration for annuities and reassurance premiums are accounted for when due for payment, except for unit linked payments, which are accounted for when units are created.

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.

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 and losses

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.

(iv) Derivative instruments

Realised gains and losses are recharged to the profit and loss account in the period they arise.

Unrealised gains and losses are charged to the profit and loss account in the period they arise on the basis of fair valuation. The underlying asset is carried in the balance sheet at fair value at the reporting date.

(v) Investments in subsidiary undertakings are included in the Company balance sheet at cost.

Interest payable

Interest payable is charged to the profit and loss account on an accruals basis. Any derivative instrument that has the effect of fixing the rate of interest is also credited or charged to the profit and loss account on an equivalent accruals basis. Both components of the interest are reported together on a net basis.

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 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

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.

ACCOUNTING POLICIES - continued

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.

Finance leases
Assets financed by leasing arrangements which give rights equivalent to ownership ("finance leases") are treated as if they have been purchased at the fair value at the inception of the lease and the corresponding liability to the leasing Company is established as a lease obligation. Such assets if acquired as investments (plus any subsequent additional capital payments) are revalued as for other comparable investments and the corresponding gains and losses reflected in the year.

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
Positive 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 capitalised and amortised systematically in the profit and loss account over their useful economic lives. The amortisation period may extend beyond 20 years where actuarial valuations are capable of continued measurement. Where the fair value of the net assets acquired exceeds the consideration given (negative goodwill) the balance is recorded in the balance sheet and recognised in the profit and loss account in the periods in which the non-monetary assets are recovered. Any value in excess of the fair values of the non-monetary assets required are recognised in the profit and loss account in the periods expected to be benefited.

Positive or negative goodwill arising on previous acquisitions remains eliminated against reserves. This positive or negative goodwill will be charged or credited in the profit and loss account on eventual disposal of the business to which it relates. Prior to 1998, purchased goodwill was eliminated against reserves as a matter of accounting policy. As permitted under the transitional arrangements of FRS 10, such amounts previously included in reserves have not been reinstated as an intangible asset.

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
Shares 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.

Long term reassurance contracts and similar arrangements
Some long term reassurance contracts and similar arrangements with other parties, such as contingent loans combine risk transfer with an element of financing. In such circumstances, it is not practical to separate out the financing element from the transfer of insurance risk.

Where the Group:
- has entered into a contingent loan or long-term reassurance arrangement, the repayments of which are contingent upon the emergence of margins generated by the contracts which are subject to the arrangement; and
- the arrangement has transferred an element of the risk associated with the long-term contracts,

the present value of that part of the future margins expected to finance the repayment has been recognised as an asset under the caption "Other debtors". Where the liability is to a reassurer, the liability is recognised under the balance sheet heading "Deposits received from re-insurers". Where the liability is to another party, the liability has been recognised under the balance sheet heading "Creditors", in the appropriate sub-heading.

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:

	1998 £'000	1997 £'000
Direct assurance	294,360	125,648
Reassurance inwards	8,635	13,731
Gross premiums written	302,995	139,379

	Gross direct premiums written			
	Regular premiums		Single premiums	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Non-participating:				
Annuity	-	-	9,678	6,663
Life	5,443	5,141	1,314	-
Pensions	1,472	1,624	13,932	8,106
Permanent Health	8,651	114	-	-
	15,566	6,879	24,924	14,769
Participating:				
Life	7,912	7,430	1,393	6,835
Pensions	1,073	1,058	-	-
	8,985	8,488	1,393	6,835
Linked:				
Life	101,200	34,613	874	-
Pensions	97,088	25,469	43,486	28,262
Permanent Health	844	333	-	-
	199,132	60,415	44,360	28,262
Total direct gross premiums	223,683	75,782	70,677	49,866
Comprising:				
Individual business	223,683	75,782	70,677	49,866
Group contracts	-	-	-	-
	223,683	75,782	70,677	49,866

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 reassurance premiums

	1998 £'000	1997 £'000
UK	-	-
Europe (excluding UK)	936	713
USA	7,699	13,018
	8,635	13,731

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 19 includes £6,249,363,000 (1997 - £2,217,346,000) 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 1998 was £ 17,956,000 (1997 - £39,120,000).

2. Acquisitions

On 1 January 1998 the Company acquired the entire share capital of Aegon Financial Services Group (UK) plc and its subsidiary undertakings for a consideration of £24,199,000 (including costs).

On 11 March 1998 the Company acquired a majority shareholding in Targetchief plc and its subsidiary undertakings from GAN (UK) plc. The Company immediately initiated the acquisition of the remaining minority interests. The total consideration for the acquisitions was £317,547,000 including a deferred amount of £39,800,000.

The Group has used acquisition accounting for these purchases.

The long-term assurance business funds of GAN Life & Pensions plc, Aegon Life Assurance Company (UK) Limited and Transamerica Occidental Company were transferred to Windsor Life Assurance Company Limited under Schedule 2C to the Insurance Company Act 1982 on 30 November 1998.

2. **Acquisitions (continued)**

a) The following table sets out the fair values of the total net assets acquired:

GAN	Book value at acquisition £'000	Assets held for re-sale £'000	Revaluation £'000	Accounting policies re-alignment £'000	Fair value at acquisition £'000
Assets held for re-sale	-	15,196	(6,896)	-	8,300
Value of in-force policies	-	-	54,965	244,835	299,800
Investments	2,843,250	-	-	-	2,843,250
Debtors	123,972	(615)	-	-	123,357
Cash and deposits	20,033	(6,250)	-	-	13,783
Other assets	75,220	(11,524)	(54,965)	-	8,731
Policyholder liabilities	(2,732,827)	-	-	-	(2,732,827)
Creditors and accruals	(236,663)	3,193	-	-	(233,470)
Other provisions	(8,562)	-	(1,962)	-	(10,524)
	84,423	-	(8,858)	244,835	320,400
Consideration satisfied by cash and a deferred payment yet to be paid (including acquisition expenses of £6,476,000)					317,547
Net negative goodwill amount arising on acquisition (note 15)					(2,853)

The consideration includes an estimate of £39.8million for deferred payments. These payments will be due in 1999 and 2001 dependent upon the position described in note 29 and settled up to 2 years afterwards.

The explanations for the adjustments are as follows:

i) Assets held for resale - represents the net assets of the PEP subsidiary undertaking acquired which was intended for resale. The adjustments restate the various net assets under one category. The revaluation adjustment adjusts the recorded assets to the net proceeds received.

ii) Value of in force policies – represents the transfer of the deferred acquisition costs existing at the time of acquisition into other assets plus a further adjustment to realign the accounting policy to the fair value of the in-force policies as determined by a firm of independent consulting actuaries.

iii) Other provisions – represents the discounted future costs of a building already vacated by the organisation at the time of the acquisition.

AEGON	Book value at acquisition £'000	Accounting policies re-alignment £'000	Fair value at acquisition £'000
Value of in-force policies	-	14,900	14,900
Debtors	4,384	-	4,384
Cash and deposits	1,766	-	1,766
Other assets	188,961	-	188,961
Creditors	(1,363)	-	(1,363)
Technical provisions	(184,811)	-	(184,811)
Net assets acquired	8,937	14,900	23,837
Consideration satisfied by cash (including acquisition expenses of £198,000)			24,199
Net goodwill amount arising on acquisition (note 15)			362

The accounting policy re-alignment for Value of in-force policies represents the shareholder interest in the policies acquired as determined by a firm of independent consulting actuaries.

NOTES TO THE ACCOUNTS (continued)

2. Acquisition of subsidiary undertakings (continued)

b) The after tax results attributable to the shareholders of the material undertakings acquired up to the date of acquisition (for which there were no recognised gains or losses which would affect the historical basis of accounting) and for the previous financial period were:

	1 January 1997 to 31 December 1997 £'000	1 January 1996 to 31 December 1996 £'000
Aegon:		
Aegon Financial Services Group (UK) plc	2,355	3,380
Aegon Life Assurance Company (UK) Limited	2,283	1,833
Aegon Financial Services Limited	95	208
Consolidation adjustment	(2,283)	(3,519)
	2,450	1,902
	1 July 1997 to 11 March 1998 £'000	**1 July 1996 to 30 June 1997 £'000**
GAN:		
Targetchief plc (1 January 1997 to 31 December 1997 and 1 January 1996 to 31 December 1996)	19	(3)
GAN Life Holdings group	(7,966)	53,200

c) An analysis of the material subsidiary undertaking's results for the period is as follows:

	GAN Companies 1 July 1997 to 11 March 1998 £'000	Aegon Companies 1 January 1997 to 31 December 1997 £'000
Non technical account:		
Balance on technical account	(10,345)	2,316
Investment income	1,513	312
Expenses and charges	866	62
	(7,966)	2,690
Taxation	-	(240)
(Loss)/Profit before and after taxation	(7,966)	2,450

d) As a result of the acquisition of Aegon and GAN the following amounts have been charged to the profit and loss account in the current year.

	Long term Business £'000	Non-Technical £'000
Administrative expenses – reorganisation costs	3,827	-
Other technical income - amortisation of negative goodwill	(85)	-

NOTES TO THE ACCOUNTS (continued)

3. **Investment return summary**

a) Long-term insurance business	1998 £'000	1997 £'000
Investment income:		
Income from land and buildings	6,610	4,756
Income from other investments	216,011	82,334
Gains on the realisation of investments	240,192	1,164
	462,813	88,254
Investment expenses and charges:		
Investment management expenses, including interest	(4,352)	(935)
Net unrealised (losses)/gains on investments	(89,868)	211,355
Net investment return included in the long-term business technical account	368,593	298,674

b) Shareholders' interest	1998 £'000	1997 £'000
Investment income:		
Income from investments	8,329	2,927
Gains on the realisation of investments	151	57
	8,480	2,984
Net unrealised (losses)/gains on investments	(835)	90
Net investment return included in the Non-technical account	7,645	3,074
Total investment return	376,238	301,748

NOTES TO THE ACCOUNTS (continued)

4. Other Technical Income/Charges

	1998	1997
Other technical income comprises:	£'000	£'000
Amounts due from indemnifiers (note 40)	108,331	37,900
Movement on shareholders' interest in long-term business in force (note 22):		
- revaluation in period	89,510	-
- net discount unwind	1,712	-
Other income	3,110	-
Amortisation of goodwill	85	-
	202,748	37,900
Other technical charges comprises:		
Movement on shareholders' interest in long-term business in force (note 22)	-	(68)

Other income represents the excess of the assets transferred from the shareholders funds to the policyholder funds following the schedule 2C transfers.

5. Analysis of continuing operations and acquisitions

	Continuing Operations		
	Ongoing 1998 £'000	Acquisitions 1998 £'000	Total 1998 £'000
Net earned premiums	88,711	164,016	252,727
Investment income	148,156	307,657	455,813
Unrealised gains on investments	141,756	(231,624)	(89,868)
Net other technical income	4,700	198,048	202,748
	383,323	438,097	821,420
Net claims incurred	(150,405)	(207,713)	(358,118)
Change in other technical provisions, net of reassurance	(162,480)	(72,726)	(235,206)
Net operating expenses	(43,680)	(54,826)	(98,506)
Investment expenses and charges	(626)	(3,726)	(4,352)
Tax attributable to the long-term business	(18,780)	(847)	(19,627)
Transfers from the fund for future appropriations	2,722	2,125	4,847
Balance on Non-technical	10,074	100,384	110,458
Tax credit	4,526	45,100	49,626
Investment income	3,428	5,052	8,480
Unrealised losses on investments	(501)	(334)	(835)
Other charges	(366)	(45,983)	(46,349)
Profit on ordinary activities before taxation	17,161	104,219	121,380

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

6. Net operating expenses - Technical account

a) Technical account

	1998 £'000	1997 £'000
Acquisition costs	20,954	1,240
Change in deferred acquisition costs	(857)	1,129
Administrative expenses	73,736	20,523
Reinsurance commissions and profit participation	4,673	8,981
	98,506	31,873

b) Non-technical account

	1998 £'000	1997 £'000
Administrative expenses	46,349	2,167

	1998 £'000	1997 £'000
Net operating expenses are after charging:		
Auditors' remuneration and expenses (inclusive of VAT)		
- Audit work	219	200
- Non-audit work	937	128
Commissions	20,128	1,734

In addition to the audit remuneration noted above the non-technical account includes charges for auditors remuneration of £398,000 (1997 - £42,000) for audit fees and £Nil (1997 - £20,000) for non-audit work. The Company was recharged £50,000 (1997 - £ 50,000) in respect of audit fees.

7. Interest payable

	1998 £'000	1997 £'000
Interest payable on bank loans and overdrafts		
- Technical account	2,506	143
- Non-technical account	20,956	-

8. Lease charges

	1998 £'000	1997 £'000
Operating lease rental charges - Other	209	200

In addition operating lease rentals of £1,318,000 (1997 - £735,000) have been charged against the property leases provision. Also £1,818,000 (1997 - £1,824,000) has been charged in the non-technical account.

NOTES TO THE ACCOUNTS (continued)

9. Staff costs

	1998 £'000	1997 £'000
Wages and salaries	28,407	6,474
Social security costs	2,407	468
Regular pensions charges	4,366	867
Other pensions costs	123	151
	35,303	7,960

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

	1998 No.	1997 No.
Administration	1,039	268
Investment	8	2
Integration and development	148	105
Average number of persons employed in the year	1,195	375

10. Directors' emoluments

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

11. Pension provisions

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

The regular pension cost for the year was £ 876,000 (1997 - £867,000). The prepayment is as follows:

	1998 £'000	1997 £'000
As at 1 January 1998	907	43
Pension scheme deferred contributions in period	876	867
Net amortisation in period	(3)	(3)
As at 31 December 1998	1,780	907

The last actuarial valuation of the Windsor Pension and Life Assurance Scheme was performed 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. It was assumed that the annual investment return would be 9% and annual salary growth 7%. Contributions of £1,234 were outstanding as at 31 December 1998. A valuation is currently being prepared as at 1 January 1999.

Employees of G Management Services Limited are encouraged to contribute to individual pension plans previously operated by GAN Life & Pensions plc. The employer matches the employee's contribution up to a maximum of 9% of basic salary.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

12. Taxation

	1998 £'000	1997 £'000
Long-term business technical account:		
UK corporation tax	(9,303)	(4,189)
Tax on franked investment income	(13,064)	(1,501)
Adjustments in respect of prior year	1,542	(476)
Withholding tax	(8)	-
Group relief	(5,794)	(1,666)
	(26,627)	(7,832)
Non-technical account:		
UK corporation tax at 31% (1997: 31.5%)	(42)	-
Tax credit attributable to balance on long-term business technical account at 31% (1997: 31.5%)	(49,626)	(3,455)
Adjustments in respect of prior year	(177)	(976)
Group relief	5,794	1,666
	(44,051)	(2,765)

Corporation tax in the technical account has been calculated at an effective rate of between 20% and 31% in accordance with the rates applicable to the long-term business fund of a life assurance company (1997: 20% and 31.5%).

13. Dividends

	1998 £'000	1997 £'000
On ordinary shares		
- Interim paid	-	7,500

14. Long term reassurance contracts and similar arrangements

On 21 December 1998, a subsidiary undertaking entered into a reassurance arrangement to recapture a number of the reassurance treaties acquired with the GAN group.

The net amount of the financing outstanding of £42 million is included within "Deposits received from reinsurers". The corresponding asset to recognise that part of the future margins arising on the reassured block of policies out of which the liability will be repaid is included in "Other debtors".

The reassurance claim of £42 million is reflected in the reassurer's share of claims paid in the technical account.

Payments of £21 million were made to recapture the previous reassurance treaties. These amounts are included in 'Outward reinsurance premiums' in the technical account.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Goodwill

	1998 £'000
Cost:	
At 1 January 1998	-
Arising from acquisition during the year (note 2)	(2,491)
Amortisation	85
Net Book value at 31 December 1998	(2,406)

Goodwill is systematically amortised over the estimated useful life of the underlying assets acquired in accordance with the actuarial expectations of the useful life of the related policies for each acquisition separately.

16. Investments

(a) Land and buildings

	Cost £'000	Market Value £'000
Freehold land and buildings:		
At 1 January 1998	36,456	38,814
Additions	12,559	12,559
Deficit on revaluation	-	(1,188)
At 31 December 1998	49,015	50,185

Land and buildings were valued at 31 December 1998 on an open market existing use basis by a firm of independent Chartered Surveyors.

b) Other financial investments

	Current value 1998 £'000	Current value 1997 £'000	Cost 1998 £'000	Cost 1997 £'000
Listed investments:				
Shares and other variable yield securities and units in unit trusts	258,317	280,119	260,397	206,549
Debt securities and other fixed income securities	807,725	442,548	728,197	398,176
	1,066,042	722,667	988,594	604,725
Unlisted investments:				
Loans secured by mortgages	381	6	381	6
Other loans (secured on policies)	5,009	3,038	4,955	3,038
Deposits with credit institutions	-	1,000	-	1,000
	5,390	4,044	5,336	4,044
Total other financial investments	1,071,432	726,711	993,930	608,769

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Assets held to cover linked liabilities

	Current value 1998 £'000	Current value 1997 £'000	Cost 1998 £'000	Cost 1997 £'000
Assets held to cover linked liabilities	4,141,805	1,425,050	3,105,340	1,119,057

18. Tangible assets

(a) Group

	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Leasehold improvements £'000	Freehold Land & Buildings £'000	Total £'000
Cost:						
At 1 January 1998	587	5,717	811	67	-	7,182
Additions	183	1,108	87	-	-	1,378
Transfers	-	13,590	11,041	-	14,347	38,978
Disposals	(120)	(6,325)	(5,375)	-	-	(11,820)
At 31 December 1998	650	14,090	6,564	67	14,347	35,718
Depreciation:						
At 1 January 1998	(216)	(4,183)	(732)	(11)	-	(5,142)
Charged in the year	(132)	(2,019)	(497)	(2)	(4)	(2,654)
Transfers	-	(9,329)	(8,475)	-	(9,979)	(27,783)
Disposals	71	4,414	4,330	-	-	8,815
At 31 December 1998	(277)	(11,117)	(5,374)	(13)	(9,983)	(26,764)
Net book value:						
At 31 December 1998	373	2,973	1,190	54	4,364	8,954
At 31 December 1997	371	1,534	79	56	-	2,040

Disposals includes assets with a net book value of £1,879,000 written off during the year.

(b) Company

No tangible assets are owned by the Company.

NOTES TO THE ACCOUNTS (continued)

19. **Share Capital**

a) Authorised share capital

	1998		1997	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,800,000	38	3,125,000	31
B shares	3,800,000	38	3,125,000	31
C shares	9,750,000	98	2,750,000	28
D shares	-	-	1,000,000	10
Total ordinary share capital	17,350,000	174	10,000,000	100
Un-designated 1p	13,275,000	132	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	7,660,000,000	76,600	560,000,000	5,600
Total Non-equity share capital	7,669,375,000	76,694	569,375,000	5,694
Total share capital	**7,700,000,000**	**77,000**	**600,000,000**	**6,000**

NOTES TO THE ACCOUNTS (continued)

19. **Share Capital (continued)**

b) Allotted, issued and fully paid share capital

	1998		1997	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,771,165	38	3,125,000	31
B shares	3,771,165	38	3,125,000	31
C shares	8,919,325	89	2,750,000	28
D shares	-	-	1,000,000	10
Total ordinary share capital	16,461,655	165	10,000,000	100
Un-designated 1p	-	-	-	-
Total equity share capital	16,461,655	165	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	916,189,486	9,162	86,194,486	862
Total Non-equity share capital	925,564,486	9,256	95,569,486	956
Total share capital	**942,026,141**	**9,420**	**105,569,486**	**1,056**

19. **Share capital (continued)**

c) Authorised and issued share capital - movements in year

	1998		1997	
	Authorised £'000	Issued £'000	Authorised £'000	Issued £'000
Balance brought forward	6,000	1,056	6,000	194
Created /Issued in year	71,000	8,364	-	862
Balance carried forward	77,000	9,420	6,000	1,056

On 24 June 1998 an increase of 71,000,000 in the deferred 1p shares was authorised by written resolution of the shareholders of the Company. During 1998 829,995,000 deferred 1p shares were issued under the warranty guarantee clause at par for cash as follows:

	Number	Number	£'000
Balance carried forward from 1997		86,194,486	862
20 May 1998	200,000,000		2,000
12 June 1998	413,492,900		4,135
9 September 1998	51,667,500		517
24 September 1998	38,850,700		389
22 October 1998	40,148,800		401
10 November 1998	36,681,900		366
4 December 1998	49,153,200		492
Total deferred shares issued in 1998		829,995,000	8,300
Total deferred shares carried forward		916,189,486	9,162

On 11 March 1998 following a resolution of the Board the authorised capital was amended when 7,350,000 undesignated shares were allocated as ordinary shares as given below. Ordinary 1p shares were issued on conversion of £60m convertible loan stock in the period following the transfer of undesignated 1p shares on 13 July 1998

	Authorised Number	Issued Number	Par £'000	Premium £'000
A Shares	675,000	646,165	7	5,993
B Shares	675,000	646,165	7	5,993
C Shares	6,000,000	5,169,325	51	47,949
	7,350,000	6,461,655	65	59,935

d) Under a written resolution of the shareholders of the Company on 11 March 1998, the shareholders authorised the amendment to the Shareholders' Deed to reclassify the 1,000,000 authorised and issued D ordinary shares as 1,000,000 C shares at their original cost of £10,000.

e) Principal rights of the non-equity Convertible Redeemable shares

Convertible Redeemable Preference Shares

		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

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 and unless a conversion event has occurred prior to 31 December 1999.

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

		Deferred Shares arising from:		
		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.

19. **Share capital (continued)**

h) Loan Stock

In 1998, LAHC issued loan stock to its existing shareholders. The sequence of events for the issue was as follows.

Date	Event	Amount	Shares
11 March 1998	Subordinated unsecured non-interest bearing convertible A stock 199 created and subscribed for.	£ 60,000,000	n/a
	Subordinated unsecured non-interest bearing convertible B stock 1998 created.	£ 40,000,000	n/a
13 July 1998	Condition 2.1 of the Deed Poll was met, namely that the Company had received the necessary authority to issue the stock and accordingly, the subordinated unsecured non-interest bearing convertible A stock 1998 was converted into shares	£ 60,000,000	6,461,655

Currently shareholders hold a further £40,000,000 worth of loan stock that will only be converted if condition 3.1 of Schedule 2 of the Deed Poll is met. Condition 3.1 relates to Deferred payments following the GAN acquisition, and is dependent on clause 3 of the Acquisition Agreement. If conversion of the B Stock does not take place prior to 31 December 2003, then the stock will cancelled. At present no subscriptions accrue for this additional loan stock.

20. 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 1998	23,976	2,536	51,493	21,200	99,205
Indemnity receivable gross up adjustment (note 41)	-	-	(13,300)	13,300	-
Elimination of separate capital reserve	-	(2,536)	-	-	(2,536)
Restated as at 1 January 1998	23,976	-	38,193	34,500	96,669
Increase in indemnity provision	-	-	(19,028)	19,028	-
Shares issued	59,935	-	-	(8,299)	51,636
At 31 December 1998	83,911	-	19,165	45,229	148,305

In accordance with the provisions of FRS 10 (Goodwill and Intangible Assets) the historic capital reserve representing negative goodwill should no longer be shown as a separate reserve and has been incorporated with the profit and loss account balances (see note 21).

b) Company	Share Premium account £'000	Other reserves £'000	Shares to be issued reserve £'000
At 1 January 1998	23,976	51,493	21,200
Indemnity receivable gross up adjustment (note 41)	-	(13,300)	13,300
As restated as at 1 January 1998	23,976	38,193	34,500
Increase in indemnity provision	-	(19,028)	19,028
Shares issued	59,935	-	(8,299)
At 31 December 1998	83,911	19,165	45,229

NOTES TO THE ACCOUNTS (continued)

21. Profit and loss account

	Group Non distributable reserve £'000	Group Profit & loss account £'000	Group 1998 Total £'000	Company 1998 £'000
As at 1 January 1998	12,772	41,726	54,498	31,920
Elimination of separate capital reserve for historic positive/negative goodwill (note 20a)	2,536	-	2,536	-
Re-stated as at 1 January 1998	15,308	41,726	57,034	31,920
Retained profit/(loss) for the year	-	77,329	77,329	(7,674)
Transfer from profit and loss account	98,821	(98,821)	-	-
As at 31 December 1998	114,129	20,234	134,363	24,246

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

	1998 £'000	1997 £'000
Valuation at 1 January 1998	107,110	107,178
Acquisition during year		
- GAN Life & Pensions	299,800	-
- Aegon Life Assurance	14,900	-
Increase/(decrease) during the period		
Revaluation in period	89,510	(68)
Net discount unwind relating to acquired business in force	1,712	-
Net movement	91,222	(68)
Valuation at 31 December 1998	513,032	107,110

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

General assumptions:	1998	1997
Inflation - RPI	2.25% pa	3.25% pa
- expense	3.25% pa	4.25% pa
Discount rate	8.75% pa	10.5% pa
Tax rates (average)		
- shareholders	30%	30%
- policyholders	22%	22%

NOTES TO THE ACCOUNTS (continued)

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

Specific assumptions:	1998 Life business	1998 Pensions business	1997 Life business	1997 Pensions business
Mortality	60% A67/70 Sel + 33% R6A AIDS	60% A67/70 Ultimate	65% A67/70 Sel + 33% R6A AIDS	65% A67/70 Ultimate
Yield on non-linked fund (before tax and investment management expenses)				
- non-profit	4.50%	4.50%	6.25% pa	6.25% pa
- with-profit	6.05%	6.05%	7.89% pa	7.89% pa
Growth in unit values (before tax and management charges)	6.27%	6.27%		9.5%
Lapse rate - year 1	12.5}10%	16.5} 90%	17.5	20} 90%
- year 2	10.0} PUP	16.0} PUP	12	20} PUP
- thereafter	7.5 } 90% lapse	11.0} 10% lapse	7.5	15} 10% lapse
Renewal expenses per annum (pa)	£17.00	£25.50	£27.00	£40.50

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 approp-riations £'000
At 1 January 1998	721,838	1,367	1,403,176	89,051
Acquired - Aegon Life Assurance Company	25,853	840	155,993	2,125
Acquired - GAN Life & Pensions	242,015	10,942	2,386,336	-
Transfer from Transamerica Occidental Company	17	-	-	-
Movement for the year	102,818	(10,269)	132,388	(4,847)
At 31 December 1998	1,092,541	2,880	4,077,893	86,329
Made up of:				
Gross provision liability	1,117,451	2,880	4,122,959	86,329
Recoverable from reinsurers	(24,910)	-	(45,066)	-
Net total 31 December 1998	1,092,541	2,880	4,077,893	86,329
Gross provision liability	732,540	1,367	1,403,176	89,051
Recoverable from reinsurers	(10,702)	-	-	-
Net total 31 December 1997	721,838	1,367	1,403,176	89,051

The movement in 1998 on the long-term business provision is analysed as follows:

	Gross £'000	Reinsured £'000	Total £'000
At 1 January 1998	732,540	(10,702)	721,838
Acquisitions	361,402	(93,517)	267,885
Charged to profit and loss account	23,509	79,309	102,818
At 31 December 1998	1,117,451	(24,910)	1,092,541

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 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 1998	Interest rates 1997
Life	- participating	*80% A67/70	2.25%	2.5%
	- non-participating	*80% A67/70	3.00%	4.5%
Pensions	- participating	*80% A67/70	2.75%	3.0%
	- non-participating	*80% A67/70	4.00%	6.0%
	- annuities in payment	IM80/IF80 c=2010 x -2	4.75%	6.0%

* 85% A67/70 used in 1997.

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:

	1998	1997
Per policy expenses		
Regular premium pension	£52.04	£57.82
Single premium pension	£19.82	£22.02
Regular premium life	£40.92	£45.47
Single premium life	£16.15	£17.94
Expense inflation	4%	6%
Mortality	100% A67/70	A67/70(2) Ultimate

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.

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 £28,755,000 (1997 - £29,187,000). 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.

26. 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 1998	97,646	15,000	112,646	3	112,649
Acquired in year	341,743	40,075	381,818	-	381,818
Amortisation	-	-	-	(1)	(1)
As at 31 December 1998	439,389	55,075	494,464	2	494,466

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:

Company	Principal activity
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
RFSG (UK) PLC*	Intermediate holding Company
ALAC(UK) Limited	Non-trading
RAFS Limited	Non-trading
RUT Limited	Non-trading
RAIS Limited	Non-trading
RLPTC Limited	Dormant
Translife Limited	Dormant
Regency Life Financial Services Limited	Dormant
Regency Life Investment Management Limited	Dormant
Targetchief Limited*	Intermediate Holding Company
GLH Limited	Intermediate Holding Company
GL&P plc	Non-trading
FPS Holdings Limited	Non-trading
G Associates Limited	Non-trading
G Assurance & Pension Services Limited	Non-trading
G Developments Limited	Dormant
G Financial Services Limited	Non-trading
G Management Services Limited	Management Services Company
G PEP Nominees Limited	Non-trading
G Trustees Limited	Trustee Company
Gresham Unit Trust Management Limited	Unit Trust Management Company

*directly held by the Company

26. **Fixed asset investments (continued)**

b) Own shares

	Total £'000
Cost brought forward	6
Depreciation:	
As at 1 January 1998	(3)
Charge for year	(1)
As at 31 December 1998	(4)
Net book value at 31 December 1998	2
Net book value at 31 December 1997	3

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 (1p per share). 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.

27. **Amounts owed by related undertakings**

a) by group undertakings	Company 1998 £'000	Company 1997 £'000
Long term loan	541,548	-
Other net amounts owed	1,107	-
	542,655	-

Included in long-terms loans are £541,548,750 of loans to the Company's principal subsidiary undertaking. The loan is repayable over a period up to 50 years. Repayments of interest and capital will be contingent of the surpluses arising in the subsidiary undertaking.

b) unclaimed shareholder indemnity

The amounts unclaimed under the shareholder indemnity represent the amounts provided for within the Shares to be issued Reserve (see note 20) less any amounts claimed but awaiting settlement by New York Life.

28. **Other debtors, prepayments and accrued income**

a) Other debtors	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Due from indemnifiers	121,571	121,571	21,588	21,588
Tax recoverable	44,616	-	16,477	528
Other debtors	44,430	-	551	455
	210,617	121,571	38,616	22,571

28. Other debtors, prepayments and accrued income (continued)

b) Prepayments and accrued income:

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Current assets	2,283	2,278	885	408
Amount relating to periods commencing after one year	3,260	3,260	985	985
	5,543	5,538	1,870	1,393

29. Provisions for other risks and charges

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Deferred tax on Deferred Acquisition Costs	1,550	-	1,843	-
Other provisions	69,216	43,799	12,969	5,240
	70,766	43,799	14,812	5,240

The movement in the provisions is as follows:

a) Group	Legal and Other £'000	Property leases £'000	Deferred tax £'000	Total £'000
As at 1 January 1998	687	12,282	1,843	14,812
Transfer on acquisition	7,925	2,600	-	10,525
Additional provision	77,006	9,830	865	87,701
Utilised in year	(867)	(3,556)	-	(4,423)
Provision released	(36,466)	(1,095)	(1,158)	(38,719)
Discount unwind	-	870	-	870
As at 31 December 1998	48,285	20,931	1,550	70,766

b) The Company	Legal and Other £'000	Property leases £'000	Total £'000
As at 1 January 1998 (as restated)	-	5,240	5,240
Additional provision	39,800	200	40,000
Utilised in year	-	(758)	(758)
Provision released	-	(1,012)	(1,012)
Discount unwind	-	329	329
As at 31 December 1998	39,800	3,999	43,799

29. Provisions for other risks and charges (continued)

c) Explanation of provisions

i) Provisions for legal and other include £39,800,000 deferred acquisition payment. Under the sale and purchase agreement dated 31 December 1997, LAHC has committed to make payments should certain events occur. The events and dates are as follows:

30 June 1999 - Persistency calculation date; To be determined as soon as possible but in any event no later than with 60 business days. Company to pay up to £21million dependent on the persistency rates of the GAN business. Settlement is by the Company issuing Purchaser loan notes for the deferred amount. These may be redeemed on either 30 June 2000 or 31 December 2000.

31 December 2001 - DSS calculation date; to be determined as soon as possible but in any event no later than with 60 business days. Company to pay up to £25million, unless a decision is taken by the Government or another regulatory body, that will have an adverse effect on the DSS business acquired. Settlement is by issuing Purchaser Loan Notes for the DSS calculation amount. These may be redeemed on either 31 December 2002, 30 June 2003 or 31 December 2003.

The interest period shall run up to and 30 June and 31 December each year. The interest payable on the Loan notes for each interest period shall be at the rate per annum equal to the rate at which six month sterling deposits of £1,000,000 are on offer by Midland Bank PLC.

i) Deferred tax relates to the tax on the Deferred Acquisition Costs. These are expected to be utilised as the related costs reduce.
ii) Property leases relate to the estimated net cost of carrying empty leased properties during the time until they reach a break point in the lease or are expected to be sub-let. The timing and amount depends on the property and the circumstances of any lease. Unless advised otherwise it is assumed that leases will be sublet within 3 years. All provisions are discounted at 6% (1997: 8%).
iii) Other provisions include legal cases. Estimates are made of the likely outcome of each case to determine the amount or timing of the settlement and associated costs. Also included are provisions for the deferred payment on the acquisition of the GAN group. The provision is discounted at 8% and is payable between less than 1 year and up to 3 years.

30. Amounts owed to credit institutions

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Loan notes	6,374	6,374	-	-
Bank borrowings (secured)	247,000	247,000	-	-
Bank overdrafts	10,000	10,000	-	-
Other loans	106,488	-	-	-
	369,863	263,374	-	-

The total amount of financial liabilities for the Company is analysed as follows:

	Company 1998 £'000	Company 1997 £'000
Fixed interest rates	253,374	-
Floating interest rates	10,000	-
	263,374	-

The loan conditions are given in note 32c.

NOTES TO THE ACCOUNTS (continued)

31. Creditors

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Amounts due to group undertakings	-	163,263	-	40,119
Finance Lease	3,240	-	-	-
Due to related parties	-	-	4,688	4,688
Other creditors (including taxation and social security)	43,731	2,922	8,878	3,776
	46,971	166,185	13,566	48,583

32. Creditors due after one year

a) Analysis by category

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
Bank loans and overdrafts	247,000	247,000	-	-
Loan Notes	6,374	6,374	-	-
Other loans	106,488	560,200	-	-
Finance lease	2,382	-	-	-
	362,244	813,574	-	-

b) Analysis of total borrowings by due date:

	Group 1998 £'000	Company 1998 £'000	Group 1997 £'000	Company 1997 £'000
More than 1 year less than 2 years -				
bank loan	33,250	33,250	-	-
finance lease	741	-	-	-
loan notes	6,374	6,374	-	-
More than 2 years less than 5 years -				
bank loans and overdrafts	200,988	94,500	-	-
finance lease	1,641	-	-	-
Total due between 1 to 5 years	242,994	134,124	-	-
Due in more than 5 years				
bank loan	119,250	119,250	-	-
group undertakings	-	560,200	-	-
Total due in more than 5 years	119,250	679,450	-	-
Total due in more than 1 year	362,244	813,574	-	-
Total due in less than 1 year -				
bank loans and overdrafts	10,011	10,000	-	-
finance lease	858	-	-	-
Total due within 1 year	10,869	10,000	-	-
Total loans and overdrafts	373,113	823,574	-	-

32. Creditors due after one year (continued)

c) Terms and conditions

The fixed interest rate element includes a loan for £247 million covered by an interest rate swaps contract which is intended to fix the rate of interest at 6.81% per annum. Each contract lasts 6 months and is renewed under prevailing terms. The facility is available until final maturity on 31 March 2005.

The £560,200,000 of long-term loans includes a loan payable to group undertakings of £550,000,000 that is due in more than 1 year.

The fair values of the Company's financial assets and financial liabilities are the same as their aggregate carrying amount.

The £247,000,000 loan exists under a debenture deed which is secured as a first charge on all the net shareholder assets of the Company by means of fixed and floating charges. Interest is payable at LIBOR plus 1.25% to 1.5%.

The £10,000,000 bank overdraft due within one year is secured under the general security given to HSBC Midland on all its bank dealings.

33. Operating lease commitments

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

	Land and Buildings 1998 £'000	Other 1998 £'000	Land and Buildings 1997 £'000	Other 1997 £'000
Operating leases which expire:				
- within one year	234	16	57	191
- between one and five years	846	15	122	45
- after five years	2,350	-	2,825	-
	3,430	31	3,004	236

34. Financial and capital commitment

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

	1998 £'000	1997 £'000
Authorised and contracted	8,437	nil
Authorised but not contracted	nil	nil

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

35. Deposits received from reinsurers

	1998 £'000	1997 £'000
Deposit back reassurance	56,522	63
Financing reassurance (note 14)	41,992	-
	98,514	63

36. Reconciliation of Movement in Shareholders' Funds

	Group 1998 £'000	Company 1998 £'000
Profit/(loss) for the financial year	77,329	(7,674)
New capital subscribed (net of costs)	68,300	68,300
Release of reserve for issue of new shares	(8,300)	(8,300)
	137,329	52,326
Opening shareholders' funds	154,759	129,645
Closing Shareholders' Funds	292,088	181,971
Made up of:		
Equity interests	237,603	127,486
Non-equity interests	54,485	54,485
Total Shareholders' Funds	292,088	181,971

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

37. Notes to the Shareholders' cash flow statement

a) Reconciliation of operating profit to net cashflow

	1998 £'000	1997 £'000
Operating profit before tax after interest	120,380	11,874
Investment income charged to operating profit	23,076	(3,074)
Tax on long term business technical account	(49,626)	(3,455)
Profit on long term business	(110,458)	(7,512)
Decrease in debtors and prepayments	6,929	490
Decrease in creditors and other provisions	(81,748)	(8,538)
Fixed asset depreciation	1,789	-
Fixed asset write down	2,955	-
Goodwill write back	(85)	-
Realised/unrealised losses	680	-
Net cashflow from operating activities	(86,108)	(10,215)

b) Acquisitions during the year

	GAN £'000	Aegon £'000
Embedded value	299,800	14,900
Cash	15,794	-
Portfolio	38,943	5,022
Other assets/liabilities	(34,138)	3,915
	320,399	23,837
Goodwill	(2,853)	362
	317,546	24,199
Satisfied by:		
Cash	271,371	24,199
Deferred payment	39,800	-
Loan notes	6,375	-
	317,546	24,199

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

	Share holders' funds 1998 £'000	Long-term business funds 1998 £'000	Total 1998 £'000
Cash and deposits	13,118	93,909	107,027
Bank overdrafts	13,356	1,058,076	1,071,432
Total	26,474	1,151,985	1,178,459

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

d) Movement in opening and closing portfolio investments

	At 1 January 1998 £'000	Cash Flow £'000	Gains/ losses £'000	At 31 December 1998 £'000
Cash and deposits	938	12,180	-	13,118
Bank overdrafts	39,822	(25,786)	(680)	13,356
Total	40,760	(13,606)	(680)	26,474

38. Contingent Liabilities

HSBC Loan Facility

The Company has signed a loan facility for £250 million with a consortium of banks led by HSBC Investment Bank plc under which it is committed to pay interest due on the amount drawn of £250 million. £3 million was repaid in September 1998. 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.

39. 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 45.8% 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) £0.9million 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 1998 the balance outstanding was £ 900 (1997 - £nil)

b) the Group's pension scheme partly invested in the Windsor Life Managed Fund throughout the year. At 31 December 1998 this was valued at £7,425,928 (1997 - £20 million).

c) the Group occupies Windsor House. The land and property lease were acquired by Windsor Life Assurance Company Limited from New York Life (UK) Limited in January 1998 for £1.8 million and the assumption of the remaining liabilities on the related finance lease.

40. Regulatory Matters

The Financial Services Authority is supervising an industry wide investigation into the selling of pension transfers and opt outs. In common with other insurance companies, Windsor Life is investigating potential cases of mis-selling and offering compensation where this is found to be appropriate.

LAHC has received an indemnity from the former parent undertaking of Windsor Life under which the latter has guaranteed to contribute funds to LAHC equivalent to the costs incurred by the company in investigating and/or compensating policyholders in respect of premium transfer and opt-outs up to the date of the acquisition by LAHC. These funds are received in exchange for the issue of deferred shares. Reserves of £45 million exist for the amounts still to be claimed (see note 20).

Indemnities from the former parent undertakings of C Life Pensions Limited (formerly Crown Life Pension Limited), GL&P plc (formerly GAN Life & Pension plc) and ALAC(UK) Limited (formerly Aegon Life Assurance Company Limited). LAHC has undertaken to pay any funds received under these indemnities to Windsor Life due to the post acquisition merger of the long-term business funds of these acquisitions with Windsor Life's . In respect of other acquisitions Windsor Life itself has received indemnities from the former parent undertakings of Lifetime Assurance Limited and Combined Life Assurance Company Limited. The indemnities receivable under these arrangements as at 31 December 1998 amounted to £121 million (see note 28).

41. Restatement of comparatives

The comparative figures for the technical income, change in other technical provisions, balances due to group undertakings and long term business provision have been re-stated as the directors consider the re-classification to be more meaningful. The re-classification is necessary to gross up the effect of the netting off of amounts due in respect of the indemnities for the pension mis-selling against the pension mis-selling provision. These therefore have also impacted on the Shares to be Issued Reserve, Other Reserves, Provisions for Indemnities and Amount due from related parties which are all connected with the indemnities settled through the issue of deferred shares.

The comparative figures for 1997 have been restated to reflect the impact of grossing up the potential liability to policyholders in respect of the pensions review. This grossing up has been offset by the establishment of am equivalent amount receivable. The net effect leaves net assets and the results for 1997 unchanged.

Life Assurance Holding Corporation Limited

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